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THE SOCIAL SECURITY NOTCH: JUSTICE OR INJUSTICE?

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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THE SOCIAL SECURITY NOTCH: JUSTICE OR INJUSTICE

MONDAY, FEBRUARY 22, 1988

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 10:07 a.m., in room 628, Dirksen Senate Office Building, Hon. John Melcher (chairman of the committee) presiding.

Present: Senators Melcher, Shelby, Pressler, Grassley, and Simpson.

Staff present: Max Richtman, staff director; Lloyd Duxbury, professional staff; Craig Obey, professional staff; Kelli Pronovost, hearing clerk; Larry Atkins, minority staff director; and Laura Erbs, minority professional staff.

OPENING STATEMENT BY SENATOR JOHN MELCHER

The CHAIRMAN. The meeting will come to order.

This morning we are meeting in public hearing to discuss the so-called "notch" issue. That term is fully understood by several million Social Security recipients but may not be widely understood by the public.

In 1972 Congress determined that because of inflation the only fair way of helping people on Social Security was to have automatic cost-of-living increases for the benefit checks of Social Security recipients. So that was done.

But inflation was so great over the next several years that it was seen that these cost-of-living adjustments were going to bankrupt the Social Security Retirement Fund.

So Congress again acted in 1977, and set up the inequities that have been identified as the notch. People born after 1917 found that when they retired and drew their Social Security checks, they weren't receiving as much as others who were already receiving the benefits for a year or two, even though they had identical work histories.

That became very disconcerting, and it was identified that the so-called notch years were 1917 to 1921. Let me point out that it goes beyond 1921 too.

So where did we go astray? What happened after the 1977 amendments? Well, the congressional intent was to not give beneficiaries on Social Security that were just retiring in 1977, 1978, and 1979, and 1980, 1981, and 1982 less money than those who had retired earlier. But that's the way it worked out. There are several million people who have said to Congress that the 1977 amendments haven't worked out right. The notch is unfair and it's inequitable. People with the same work experiences and payments into the Social Security system over all those years are not receiving what some other people who retired earlier did receive.

So clearly the intent of Congress in the 1977 amendments did not work out. These people are saying to us, why don't you correct it. What do we have to do to get a correction? We want the inequity, the unfairness corrected.

Now what we would like to do, I suspect, if we are going to correct that inequity is to correct it specifically for those born between the years of 1917 and 1921, and also be reassured that those born up until say between 1921 and 1928 or 1929 are going to be treated fairly too.

As broadly and simply stated, the intent of Congress in 1977 was not to give somebody less than their fair share, and to phase in the new law gradually over a period of years.

But it hasn't worked that way. And if we think about making a correction, some people advise us, indeed a lot of retiree groups advise us, well, don't do that, it costs too much. You know, I'll tell you, that doesn't ring a bell with those who are disadvantaged, those in the notch years who are disadvantaged. It doesn't ring a bell with them that it is going to cost too much. They are seeing other people that they knew drawing—I think we have one example of two sisters where one sister with less work experience and therefore less contribution into Social Security draws more money than the other sister. I don't think they are mad at each other, but I think they are disappointed. In fact, that's a pretty mild term. They are disillusioned and getting mad that Congress doesn't correct it.

There are a number of proposals, and the cost can vary depending upon the proposal. But it appears to me that there are fair proposals around with the cost of $65 billion over the next 10 years or less.

Now where would the $65 billion come from? It would come out of the trust fund naturally. It would reduce the trust fund over the next 10 years by about $65 billion or less. We can make it less if that's necessary.

What does that do to the trust fund? Well, it means in the years of about 2035 to 2050 the trust fund will instead of being $1.3 trillion would be some $50 to $65 billion less. The trust fund is exactly that. People put their money in it in trust, in trust of the Government, trust that the people of the United States through their Congress will treat people equitably, fairly. That's the issue: Fairness, equitable benefits for similar work by the people who pay those taxes which are placed in trust.

So this hearing is certainly pertinent. It is a response to public outrage by those who have been inequitably treated. Last October I announced after several requests from various Senators on the committee and off the committee that we would have a public hearing on this and we would try to advance not only the understanding of the problem so the public can understand it, but also try to be an instrument of advancing here in the Senate the correction of this inequity.

We have a number of witnesses, but before we do I ask the Senators whether they have an opening statement, and first of all Senator Pressler.

[The prepared statements of Senators John Melcher, Harry Reid, and John Chafee follow:]

PREPARED STATEMENT OF SENATOR JOHN MELCHER

Good morning. I welcome everyone to this morning's hearing by the Senate Special Committee on Aging into the Social Security "notch" problem. This is an issue that has become all too familiar to members of Congress, as well as others throughout the country.

As Chairman of this Committee, I am extremely concerned about the fairness of the Social Security system to our country's older Americans. I think most people would agree that, over the years, Social Security has been one of the most effective programs in this country's history. Social Security has kept millions of older Americans and their children out of poverty. And it has helped those with disabilities maintain an adequate standard of living. It is a system of which we may all be proud.

But, as we all know, even the best of things isn't perfect. Social Security has its share of problems. And the first people who would tell you that would be the so-called "notch" babies.

The Social Security "notch" was a mistake. In 1972, Congress began giving automatic cost-of-living increases to Social Security beneficiaries. But, a flaw in the formula caused benefits to skyrocket. And those soaring payments soon would have bankrupted the system. So Congress changed the law and, effectively, reduced benefits for those born in 1917 and later.

But while Congress knew that this change would result in people receiving different benefits, nobody foresaw the double-digit inflation that staggered this country soon after the 1977 amendments were passed. And no one could foretell how cruelly inflation would treat the "notch" babies.

Emotions run high on this issue. But no one can deny one central point—that folks with virtually identical work histories are receiving different benefits, simply because they were born a few years apart. Is it any wonder that millions of people feel cheated?

Because I believe this issue deserves the attention of Congress, I announced in October that I would hold this hearing to discuss the "notch" situation.

I know that there are many different opinions throughout this country about how to treat the "notch" problem. And we'll get a sampling of those today from people on both sides of the "notch" aisle.

These opinions will help Congress come to terms with this problem before people lose faith in the fairness and integrity of the Social Security system. Congress must come up with a way to restore their trust, while at the same time insuring the continued solvency of the trust funds.

Today, we will hear from a variety of excellent witnesses. First will be my colleague and good friend from North Carolina, Senator Terry Sanford. Senator Sanford has introduced what many consider to be the major Senate legislation to fix the notch.

Next, we will hear from Mary Alice Magness from Anaconda, Montana, a nurse of 46 years who was born during the notch years. We'll also hear from two other notch victims, Mr. Anthony Purcell and Mr. Daryl Cooper, both of whom represent grass-roots, notch-baby organizations.

In addition, we'll be hearing from Dr. Arthur Flemming, co-chairman of Save our Security and former Secretary of the Department of Health, Education and Welfare, and Mr. James Roosevelt, Jr., of the National Committee to Preserve Social Security and Medicare.

Finally today, Mr. Michael Carozza, Deputy Commissioner for Policy and External Affairs at the Social Security Administration will testify to the agency's views on the notch problem.

As you can see, we have a busy morning ahead of us. So, let's begin.

PREPARED STATEMENT OF SENATOR HARRY REID

Mr. Chairman, I am acutely aware of the fact that in these days of rapidly rising prices, a few extra dollars each month can mean the difference between homelessness and shelter, hunger and nutrition, untreated illness and adequate health care.

Never before have these crises touched the aging community in such a profound manner; never have they been more visible.

For approximately 7 million people, the so-called Social Security "notch" exemplifies the difference in quality of life reductions in expected retirement benefits can make. It is for this reason that I am looking forward to hearing today's testimony and discussing proposals intended to rectify the inequities created by the "notch." I commend Chairman Melcher for calling this hearing and providing the members of this committee with an opportunity to critically examine this important issue. I would also like to thank our witnesses for their time and effort.

Although congressional action in 1972 to grant Social Security recipients an automatic cost-of-living increase was well-intended and necessary, it is clear that the formula developed to complete the annual increases was flawed. This problem formula, coupled with the high inflation of the mid-1970's, produced benefits that quickly outpaced the inflation rate and threatened to exceed many recipients' pre-retirement incomes. Most important, these increased benefits endangered the solvency of the Social Security Trust Fund, a result that required Congress to act again in 1977. The congressional response, as you all know, resulted in a new formula and a 5-year transition to that formula developed to bring benefits back down to originally intended levels.

Those "bonanza babies" born before 1917, the first year of beneficiaries affected by the formula correction, garnered unintended bonus benefits that contributed significantly to their discretionary incomes. Unfortunately, the same boost in benefits has not been made available to those born after 1916 despite their similar wages, contributions, and circumstances. These reduced benefits, as computed under the new formulas, make it exceptionally hard for many "notch babies" to make ends meet. In these days of extended retirements, skyrocketing health care costs, and rapidly rising prices for essential consumer goods, the discrepancies in benefits created by the "notch" are more important than ever. I wholeheartedly support the correction of the "notch" inequity, and I am confident that today's hearing will afford us a chance to discuss fair and workable ways to resolve this issue.

Thank you again, Senator Melcher, for this opportunity.

Prepared Statement of Senator John H. Chafee

Mr. Chairman, I regret I am unable to attend this important hearing today. Unfortunately, I have a longstanding commitment in my home state of Rhode Island which precludes my attendance.

Today's hearing is on the issue of the Social Security notch. Recently, I joined as a cosponsor of S. 1830 legislation introduced in the United States Senate by Senator Sanford. This measure would address the inequities of Social Security payments received by individuals born in the "notch years."

Over the past few years I have heard from many Senior Citizens from all over the country on this issue. A number of proposals have been introduced to correct this problem. After careful thought, I have cosponsored legislation that offers the best solution to the "notch" problem—the Notch Adjustment Act.

When Congress passed legislation in 1972 to ensure that Social Security benefits would automatically increase each year to reflect inflation, beneficiaries began receiving benefits that were higher than intended. This was due to a miscalculation in the formulas. If this mistake had not been corrected, the Social Security system soon would have been bankrupt.

In 1977 Congress developed new formulas to calculate Social Security benefits. Those born before 1917 would continue receiving benefits based on the old, unintentionally high formula. The benefits for those born after 1921 are based on a "corrected" formula. Transition formulas were adopted for individuals in the "notch" period.

Unfortunately, the formulas created numerous inequities, and the transition has been anything but smooth.

The Notch Adjustment Act gradually increases the Social Security benefits received by the people born between 1917 and 1929. Actual increases will range from less than $100 to $1,200 a year. In addition, the bill provides a one-time, retroactive benefit of up to $1,000 for individuals born in the "notch" years.

I do not want to endanger the reserves of the Social Security Trust Fund that are so important to pay current and future benefits, or increase the Social Security tax. The Sanford measure appears to do neither of these, and it deserves careful consideration.

As a member of the Senate Finance Committee which will be responsible for evaluating this legislation, I intend to work hard for its enactment. I have asked the chairman of the Senate Finance Committee, which has jurisdiction over the Social Security program, to hold a hearing on the "notch" problem as soon as possible. A hearing on this issue is likely to be held in the Committee in the very near future.

During debate on the "notch" problem, I will be guided by two principles: that benefits are fair, and that the Social Security trust fund will be there to meet your needs, and those of your children and grandchildren. I believe that the Notch Adjustment Act is in step with these important principles.

It is time to end the notch inequity once and for all.

I thank the Chairman for allowing me to submit this statement for the Record and I look forward to reviewing the testimony presented today.

STATEMENT OF SENATOR LARRY PRESSLER

Senator PRESSLER. Mr. Chairman, thank you for holding this hearing to examine what has been called, the "Social Security notch." This has been a long-awaited event for the approximately 15,000 so-called "notch babies" in South Dakota. During the President's Day recess, I traveled across my state holding public listening meetings to update my constituents on actions in the U.S. Senate, and to find out what was on their minds. The number one issue raised by retired persons was the Social Security notch.

As we all know, this situation developed as a result of legislation which changed the formula for Social Security benefits computation in 1977. Under the old wage computation, retirees were receiving more benefits per month than the average wages earned during their years of employment. The formula had to be corrected to keep the Social Security system solvent. Unfortunately, these "bonanza babies", who were born before 1917, created a tough act for Congress to follow. Retirees born between 1917 and 1921, who were receiving less than their predecessors through the formula change, perceived this action as discrimination.

The basic purpose of this hearing is to examine the plight of Social Security beneficiaries, born between 1917 and 1921. Have they really been given a "raw deal", so to speak? And, if so, how can Congress correct it and still keep the Social Security Trust Funds growing at a healthy rate? As a cosponsor of Senator Sanford's compromise bill to restore some benefits to the notch babies, I look forward to his testimony and a thorough examination of his proposal.

In addition, I look forward to hearing from representatives of the many organizations that have been created to bring attention to this issue. We are honored to have Commissioner Hardy here today. I hope she will address the current conditions of the Social Security Trust Fund and the outlook for the future of this Fund. Barring unforeseen catastrophes, such as extremely high levels of unemployment, I believe the system will be safe and sound for many years to come.

Again, I thank you, Mr. Chairman, for holding this important hearing today on social security notch. I look forward to hearing from our panel of distinguished witnesses on a topic that has captured the attention of many of our Nation's elderly.

[The prepared statement of Senator Pressler follows:]

Prepared Statement by Senator Larry Pressler

Mr. Chairman, there are over 9 million retired "notch babies" around our Nation, many of whom risked their lives in World War II. These individuals receive less income from the Social Security System than they are entitled to. We all know that this is due to a policy decision made by Congress in 1977 to change the benefit formula for Social Security computation. While we maintained the fiscal solvency of the System, we created unanticipated problems.

Retired workers born between 1918 and 1924 are receiving lower benefits than anyone born since 1900. Benefits for persons born 1917 through 1928 will average $660 a year less than those for a worker born 1912-16. According to 1986 Social Security Administration statistics, the average annual benefit paid to a beneficiary born in 1910 is $1,308 less than for a beneficiary born in 1916.

Many of my 15,000 "notch baby" constituents lose income through no fault of their own. After all, these South Dakotans were unable to choose when they would be born. They feel the weight of discrimination and inequity resulting from this policy every time they receive their monthly Social Security checks.

National aging organizations have been active in mobilizing their membership to ask Congress to correct the notch problem. Today, I would like to recognize the National Committee To Preserve Social Security. It is headed by my friend, James Roosevelt. We have known each other since our days at Harvard Law School. James Roosevelt and his organization have fought hard to support the passage of S. 1830, the compromise notch bill, of which I am a cosponsor.

The bill would increase gradually notch babies' payments to a level equal to other retirees. By phasing in the benefit increases, the initial cost is lessened. I will continue to fight for equity in our Social Security System. Mr. Chairman, I wish success to the National Committee To Preserve Social Security and other aging organizations in their efforts to correct this serious problem.

The Chairman. Thank you, Senator.

Using the early bird rule, Senator Grassley was here next. If you have an opening statement, glad to hear it, Chuck.

STATEMENT OF SENATOR CHARLES E. GRASSLEY

Senator Grassley. Thank you, Mr. Chairman.

I too thank you for holding this hearing because we have made a request of several other committees in the Congress to hold a hearing, and none of those committees have responded appropriately. We have been denied hearings in other committees, and even though this committee does not have jurisdiction over the legislation per se, it still is a welcome relief to have a chairman like you respond to our request.

I am especially pleased that you have as the fourth witness on your list a constituent of mine, Daryl Cooper, who I asked that you invite to testify. Daryl is the midwest chairman of the Notch Committee to Correct Inequities in Social Security and Medicare. Daryl and I have seen quite a bit of each other over the last several years on the matter of the notch, and I am pleased that he will have an opportunity to speak to a wider audience through this hearing.

I think that we have as many as 155,000 people in Iowa that are affected by this issue. These notch babies have really taken, Mr. Chairman, very seriously our advice that we all give to write to your Congressman. I don't believe that there has been another matter that I have received consistently so much mail on as on this subject.

It is quite clear from the mail that I receive that notch babies are very angry, frustrated, and upset over the unwillingness of Congress to provide them a hearing on this matter. It is not uncommon for my notch constituents to point to Congress' recent willingness to raise its own salary while at the same time showing no willingness to even discuss in a hearing or other official forum this matter which they are so concerned about.

It is fair also to say that these notch citizens are becoming increasingly bitter and frustrated. Letters to me on the notch are now starting to include obituaries of the people born in the notch years with the admonition that we here in Congress are stonewalling just waiting for people to die off.

It is unwise for elected representatives to demonstrate that they can raise their own pay and be preoccupied with other issues, large and small, while remaining almost totally unresponsive to the tidal wave of demand from a very large group of constituents to deal with a situation which they feel affects them so unfairly.

This is having the effect of decreasing even further what little regard remains for the Congress, and also, I might add, of eroding faith of our citizens in the Social Security system. For insofar as the idea has taken hold among notch babies, and could take hold among younger people that Congress can and will capriciously change the rules of the game in ways that result in unfair treatment for some groups of beneficiaries, I think, Mr. Chairman, it could have an effect of subverting support for the system.

For this reason I think this hearing is a step forward. Whether we as individual Senators think that the notch effect represents a serious problem or whether we think it is, in the words of Bob Ball and Bob Meyer, just a $300 billion misunderstanding, we do in fact, whether we come from either school of thought, have an obligation to at least have a formal review of this issue.

I have been one of those who has urged the committee of jurisdiction to hold hearings on this subject. Mr. Chairman, I should note here that the answer to that request has been, as I have said before, not responsive. So far we have not seen the results of a study we requested from the General Accounting Office either. Although this committee may not have requested that report, it might be useful for the committee or individual members to urge its speedy completion by the General Accounting Office.[1]

Mr. Chairman, I look forward to hearing the testimony of all the witnesses.

The CHAIRMAN. Thank you, Senator.

Senator Shelby.

STATEMENT OF SENATOR RICHARD SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Chairman, I too would like to take this opportunity to commend you and the committee staff for organizing this hearing. As Senator Grassley pointed out, it's been hard to get a hearing on this notch issue.

I believe it is a wonderful way for this committee to begin the year 1988, a year which will undoubtedly focus national attention on many of the problems facing the elderly.

During the January congressional recess, I held several county-wide public forums throughout Alabama just as Senator Pressler

[1] Copies of the above publication may be obtained from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877, entitled "Social Security—The Notch Issue," GAO/HRD-88-62.

did in South Dakota. I enjoyed having the opportunity to spend such a concentrated amount of time with Alabamians in the context of a public forum which sets the stage for a frank exchange of ideas, suggestions, and solutions.

The most important function of these meetings, as all of us know, is to allow the attendees to let me know, as their Senator, what they think of the job I have done thus far in the Congress; and more importantly, what they would like to see me do in the future.

Now no two public forums are exactly alike, as everyone knows. However, there was one element, or problem I should say, that became a common thread running through nearly every meeting—the notch issue. In every town and county I met many senior citizens, most of whom placed the notch issue at the top of their priority list. I was struck again and again by the importance of this problem to our elderly and by the need for us to resolve it.

Rather than address how the notch developed, I know we are all quite familiar with the scenario, I would like instead to talk for a minute about the need to resolve the problem of these harsh imbalances in benefit amounts, as the chairman has pointed out.

I have gone on record in the past in favor of correcting this glaring inequity of our Nation's most important entitlement program. In the wake of my discussions with Alabama's notch babies I joined as a co-sponsor of my good friend and colleague Senator Terry Sanford's Social Security Notch Adjustment Act. Senator Sanford's legislation will increase Social Security benefits to those individuals born in the notch years.

In addition, by providing current retirees with a one-time only benefit of $1,000, this legislation will help compensate retirees for their past reduced benefits. It won't make them whole.

Mr. Chairman, after returning from Alabama several weeks ago, I sent you a letter knowing of your interest in conducting a hearing on the notch issue. More than just cosponsoring Senator Sanford's legislation, I wanted the Aging Committee to address the notch issue, which you are doing. I believe as a committee we need to hear from the notch babies and their representatives, as well as from other elderly advocate groups. We need to hear from the Social Security Administration, and we need to hear from each other if we are to approach this problem with any semblance of integrity, insight, and responsibility.

Today we will attempt to set the record straight. By holding a hearing on this issue we are allowing those individuals that are affected by the notch issue an opportunity to present their case. Ultimately, however, it is my hope that this hearing will send a clear signal to the Senate that this is an issue that requires, rather indeed demands, our attention.

From a little known problem appearing in 1983 in the Dear Abby column nationwide to a preeminent priority of the elderly, the notch situation is an issue that is not going to go away. Indeed, over the years a lot has been said about the notch and, yet, nothing to date has been done.

It is time that Congress press ahead and resolve this inequity before the conclusion of this historic 100th Congress. After all, fairness and equity were and continue to be the cornerstones of a program that for over 50 years now has guaranteed the security of millions of older and disabled Americans.

I am committed to working with my colleagues on this committee and in the Congress to reach a fair solution to the notch problem. Today we are going to have the opportunity to hear from one of our very distinguished colleagues, a man who after a little over a year in the Senate has made a name for himself as a hard working and dedicated member. I am proud that the committee will hear from our colleague, Senator Terry Sanford.

As I said earlier, I am a cosponsor of his bill, S. 1830, and I look forward to having the opportunity to talk to Senator Sanford about this piece of legislation and hear his thoughts on the notch issue overall.

We will also have the opportunity here today to hear from those truly affected by the notch and organizations that represent their interests.

To complete the picture, we will also have the benefit of hearing from an organization that, while supportive of many of the issues that affect the elderly, is not supportive of the notch claim.

Finally, I am anxious to hear the testimony of our witness from the Social Security Administration.

Clearly, Mr. Chairman, we have a full agenda today, and I know that we are all anxious to get underway.

The CHAIRMAN. Thank you very much, Senator.

Our first witness indeed is Senator Terry Sanford.

Terry, thank you very much for being here. I hope you will give us the details of your bill and start off this hearing in a positive way.

STATEMENT OF SENATOR TERRY SANFORD, FROM THE STATE OF NORTH CAROLINA

Senator SANFORD. Senator Melcher, I thank you and the members of the committee for making this hearing possible. I hope that we can come out of this with some understanding of what is feasible, and perhaps we can carry it to the proper committee and convince enough members that this is a workable plan. We might very well find ways to correct it.

You know, you learn a lot campaigning that you didn't know before. I never did really focus on what a notch baby was until I started campaigning, and then everywhere I went, I heard from the notch babies.

The answer was then, yes, it's an injustice. The answer coming back from the Members of Congress, yes, it's an injustice, but it costs too much money to correct it, and it just can't be done in spite of the fact that it's an injustice. Surely you don't want us to bankrupt the Social Security System just to take care of this problem.

Well, I would have to agree with that. So I promised to do my best to correct the inequity. One of the first things I did when I got here last year was to assign my staff the chore of finding a way to do this that would be fair, would not include everything that had been included in past bills, but would indeed correct the inequity to a reasonable degree and not adversely affect the financial soundness of the Social Security Trust Fund.

We worked with the Social Security Commissioner's office, we worked with various groups. We did a great deal of research trying to find out how to do it.

On October 29, I introduced the "Social Security Notch Adjustment Act" (S. 1830). This bill is a compromise proposal that I believe is fair and reasonable.

Now I think we all understand how this notch issue came about. An automatic benefit increase adopted in 1972 proved to be too generous. It allowed Social Security benefits to rise to unintended high levels because the benefit formula change over-compensated for inflation.

These projected high benefit levels were a real threat to the Social Security Trust Fund, and clearly something had to be done. But I believe the Social Security Amendments of 1977 had unintended consequences that created benefit inequities for those who were born during the notch years, 1917 and 1921, and even beyond. Someone who, at age 65, retired on the last day of 1981, born in 1916, is making more money than someone who, at age 65, born in 1917, retired a few days later in 1982, even though these two individuals had identical earnings throughout their working lives.

The 1977 amendments did create a notch, and individuals within the notch are receiving lower benefits than those born before and after them. (See chart.)

If you will look at this chart you can see the notch. This graph is based on figures from the Social Security Administration. It compares the benefit levels under current law with the benefit levels under my proposal, and you can see that notch babies do earn less than those born before and after them.

The "Social Security Notch Adjustment Act" increases benefits for individuals born between 1917 and 1929. It increases benefits beyond the traditional notch years for two reasons. First, we have a transition period that extends to 1929 because individuals born between the notch years and 1929 are adversely affected by the 1977 correction. Second, I did not want to create another notch that would lead to an after the notch problem. And as you can see on the chart, my proposal would correct the notch in a gradual manner.

The "Social Security Notch Adjustment Act" does not just increase spending. It saves $4 billion over a 10-year period by eliminating future double indexed benefit increases to bonanza babies born before 1917 that have been denied notch babies.

Current law allows those born before 1917 who continue working after age 65 to have those additional yearly earnings calculated into their benefits. They are allowed to substitute those later years where earnings are often highest, for earlier, lower earnings years. Notch babies, however, are excluded under current law from using earnings after age 61 for the purpose of calculating their benefits. The "Social Security Notch Adjustment Act" would allow those individuals born between 1917 and later to use four additional years of earnings, through age 65, in calculating their retirement benefits.

The "Social Security Notch Adjustment Act" includes a modest retroactive payment, a one-time payment limited to not more than $1,000. This would cost just under $5½ billion. It does not begin to replace the benefits that many notch babies believe they have lost since the 1977 amendments were enacted.

Those who oppose correcting the notch say it will bankrupt the Social Security Trust Fund. This simply is not so. The Social Security Trust Fund is building up very generous reserves and will continue to do this even if the "Social Security Notch Adjustment Act" is approved by this 100th Congress. My proposal will increase the yearly OASI expenditure by less than 3 percent a year (see chart) and for a limited number of years. By the year 2000, people born in 1917 and still living will be 83 years old.

I have a chart that illustrates this. As you can see, my proposal would increase OASI expenditures by only about 2½ percent per year. That is about half the cost-of-living increase just enacted for all recipients. This is a modest increase that hardly dents the projected surplus in the Social Security Trust Funds which is estimated to reach more than a trillion dollars by the turn of the century, and to continue building to more than $12 trillion by the year 2030.

Quite frankly, I believe that instead of worrying about how much correcting the notch will cost, we ought to be building safeguards to assure that we can protect the tremendous reserves that are accumulating in the trust fund.

I would like to add to my testimony copies of the charts, technical notes on this bill that were prepared in conjunction with the Social Security Administrator, what I call Exhibit A, which are figures obtained from the Social Security Administration, the Office of Actuary, along with my statement.

[Additional materials of Senator Sanford follows:]

TECHNICAL NOTES ON SANFORD 'NOTCH' BILL

Technical description of the provisions of S 1830, a bill proposed by U.S. Senator Terry Sanford (D-NC) to restore Social Security benefit equity for persons born in the 'Notch' years after 1916, by creating a fair transition benefit formula for persons born in 1917 through 1929.

1. To Whom do provisions of S. 1830 apply?

   A. Retired workers born after January 1, 1917 and before January 1, 1930 and their dependents.

   B. Survivors of workers born after January 1, 1917 and before January 1, 1930 if the worker died in or after the year of his/her 62nd birthday.

   C. Disability beneficiaries born after January 1, 1917 and before January 1, 1930, beginning with the month they attain age 65 and are reclassified as retired workers.

2. How are their benefits computed?

   Benefits are computed under three benefit formulae with benefits paid under the formula that produces the highest benefits. The three formulae are:

   A. The permanent AIME Indexing formula enacted in 1977.

   B. The current-law transition formula that applies to persons born between 1917 and 1921 inclusive.

   C. The new transition provision contained in this legislation.

3. How are benefits computed under the new Transition provisions?

   A. First, compute a "Preliminary Primary Insurance Amount (PIA)" under the old (1972) law's "1967 New Start" computation method as if the 1977 Amendments had never been enacted except that the maximum creditable earnings for years after 1981 shall be $29,700 and earnings in years after a person reaches age 65 shall not be used to compute benefits under the transition.

   B. Second, compute a "New Transition PIA" by reducing the "Preliminary PIA" by a percentage found by adding together steps 1, 2 and 3 below.

      1) take five percent (5%) plus,

      2) two percent (2%) for each year of birth after 1916, plus

      3) one-twelfth of one percent (0.083%) for each month retirement delayed (i.e. one percent per year) beginning with the month a person attains age 62 and ending with the earlier of the month of initial entitlement or the month of attainment of age 65.

The table below shows the percentage reductions that would be applied to the "Preliminary PIA" to produce the "New Transition PIA"

	AGE OF RETIREMENT	62	63	64	65
D	1917	7	8	9	10
A	1918	9	10	11	12
T	1919	11	12	13	14
E	1920	13	14	15	16
	1921	15	16	17	18
O	1922	17	18	19	20
F	1923	19	20	21	22
	1924	21	22	23	24
B	1925	23	24	25	26
I	1926	25	26	27	28
R	1927	27	28	29	30
T	1928	29	30	31	32
H	1929	31	32	33	34

C. The "New Transition PIA" then forms the basis for computing the actual benefits payable for all persons entitled to benefits in the same manner as under current law.

D. Persons who become entitled to benefits prior to age 65, but who do not draw benefits for some months because they return to regular work shall, at age 65, have their reduction months under this transition increased by the same number of months that their reduction months for early retirement are reduced.

4. Miscellaneous Provision

For persons born on or before January 1, 1917 earnings in or after the year such persons reach age 70 shall not be used to determine the amount of benefits payable for months in or after January 1986, except that no such person's benefits shall be reduced because of the passage of this provision.

5. When are the provisions effective?

All the provisions of the bill, except for the miscellaneous provision (see #4 above), are fully effective for benefits due in or after January, 1987 for all affected persons entitled to benefits in or after the month of enactment.

In addition, benefits will be paid for all months prior to January, 1987, retroactive to the month of initial entitlement, except that the total amount of such retroactive benefits payable on any worker's account shall not exceed $1,000. Where such retroactive amounts would otherwise exceed $1,000, the retroactive benefits paid to each entitled person shall be in the same proportion as the proportion of the benefits due them in January, 1987 relative to all benefits payable on the account in January, 1987, except that each such individuals shall receive at least $300.

In the event of the death of an affected person after the enactment of this legislation but prior to the payment of benefits, the under payment due such individual shall be divided equitably among the survivors who were entitled or eligible to be entitled to benefits on the affected person's record for any months beginning with January, 1987 and ending with the month following the month of such affected person's death. Where no such eligible survivors exist, a $300 lump sum death payment may be made to cover funeral expenses in accordance with established provisions of law.

Exhibit A

YEAR	annual S.S. SURPLUS	COST OF SANFORD BILL
87	$20.2	$9.4
88	36.8	4.6
89	41.4	5.3
90	54.4	5.9
91	60.9	6.5
92	69.7	6.8
93	78.2	7.1
94	86.8	7.3
95	96.0	7.3
96	106.1	7.4
(1987-96)	(650.5)	(67.6)*

*Does not reflect $4 billion savings from computation changes in benefits to those born prior to 1917 who are still working.

Social Security Benefits Under Present Law and Senator Sanford's "Notch" Proposal 1/ for Workers Who Always Had Average Earnings 2/

(Benefits in 1987 Dollars) 3/

Year of Birth	Retirement at Age 62: Present Law	Retirement at Age 62: Proposal	Retirement at Age 65: Present Law	Retirement at Age 65: Proposal
	- - - - - - - - - - Pre-1977 Amendment Law - - - - - - - - - -			
1910	$459	$459*	$589	$589*
1911	462	462*	609	609*
1912	474	474*	630	630*
1913	481	481*	655	655*
1914	485	485*	671	671*
1915	491	491*	688	688*
1916	504	504*	711	711*
	- - - - - - - - - - Post-1977 Amendment Law - - - - - - - - - -			
1917	$514	$514*	$643	$663
1919	459	484	586	681
1921	461	493	583	678
1923	475	506	596	662
1925	502	504	629	650
1927	497	497*	630	638
1929	503	503*	636	636*

* No change from present law benefit.

1/ Workers born in 1917-29 would be guaranteed an alternative primary insurance amount (PIA) equal to a calculated percentage of the pre-1977 amendment PIA modified to limit maximum creditable earnings for years after 1981 to $29,700 and to exclude earnings in years after the year the worker reaches age 65. The "calculated percentage" would be equal to the sum of (a) 5 percent plus (b) 2 percent for each year of birth after 1916, plus (c) one-twelfth of 1 percent for each month entitlement is delayed after age 62 and up through the month of attainment of age 65.

2/ Benefits for workers entitled in and after 1987 are computed using the Alternative II-B economic assumptions in the 1987 Trustees Report.

3/ If retirement occurred in or before 1987, the benefit amount shown is the amount payable for January 1987. If retirement would occur later, amount shown is the amount payable at retirement deflated to 1987 dollars using estimated increases in prices.

Estimated effects on OASDI benefit payments that would result from enactment of a proposal for a modified transitional benefit provision, as proposed by Senator Sanford

(In billions)

Calendar year	Additional benefit payments due to new transition	Reduction in benefits due to recomputations for workers born before 1917
1987	$9.4 1/	---
1988	4.8	$0.2
1989	5.6	.3
1990	6.3	.4
1991	6.9	.4
1992	7.3	.5
1993	7.6	.5
1994	7.8	.5
1995	7.9	.6
1996	8.0	.6
Total, 1987-96	71.5	4.0

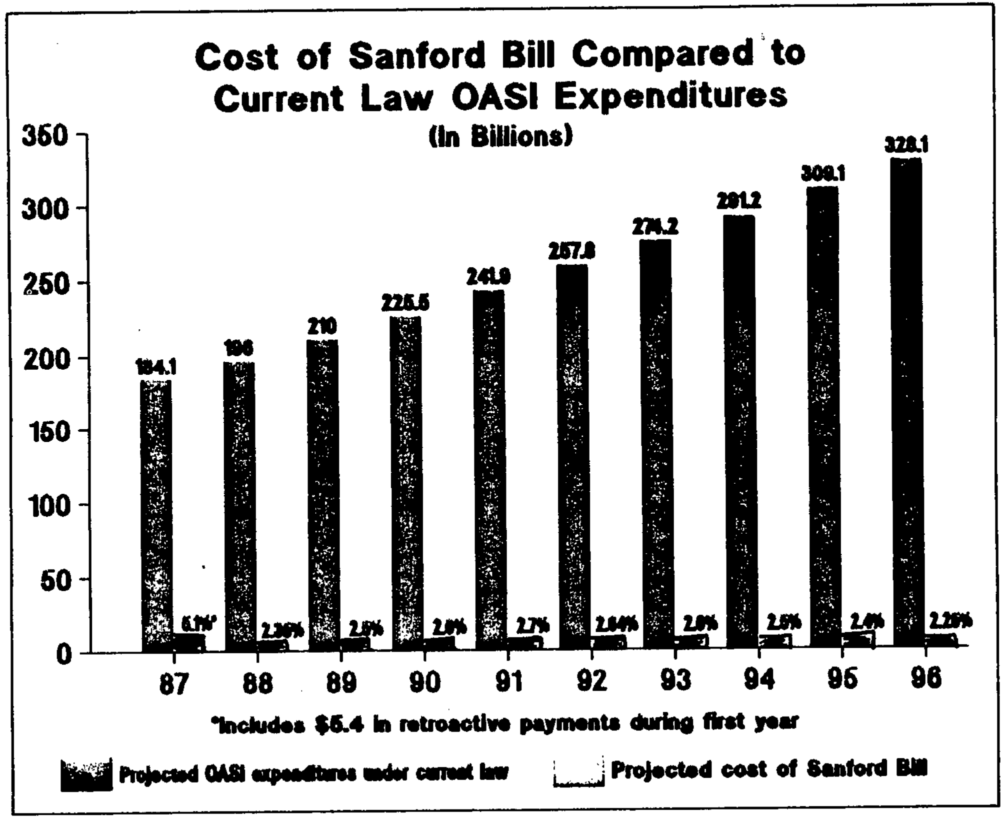
1/ Includes $5.4 billion in retroactive benefits for 1979-86.

Note: The above estimates are based on the alternative II-B assumptions from the 1987 Trustees Report.

Social Security Administration
Office of the Actuary
September 2, 1987

67.5

Benefits for Workers Born between 1917 and 1929
With Average Earnings Retiring at Age 65


Cost of Sanford Bill Compared to
Current Law OASI Expenditures
(In Billions)
350
300
250
200
150
100
50
0
184.1
196
210
225.5
241.9
257.8
274.2
291.2
309.1
328.1
2.36%
2.7%
2.84%
87
88
89
90
91
92
93
94
95
96
*Includes $5.4 in retroactive payments during first year
Projected OASI expenditures under current law
Projected cost of Sanford Bill

The CHAIRMAN. Thank you very much, Senator. That material will become part of the record including the reproduction of the charts immediately following your oral statement.

Senator Sanford, you have presented to Congress, and I understand there is a companion bill in the House, a workable solution that applies equity. I find your projections of cost seemingly, to me at least, accurate. When the question is equity and fairness measured against how much will be in the trust fund, then I believe we must examine what it costs to be equitable and fair.

We don't need to be stymied by this statement that continually says well, any correction of the notch inequities will break the system. I'll be interested in the analysis that Social Security gives to your figures.

Senator SANFORD. I don't mean to interrupt, but the total cost of this will be something like one-fourth of this year's defense budget. That's another way of looking at it.

The CHAIRMAN. One-fourth of this year's defense.

Senator SANFORD. Over the total life of it.

The CHAIRMAN. The cost is spread out in your figures there by 10 years I believe. Is that 10 years or 9 years? Which is it?

Senator SANFORD. That is correct.

The CHAIRMAN. Will there be additional costs after that between 1996 and the year 2000?

Senator SANFORD. Yes, there will be additional costs, but ever lowering.

The CHAIRMAN. A declining cost per year.

Senator SANFORD. We could have projected it on out, but the chart would have gotten too long. Obviously over time the number of notch babies still living will be much fewer.

The CHAIRMAN. For those 10 years what is the cost?

Senator SANFORD. It is $67.6 billion.

The CHAIRMAN. For those 10 years?

Senator SANFORD. For those 10 years.

The CHAIRMAN. So there would be some additional cost?

Senator SANFORD. It would be a much smaller percentage of the payments that are going out, a much smaller percentage of the trust fund.

The CHAIRMAN. The cost over the 10 years that you have projected from 1987 through 1996 or from fiscal 1988 through fiscal 1997 can be evaluated I think accurately by Social Security, and if they disagree they can tell us so.

The confidence of the system—there are so many people telling us that sadly, they have no confidence in the system. So many younger people will say I don't think it will be there when I get to be 65. However, all projections show this huge buildup to the year 2030, and I believe it is about that year they also start to show some decline, but show it very solvent on through the years of 2050 and 2060.

If we are going to rebuild confidence in the system I guess the first step we ought to take is to correct this notch inequity. So we've got three reasons: Are we going to treat people fair; second, are we going to rebuild the confidence of the public in the Social Security System as being fair and equitable; and, third, that we know what the funds are going to be from this rather heavy tax.

After all, 7.3, 7.5 percent gross tax on your income is a heavy tax. Having paid that heavy tax, I think people when they get to retirement age ought to be confident that the system is there for them and that it's an equitable system.

I compliment you on your bill, Senator Sanford, and I compliment you on your testimony.

Senator Pressler.

Senator PRESSLER. Well, I certainly want to compliment you on this because I think realistically notch babies would like to get the full amount. What do you say to them? I've been saying to them that the full amount is not going to happen. The Finance Committee has not moved this bill, but I think a compromise is our best approach. What do you say to notch babies?

Senator SANFORD. I say, we've seen many bills introduced, some perhaps for show, some of them seriously, many of them not passable simply because they would be too costly. I wanted to introduce a bill that could be passed, that was reasonable, that was fair, but that did not harm the system. The reception of that has been very positive of course. Most notch babies now are saying this is the bill we hope can be passed.

Senator PRESSLER. This bill will have to go through the Finance Committee as I understand it, is that correct?

Senator SANFORD. Yes.

Senator PRESSLER. I will certainly write to all the members of the Finance Committee and urge that they take it up. There's been some stickiness over there, some slowness in my judgment in their address of this problem.

Senator SANFORD. We have 15 sponsors that we really haven't made any real effort to get. We've just laid it out and said there it is, and 15 of you have signed. It looks to me like these 15 ought to be able to convince the Finance Committee.

Senator PRESSLER. Well, we will twist their arms.

Mr. Chairman, I might make a personal privilege. I see my classmate, Jim Roosevelt, back there. I'm going to see him later, but I have to go to a funeral this morning of one of the staff of the dining room who passed away unfortunately. If I miss your testimony, I just wanted to greet you and say you are doing great work. I yield.

The CHAIRMAN. Thank you.

Senator Grassley.

Senator GRASSLEY. I too want to thank you for introducing this legislation because I think it is a catalyst that will bring more people together that the D'Amato bill wasn't able to do or even a compromise piece of legislation that I put in 2 years ago.

The only question I have, have you made any request and had any sort of indication from the chairman of the Senate Finance Committee on the possibility of holding a hearing? Because I think our request was based on the D'Amato bill.

Senator SANFORD. Well, we've asked him, and we haven't gotten a negative reply.

Senator GRASSLEY. I think we did—I don't know whether we got a reply or a negative reply, but ours was on the D'Amato bill. So from the standpoint of your request it is a fresh request. If it's necessary, I would be willing to back up that request on your bill as well as on the D'Amato bill.

Senator SANFORD. Thank you.

Senator SHELBY. Senator Sanford, I want to commend you for, one, introducing your legislation and also for coming before the committee today.

I believe that what you've proposed is a workable solution. I can't help but be a little concerned about what I have found in my home State of Alabama. Senator Grassley stated to earlier that some people thought that the notch year babies wouldn't stick around long enough to complain. But they certainly fooled whoever thought that, because there are 7 million of them. To me they look healthy. They are very active, and a lot of them are here today and are represented by some of us on the committee trying to correct the inequity here.

I believe that your proposal makes sense. It makes fiscal sense because this will cost "*x*" dollars over so many years. I am sure that this has been factored in actuarially considering the average age of the notch year babies and so forth; is that right, Senator?

Senator SANFORD. Well, as you know, that's a very complicated side.

Senator SHELBY. Very complicated.

Senator SANFORD. But I think now we've got the best possible advice. Obviously the Social Security Office can answer the question. I think that this is very sound actuarially.

Senator SHELBY. I've heard the other side of this, the people that oppose the notch year correction, and they say it's just a notch, and we should simply let it go and on solve itself. I said, well, how is it going to solve itself? The opponents contend time will solve the problem. Well, that goes back to the same premise that Senator Grassley referred to: How does it solve itself, by obituaries? I think that's too cynical a solution.

Senator SANFORD. Well, that's a very calloused approach.

Senator SHELBY. Yes, it is a very calloused approach which we cannot permit. Others including the New York Times, have talked about the greed of the notch babies. I do not see any greed. An inequity exists whereby those individuals affected by the notch are drawing less money, on the average about 20 percent, depending upon what year they were born. I don't believe any of us in this room had anything to do with when we were born or where we were born. We're just all glad to be here.

So when you take those years, especially those big years, you have stretched it out because of the transition, 1917, 1918, 1919, 1920, 1921, and then you look at what people are drawing that were born in 1922 and the people that were born before then, there is a grave inequity. I commend you for coming before this committee to try to correct it. I am going to continue to work with you.

Senator SANFORD. Thank you very much.

Senator SHELBY. Senator Grassley, do you have any more questions, Senator?

Senator GRASSLEY. No, thank you.

Senator SANFORD. Thank you, Mr. Chairman.

Senator SHELBY. Thank you, Senator, for coming before the committee.

Our next witness will be Mr. Daryl Cooper of the Notch Committee to Correct Inequities in Social Security and Medicare.

Mr. Cooper, your written statement will be submitted for the record in its entirety, as will any comments you wish to make here before the committee.

Senator Grassley, I want to recognize you first if there are any comments you want to make before he testifies.

Senator GRASSLEY. I have already introduced Mr. Cooper to the committee, so I won't go through that again. But I do want to say that he has not just been a person who has written to his Congressman on this subject, but he has traveled extensively on this matter, originally just in Iowa, but now beyond the borders of Iowa. So his work in this area first brought to my attention the great amount of interest at the grassroots level.

When I say grassroots, it's the same sort that you are now feeling in Alabama, or sensing in Alabama. I'll bet it was in Iowa probably 2 years before the rest of the country. I couldn't explain to notch people in my State how come everybody in Iowa knew about the notch situation but in the rest of the country it wasn't discussed very much and my colleagues weren't as concerned about it. It was simply because, you know, the grassroots efforts kind of had a midwestern origin. It was over a period of time then that it eventually expanded to an organized level in other States so that I think now probably people in Alabama and elsewhere—all things don't come to the Midwest last.

Senator SHELBY. I want to commend Mr. Cooper for bringing the issue to crystallization in the Presidential caucuses in Iowa. There was a lot of attention focused on Iowa because of the Presidential caucuses and the notch issue we are discussing here today was a prominent component of the agenda. I am sure you and your friends were responsible for the attention the issue received.

Mr. Cooper.

The CHAIRMAN. Please proceed, Mr. Cooper.

STATEMENT OF J. DARYL COOPER, PRESIDENT, NOTCH COMMITTEE TO CORRECT INEQUITIES IN SOCIAL SECURITY AND MEDICARE, INC.

Mr. COOPER. Thank you.

I think you are aware that my name is Daryl Cooper and I am from Council Bluffs, Iowa. I would like to thank the chairman and also Senator Grassley and the other members of the committee for permitting me to come here this morning to present facts to your committee in an effort to assist in helping to bring about correction of the injustice of the Social Security notch.

As you mentioned, I do have a brief that was presented to the committee, and there are a couple of things that I would like to bring out of that that I would like to address a bit further.

Number one is that we hear so much about how those people born after the 1917-21 group will be drawing less benefits than we in the notch. I did have one example that I wanted to point out in that respect. I have a member of our committee in Council Bluffs, a Mr. Bob Leuck, retired February 1, 1986 at the age of 62 years of old, and his current benefit—now listen to this—is $666 per month payable January 1, 1988.

My own personal benefit, I retired February 1, 1983, at the age of 63. Our earnings record was identical. Now according to all computations Mr. Leuck's benefits because he retired 1 year earlier than I did, should have been at least 6.3 percent less than mine. My benefits are $14 less per month than his.

So I would like to point out that the people that make the stipulation that those born after the 1921 years will get less leaves much to be understood.

This problem would be further spread out or magnified, if you wish, when we continue to issue the COLA's on the basis of a percentage. When I say on the basis of a percentage, we further magnify this problem, and as an example, this method over the past 8 years, for every $100 difference in your initial retirement benefit that spread is now $179.79. In other words, in just 8 years it has spread the problem that much in addition.

I have been presented so many new facts since arriving in Washington, D.C. that I didn't even realize that there could be so many different things. In other words, during the 1970's and the 1980's the economic forecasting and assumptions developed by our Social Security actuaries for the most part were very wrong. Their declining accuracy unfortunately created errors that affected two crucial turning points in the seventies leading to legislative mistakes. I refer to the 1972 indexing of the COLA's, the automatic benefit increases, which in turn led to the 1977 amendments to correct the 1972 error.

This 1977 amendment to correct this error was flawed with inaccurate forecasting and assumptions. Were these mistakes important? I would say so because they created the notch.

Social Security was originally designed to meet two competing goals. First, under the so-called equity principle benefits were supposed to bear some relationship to the amount that you paid in in taxes. The more you pay in, the more you get out. It was only fair to link taxes and benefits. But that equity has been denied with the Social Security notch. When they passed this law, they took away that equity principle.

I would like to refer also to the American Enterprise Institute legislation analysis as published in the hearing record before the House Aging Committee on October 15, 1985. I quote:

> It is sometimes suggested that the notch would not have arisen if the future assumptions about inflation around which the 1979 benefit changes were planned had materialized. Since inflation was much worse in the following four or five years than was expected, it is perceived that the benefits of those still under the old system were greatly elevated by the automatic benefit increases provided in 1979.

When I refer to those, I refer to the COLA's of 11.9, 14.2, and 11.3 in those 3 years, and that the omission of these large increases from the benefits of those required to use the new rules caused or greatly increased the notch. It is true that the dollar difference between the benefits determined under the old and the new rules were somewhat larger because inflation was more acute. Even if the inflation assumptions made in 1977 had turned out to be accurate, the notch would have existed, and in percentage terms the benefit difference it created would not have been much smaller than those that arose.

The fact is that the notch arose directly from the provisions enacted in 1977, not from the unexpected economic conditions that followed.

As a result of those faulty miscalculations another Social Security crisis developed in 1980 followed by reality of the notch problem. It is of importance to notice Federal employees adamantly opposed pending legislation that would bring them into the Social Security System. They were worried about the survival of their over generous civil service retirement program. If all new employees were covered by Social Security there would be fewer workers to support the Federal social retirement program, and Federal unions were not interested in saving the Social Security System. They mounted a strong media campaign against the proposal, budgeting several hundred thousand dollars, but lost the battle.

It is also of interest to note, following the passage of Social Security legislation in 1983 the Social Security Administration has become the most outspoken, hard line critic of notch reform. Instead of acknowledging and sharing responsibility for creating the benefit inequity, this agency has chosen to mount a campaign across the country vehemently denying its existence in opposition to legislative correction.

It's time to set the record straight. The notch is not a myth. The benefit inequity is real. Millions of Americans, 15, 16 million born 1917 through 1928 are adversely affected. It's time for the Social Security Administration to restore credibility to the system, to cooperate in restoring benefit equity and confidence of all people, young and old as well.

It's time for Congress to do its part in reestablishing faith and justice in the system by moving promptly for passage of the Sanford bill, for which we want to commend Senator Sanford for coming forward with. The Midwest notch group have agreed that this is an acceptable measure that could be accepted. From that standpoint we do want to commend him.

Mr. Chairman, we respectfully ask that you and your committee provide the initiative for legislative action. Let's remove government from the bureaucracy to government of the people, by the people, and for the people.

Thank you, and may God bless you and your committee for bringing this forth.

[The prepared statement of Mr. Cooper follows:]

NOTCH

Committee to Correct Inequities in Social Security and Medicare

Box 804 Council Bluffs, Iowa 51502

February 22, 1988

Senator Melcher, I and the Notch Victims of the Midwest wish to thank you and the other members of the Committee for inviting me here today to present facts to your Committee in an effort to assist in helping to bring about correction of the injustice of the Social Security Notch.

I bring with me records of over 40 Congressmen who have studied this issue and have stated it is an inequity and must be addressed without further delay - This fact is further emphasized by learning of the 198 Congressmen who have co-sponsored corrective legislation.

We further bring forth the statements of several members of the Senate stating the Notch groups were treated unfairly in the 1977 legislation and it is clearly an inequity and the Sanford Bill S1830 is a good starting point toward rectifying this error. Presently their are 23 Senators supporting corrective legislation. These additional statements of Senators and Representatives are included and we ask they be made a part of the Congressional Record of this hearing.

Senator Sanford - favors correcting the Social Security Notch and I'm sure he would not favor correcting something if it wasn't needed. He further states correcting the Notch will not bankrupt the Trust Fund as some critics claim.

Senator Melcher - "It is clear an inequity exists in the N otch."

Senator Pressler - reported the Sanford Bill is a good starting point to correct the Notch Problem.

Senator Specter - reported Notch Babies were treated very unfavorable in the 1977 legislation.

Notch Victims were told it was necessary to pass legislation to prevent bankruptcy of the Social Security Trust Fund. This legislation was to reduce overall benefits by 5% to 7% over the five years of the transition. This legislation was passed in 1977 and became effective in 1979 and

Page 2.

the reduction was considerable greater than anticipated. This reduction was more than 10% the first year and continued to increase to amounts in excess of 20%. Contrary to mistaken belief there are no special transitional advantages for Notch persons. The two methods of figuring our benefits do not allow an advantage. Under the transition formula Notch People lost 1 to 4 years of salary credit in figuring initial retirement benefits. By not allowing all wages to be used in the transitional guarantee formula - initial benefits for a maximum wage earner would be $109.90 less than if figured on the pre-notch formula.

Congressman J. J. Pickle stated on 9/13/83 in the Congressional Record (J6763) "So when we put the new formula into effect in 1977 we lowered overall benefits by about 5% to 7%".

Congressman Dan Rostenkowski on 4/4/84 made the following statement "therefore, at the same time as decoupling was enacted, Congress also lowered overall benefit levels for future beneficiaries by 5% to 7% thru the formula put into law".

Congressman Roybal in letter dated February 5, 1986 to Congressman Bill Archer states the great reduction in benefits for personsin the Notch was not the intent of the 1977 amendments nor can it be justified in 1986. Congressman Roybal further stated in Congressional Record (E1264) dated April 2, 1987 "instead of transition which was intended to reduce benefits 6% to 10% over 5 years - the average benefit reduction for 65 year old retirees born in 1917 was more than 10% in the 1st year. When people born after 1916 retired they found the reduction in benefits much greater than 5% to 7% as evidenced by examples presented at previous hearings - (copies enclosed) and now a part of the Congressional Record.

At a Congressional Hearing in Council Bluffs, Iowa on October 1984, then Representative Tom Harkin publicly stated (and it is a matter of record) that he and others thought the benefits would be reduced no more than 5% to 7% over 5 years or they would not have voted for the Amendment.

The injustice of the Notch is further magnified when allowing cost of living increases (COLA'S) to be figured on a percentage basis. This

Page 3.

method over the past 10 years has increased the inequity by $77.79 for every $100 difference in initial retirement benefits.

Dr. Robert Myers whose credentials are well known as a result of his many years of association with the Social Security Administration and thru his several books authored on the aforementioned topic. Dr. Myers stated to "Dear Abby" in 1983 after she was questioned by some menbers of Congress regarding the accuracy of her report in her column in September 1983. "All retirees should receive equal treatment" but the Social Security Administration disagreed with Dr. Myers and they prevailed.

Some critics of Social Security and of correcting the Notch inequity still publicize such a move would require additional taxation or would bankrupt the Socia Security Trust Fund. Mrs. Dorcas Hardy Commissioner of Social Security and Otis Bowen, Secretary of Health and Human Services state by the year 2000 the Trust Fund balance will be $1.3 Trillion and this fund will peak by 2015 at $13 Trillion. Correct the Notch per the Sanford Bill S1830 and still leave a healthy reserve or surplus.

The most critical problem of Social Security has not and will not surface until the year 2016 if present government practises continue -- I refer to the borrowing of these reserves and issuing treasury notes to cover this obligation. May I ask who will pay the taxes necessary to redeem these treasury notes when the money is needed to pay Social Security benefits? Should we eliminate this future obligation today and return Social Security to its initial "pay-as - you - go" basis, administered by its own-Board of Directors? We think this adviseable.

We find some critics desiring to hide behind "replacement rates" or some other ficticious percentages if it fits their particular case. Lets all deal in real dollars on this issue, that is what out grocer doctor, hospital, and the utility companies insist on when we meet our obligations. Why should the government obligation be different?

Page 4.

Several publications have attempted to emphasize the "greed" of Notch Victims - Webster's Dictionary describes "greed" as the excessive desire for great wealth. If the Notch is corrected per the Sanford Bill S1830 the average beneficiary would receive approximately $42 per month increase in benefits. This $42 per month might raise part of the 20% of older Americans who are below or just barely above the poverty level to a more comfortable standard of living.

Dr. Jack Carlson, former Executive Director of the American Association of Retired Persons (AARP) quoted in their News Letter of January 1988 that columnists describing older Americans as greedy and self-centered with no regard for the rest of society -- these attacks are morally and factually flawed. He further states social security does not nor has it ever added to the Federal Budget Deficit -- Social Security is not just a retirement program for older Americans. It is a universal Social Insurance Program which protects virtually all Americans.

The following example is presented as evidence that future retirees (those born after 1921) will not receive less benefits than a person born in the Notch.

Mr. Robert Leuck - 136 Glen Avenue - Council Bluffs, Iowa retired February 1, 1986 at age 62 and his current benefit is $666 per month payable January 1, 1988.

Daryl Cooper - 114 Brentwood Heights - Council Bluffs, Iowa retired February 1, 1983 at age 63 and my current benefit amount is $652 per month as of January 1, 1988. These two people had identical earnings record.

We have several examples of persons whose work record was identical yet initial retirement benefits are considerable different strictly because one was born in the Notch Years and the other prior to that date. In an effort to conserve time I will ask these be entered into the record as part of my testimony.

Again I want to thank the Committee for inviting me to be a part of this hearing.

J. Daryl Cooper, President
The Committee to Correct Inequities
in Social Security and Medicare, Inc.

Reference Notes:

Articles appearing in the New York Times 1/13/88 (The Greed of the Notch Babies)

Dr. Carlson's report in the AARP News Letter January 1988*

Congresssional Record dated April 2, 1987 E1264 by Congressman Roybal*

Two attachments of a letter sent to Cong. James Jones by Cong. Roybal dated June 21, 1985 stating the case of Mr. & Mrs. Kinkella of Southern California.*

Examples of Notch inequities offered at Select Committee on Aging hearing in Council Bluffs, Iowa on September 1984.

Copy of a letter sent to Congressman Bill Archer by Edward R. Roybal on February 5, 1986.

Testimony of J. J. Pickle on September 13, 1983 and a matter of Congressional Record H6763*

Social Security Record of Robert Leuck of Council Bluffs, Iowa
Social Security Record of Daryl Cooper of Council Bluffs, Iowa

Congressional Record S15381, S15382, S15383, S15384 dated Oct. 29, 1987.*

Congressional Record #191, Vol. 133 dated December 3, 1987*

Congressional Record of the 1 minute speeches before the House of Representatives in September and October 1987 on Notch Reform.*

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*Kept in committee files.

#10

New York Times

This is false she is still working for correction

Have never ask for such

a case of the most shabby journalism ever

NYT 1/13/88

The Greed of the Notch Babies

The Notch Babies: They are not babies at all but an angry special interest group of Social Security recipients in their late 60's. Timothy Noah, writing in The New Republic, called them "a parody of a special interest group." But as the Presidential candidates are learning on the campaign trail, the seven million Notch Babies are righteous, well organized and powerful.

Even so, their anger is misplaced and it would be wrong to make taxpayers foot the humongous bill for appeasing it.

The Notch Babies' anger arises from a misunderstanding over the 1972 legislation that indexed Social Security benefits to the cost of living. Congress intended to guarantee that the purchasing power of the average pension check would remain at 42 percent of average wages. But careless wording in the act meant that benefits for new retirees would have increased by much more than the rate of inflation.

When Congress corrected the mistake, it didn't have the nerve to eliminate the windfall already granted to retirees born in 1912 through 1916. And to cushion the blow for prospective retirees who might have been counting on the extra cash each month, Congress decided to phase out the windfall over five years. By 1987, the error was fully corrected, with new retirees again receiving an average of 42 percent of wages.

The seven million Notch Babies, people born in 1917 through 1921, will continue to receive more money than Congress ever intended because they retired during the five-year transition period. But rather than recognize they are thus winners, many Notch Babies demand that they, too, get the full, unintended windfall received by the lucky retirees just a few years their senior.

In 1983, the columnist Abigail Van Buren fueled their resentment in her "Dear Abby" column by calling on Congress to correct the "inequity." By the time Dear Abby realized her error and recanted, half a million Notch Babies had written Washington to complain. A grumble exploded into a cause.

The American Association of Retired Persons views the Notch Baby issue as a distraction from legitimate concerns of the elderly. But some lobbies for older adults are not so scrupulous, including James Roosevelt's National Committee to Preserve Social Security. They support the proposal by Representative Edward Roybal of California to lengthen the phase-out period from 5 years to 30.

There is little likelihood now that the Notch Babies can be reasoned with. Quite the contrary: Notch Babies are organizing as a single issue constituency in the early Presidential primaries. There's a real danger that the harried candidates will be stampeded into costly promises — very costly promises. Representative Roybal's modest plan would increase Social Security outlays by $86 billion over the next decade.

The best hope is that responsible representatives of the elderly will defuse the issue by stepping forward, credibly and responsibly, to denounce the Notch Baby fix for what it really is: a budget-busting giveaway fired by greed, not fairness.

~~[illegible]~~

Hiding behind replacement rate Info from Soc Sec + didn't verify his facts -

Ask [illegible]. do you think Senator [illegible] what about [illegible] [illegible] talks around — [illegible] about [illegible] that doesn't vote for Soc Sec Cuts ...

STATEMENT BY OTIS R. BOWEN, M.D.

Secretary of Health and Human Services

January 5, 1987

The President's Health and Human Services budget for fiscal 1988 is a plan which maintains our national commitments in health, income support and social services while it continues our progress toward a government that will work better for all of us -- beneficiary, provider and taxpayer alike.

In the Social Security Administration:

-- The Social Security Trust Fund has been restored to solvency and is beginning to build the substantial reserve necessary to provide retirement benefits, ~~for~~ the "baby boom" ~~generation as it reaches retirement~~ age during the ~~next~~ ~~century.~~

-- Total retirement, survivors and disability outlays in 1988 will be $220 billion. At the same time, income to the trust fund will be $260 billion, adding to the needed reserve.

-- Social Security Trust Fund reserves alone are expected to increase to $221 billion by 1990 and to about $1.3 trillion by the year 2000. The reserves are expected to peak in about the year 2030 at a total of approximately $13 trillion. This is the fund that will be necessary to honor our Social Security compact with today's workers, without overburdening the next generation -- and we are on target toward accumulating that fund.

-- Full cost-of-living allowance will be paid in 1988, estimated at 3.5 percent. In addition, Social Security will spend $282 million in 1988 on its Systems Modernization Plan, providing upgraded computer and telecommunications equipment and faster, more accurate service for the public.

increases once the person retires. The new formula alone, however, did not solve the whole problem. By 1977 benefit levels had already increased so much --replacing on average 54 to 60 percent of their pre-retirement earnings-- that the tax rates necessary to finance paying all future beneficiaries benefits at that rate were unacceptable. Therefore, at the same time as decoupling was enacted, Congress also reduced overall benefit levels for future beneficiaries by 5 to 7 percent, through the formula put into law. I would emphasize that the new formula provides the average worker with a benefit replacing about 42 percent of his pre-retirement lifetime average earnings, which is still higher than the formula in the early 1970s that gave such a worker only 35 to 38 percent.

Congress did not want to reduce benefits retroactively for current beneficiaries even though their benefits were much higher than had ever been intended. Therefore, the new formula was applied only to people first becoming eligible for benefits after the effective date of the bill -- therefore, people who turned 62 before the effective date of January 1, 1979, are still under the old law, even if they are still working.

However, it was clear that some people could be seriously disadvantaged by an immediate cut in their expected initial benefits of 5 to 7 percent. Thus, people who turn 62 in the period 1979 through 1983 come under the transition provision, which allows them to get the higher of two benefits: either a benefit using the old law 1978 benefit table but using only earnings before age 62; or a benefit using the new formula and using all earnings both before and after age 62. Everyone reaching age 62 in 1984 and later will be under the new formula.

While many people would benefit from a return to the 1972 formula, to do so even partially (as is the approach, for example, in H.R. 4093) would mean that today's social security taxes would have to be raised by $9 billion in 1984 and by more than $90 billion over the next seven years. The entire financing package enacted in March, 1983, raised only $169 billion, and of that only $57 billion comes from accelerated taxes, mostly in 1988 and 1989. It is clear, therefore, that the costs of H.R. 4093 or any similar bill would bankrupt the system. In addition, because of the flaws in the old benefit formula that would continue to operate under H.R. 4093, most of this $90 billion would go to higher-paid workers who continue to work past age 62.

In the new 1983 social security law, Congress avoided another cash crisis, in part by raising social security taxes. It is unrealistic to expect Congress to raise taxes again to increase benefits, or to endanger the solvency of the trust funds in order to continue paying benefits at a level far in excess of what was deemed reasonable in 1977. I trust this information will be helpful to you.

With warm regards, I am

Sincerely yours,

Dan Rostenkowski

Dan Rostenkowski
Chairman

U.S. House of Representatives
Select Committee on Aging
Washington, DC 20515

Telephone: (202) 226-3375

February 5, 1986

The Honorable Bill Archer
Ranking Minority Member Social Security Subcommittee
Committee on Ways and Means
1102 Longworth HOB

Dear Mr. Archer:

Someone reaching age 65 this year after a full career of average earnings can expect to receive a monthly Social Security benefit of about $577. A former co-worker, now age 70, will receive about $701. This $124 "NOTCH" reduction is simply a result of the fact that one of them was born in 1916 and the other was born in 1921. This was not the intent of the 1977 amendments nor can it be justified in 1986.

My legislation, H.R. 1917, with 111 bipartisan co-sponsors, is a fair response to this intolerable inequity. H.R. 1917 does not repeat the errors of the 1972 law which would have allowed benefits to grow to about $817 for this year's average earning 65 year old. Under H.R. 1917, this year's average-earning 65 year old retiree would receive a monthly benefit of about $730 which is comparable to the $701 benefit of someone now aged 70.

H.R. 1917 effectively prevents any dollar reduction in benefit levels by stretching out the transition mechanism to the new system. Although I understand that you feel that this approach is too costly, I must point out that last year, the Social Security trust funds accumulated a 12.4 billion dollar surplus and under the President's FY '87 budget assumptions, FY 87-FY 90 surpluses will average $36.7 billion per year. Therefore even if H.R. 1917 is passed with full retroactive benefits to 1979, trust fund assets will still triple to over $100 billion in 1990 without any change in scheduled tax rates.

Even though you do not now favor H.R. 1917's solution to this inequity, I urge your subcommittee to fashion a solution which you can support so that the alternatives can be put before the entire House. I am confident that the House would act favorably on legislation to address this inequity.

I continue to receive hundreds of letters every week from people all over the country in support of H.R. 1917. And grass roots organizers have told me they plan another rally in Washington this spring. I believe that their cause is just and that their pursuit of a fair resolution will not diminish until the Congress and the President act in a responsible way to recognize and correct the inequities of current law.

Sincerely,

Ed Roybal

Edward R. Roybal
Chairman

ERR:JJA
(Sub. #1)

U.S. Department of
Health and Human Services
Social Security Administration.
Form SSA-4926SM (1-87)

482-14-6138 A

ROBERT J LEUCK
136 GLEN AVE
COUNCIL BLUFFS IA 51501

(Use Space Below For Address Correction)

TEAR ON PERFORATION

New payment amount

Starting with the January 2 payment, your Social Security payment is increased by 1.3 percent. This is an automatic increase based on the rise in the cost of living. Your new monthly payment amount—the amount to be deposited into your account—is $ 634.00

If you are paying for Medicare medical insurance, your monthly premium of $ .00 has already been subtracted in figuring the above monthly payment amount.

Your gross benefit amount—the amount before deductions—is $ 634.00 . This is the figure organizations need when they ask you for verification of your benefits. SAVE THIS NOTICE and use it to verify your Social Security benefit with food stamps, local or Federal rent subsidies, energy assistance, bank loans, or other important business.

Change of address

Although your Social Security checks are not sent to your home, we must have your correct mailing address so we can send you important information about changes in Social Security and changes that may affect the amount of your monthly payment. **Your monthly Social Security payments can be stopped if we cannot locate you to verify your continuing eligibility.**

The address shown above is the latest address we have for you. If it is correct, **you don't have to do anything.**

If the address is not correct, please write your new address above and mail it back to us in the prepaid envelope that is enclosed with this notice. Or, call, write, or visit any Social Security office to give us your new address.

If you plan to move in the future, hold on to the address card and envelope so you can report your new address to us when you do move.

FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1987

- PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1987.
- USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE 703 FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN.
- ALSO SEE GENERAL INFORMATION TO THE RIGHT.

Box 1. Name: J DARYL COOPER	Box 2. Beneficiary's Social Security Number: 480-20-3969

Box 3. Benefits for 1987	Box 4. Benefits Repaid to SSA in 1987	Box 5. Net Benefits for 1987 (Box 3 minus Box 4)
$7510.80	NONE	$7510.80

DESCRIPTION OF AMOUNT IN BOX 3

Amounts paid by check or direct deposit	$7296.00
Add:	
Medicare premiums paid for you	214.80
BENEFITS FOR 1987	$7510.80

DESCRIPTION OF AMOUNT IN BOX 4

NONE

Box 6. Address
J DARYL COOPER
114 BRENTWOOD
COUNCIL BLUFFS IA 51501

Box 7. Claim Number *(Use this number if you need to contact SSA.)* 480-20-3969 A

Form SSA-1099-SM (1-88)

DO NOT RETURN THIS FORM TO SSA OR IRS

PART

Purpose of This

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THE FOLLOWING ARE EXAMPLES OF THE NOTCH

VERA CARSON OF REDDING, IOWA

1. Born in 1918, a notch year.

2. Retired in 1983 at age 65 after over 30 years of work under the Social Security system as a teacher and restaurant manager.

3. Ms. Carson receives benefits which are $70 a month less (13 percent) than someone of equivalent earnings who was born two years earlier in 1916.

Current notched benefits:	$455
If born two years earlier (1916), benefits would be:	$525
Difference	$ 70 (13%)

4. HR4093 introduced by Chairman Roybal and co-sponsored by sixty-three Members of Congress would restore $52 of the $70 difference in benefits.

Under HR4093 benefits would be:	$507

5. Mrs. Carson says she would spend the additional $52 on insurance premiums and mortgage payments.

MRS. "A" OF LEON, IOWA

1. Born in 1920, a notch year.

2. Retired in 1983 at age 63 after paying Social Security taxes on almost a quarter of a million dollars ($246,220) in earnings in over 30 years as a teacher.

3. Mrs. "A" receives benefits which are $154 a month less (23 percent) than those paid to someone of equivalent earnings who was born four years earlier in 1916.

Current notched benefits:	$494
If born four years earlier (1916), benefits would be:	$640
Difference	$154 (23%)

4. HR4093 introduced by Chairman Roybal and co-sponsored by sixty-three Members of Congress would restore $141 of the $154 difference in benefits.

Under HR4093 benefits would be:	$627

5. Mrs "A" indicates she would use the additional $141 a month for medical expenses and for her children.

JERALD WALTER OF MT. AYR, IOWA

1. Born in July 1919, a notch year.

2. Mr. Walter retired in 1984 just before age 65 and after over 30 years of work under the Social Security System as a farmer.

3. Mr. Walter receives benefits which are $70 a month less (19 percent) than those paid to someone of equivalent earnings who was born three years earlier in 1916.

Current notched benefits:	$358
If born three years earlier (1916), benefits would be:	$428
Difference:	$ 70 (19%)

4. HR4093 introduced by Chairman Roybal and co-sponsored by sixty-three Members of Congress would restore $58 of the $70 difference in benefits.

Under HR4093 benefits would be:	$416

5. Mr. Walter indicated he would use the additional $58 a month for living expenses and bills.

DONOVAN NELSON OF ATLANTIC, IOWA

1. Born in 1918, a notch year.

2. Retired in 1983 at age 65 after twenty-eight years of work under the Social Security system primarily as a farmer and steel worker.

3. Mr. Nelson receives benefits which are $122 a month less (19 percent) than those paid to someone of equivalent earnings who was born two years earlier in 1916.

Current notched benefits:	$536
If born two years earlier (1916), benefits would be:	$658
Difference	$122 (19%)

4. HR4093 introduced by Chairman Roybal and co-sponsored by sixty-three Members of Congress would restore $106 of the $122 difference in benefits.

Under HR4093 benefits would be:	$642

5. Mr. Nelson says he would spend the additional $106 a month to pay taxes and medical expenses.

MR. "C" OF BLOCKTON, IOWA

1. Born in 1919, a notch year.

2. Retired in 1984 at age 65 after over 30 years of work under the Social Security system as a farmer.

3. Mr. "C" receives benefits which are $210 less (27 percent) than those paid to someone of equivalent earnings who was born three years earlier in 1916.

Current notched benefits:	$561
If born three years earlier (1916), benefits would be	$770
Difference:	$210 (27%)

4. HR4093 introduced by Chairman Roybal and co-sponsored by sixty-three Members of Congress would restore $177 of the $210 difference in benefits.

Under HR4093 benefits would be:	$737

5. Mr. "C" says he would spend the additional $177 a month on upkeep of his farm and for increases in living expenses since he retired.

ELIZABETH REDMAN OF VAN WERT, IOWA

1. Born in 1918, a notch year.

2. Retired in 1983 at age 65 after working eighteen years as a teacher under the Social Security system. Previously she worked as a farm-wife.

3. Mrs. Redman receives benefits which are $153 a month less (24 percent) than those paid to someone of equivalent earnings who was born two years earlier in 1916.

Current notched benefits:	$484
If born two years earlier (1916), benefits would be:	$637
Difference	$153 (24%)

4. HR4093 introduced by Chairman Roybal and co-sponsored by sixty-three Members of Congress would restore $129 of the $153 difference in benefits.

Under HR4093 benefits would be:	$612

5. Mrs. Redman says she would use the additional $129 to pay taxes and to cover the cost of other living expenses.

U.S. HOUSE OF REPRESENTATIVES

EDWARD R. ROYBAL, CHAIRMAN

AN EXAMPLE OF THE NOTCH
DARLYNE FRAZEUR
OF
GRISWALD, IOWA

I. Mrs. Frazeur, born on February 12, 1917 is a "Notch" baby who, at age 67, continues to work full time.

II. If Mrs. Frazeur had been born six weeks earlier, in December 1916, she would be entitled to 44 percent more ($160) a month on her own work record than she is due under the notch formula. Therefore, by being born six weeks too late, Mrs. Frazeur's S.S. benefits will be reduced by $1,920 a year for life.

Worker benefit for Feb. 1917 birthdate:	$359
Worker benefit if born in Dec. 1916:	$519
Monthly Difference	$160
Annual Loss	$1,920

III. Currently Mrs. Frazeur is actually eligible for higher monthly benefits as a spouse on her husband's record than as a worker under the notch formula. She has gotten no additional benefits from continuing to work and pay Social Security taxes.

Current worker benefit:	$359
Current benefit as a spouse:	$385
Current benefit payable:	$385

IV. H.R. 4093 restore's $105 of the $160 reduction in Mrs. Frazeur's monthly worker benefit. This is $79 a month more than the benefits she can receive as a spouse.

	Current Law	H.R. 4093	Difference
Benefits as spouse:	$385	$385	0
Benefits as worker:	$359	$464	+$105
Benefits payable:	$385	$464	$79

Prepared for Chairman Roybal and Congressman Harkin by Allen Johnston, Staff Director, Subcommittee on Retirement Income and Employment (202) 226-3335.

The CHAIRMAN. Thank you very much, Mr. Cooper, for your testimony and translating your personal experience into projections of how many people are adversely affected by the 1977 adjustments.

Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

My questions are more along the practical line of why now if you could tell the committee you and your organization have come to urging support for the Sanford bill as related to your original support and urging the D'Amato bill which was a more complete and substantial fix of the notch problem. Just kind of relate to us your thought process that brought you around to that.

Mr. COOPER. We felt initially that we were entitled to full equity in this issue. If it was wrong to start with, it's completely wrong. In going through the mail that I am receiving daily we got to looking and came to the realization that maybe we were being selfish in our request for full equity from the standpoint that we find so many people that are, should I say, below the poverty line or barely above the poverty line, that if we as a group could accept less than full equity perhaps we could get Congress and the Senate to pass legislation such as this. Maybe we have an obligation to this group to try to get them a smaller amount of money and get correction for it while they are still living and need it so badly.

I believe, if my figures are correct, there is something between 20 and 25 percent of the people, the elderly people that are below or just barely above the poverty line today. So I guess I would say the top group is willing to sacrifice to get equity for those people.

Senator GRASSLEY. You felt that maybe the Sanford bill had a better chance of passage as well?

Mr. COOPER. Definitely, from what has happened in the past.

Senator GRASSLEY. My last question then would be to you along the line of the many people who you meet with in the Midwestern States, especially Iowa, the large number of people that you have on your mailing list that you communicate with on a regular basis, how would you describe sentiments among those members with whom you correspond? Are they by and large then supporting the Sanford bill at this point as opposed to the D'Amato bill?

Mr. COOPER. I don't question, and I am sure you are aware of this, I don't question that there would be people that from a purely selfish standpoint would still maybe condemn us as a group for looking at the Sanford bill as we did. But I think I gave you the assurance I believe on the telephone that you would receive no problems from any of those people in the State of Iowa for supporting that bill over insisting on continuing with those demanding more benefits.

I still offer that as part of my position, that should anyone raise the problem to you, we will be very happy in any way we can to handle that situation for you.

Senator GRASSLEY. But you think your membership would reflect that view now after 2 or 3 months of your communicating with them, their support of the Sanford bill?

Mr. COOPER. Definitely. There's no question in my mind.

The other thing I would have to say in response to that, we just sent out, recently we notified about 55,000 I believe it was in the State of Iowa, and the people are so enthused about our program that they send in contributions to our group so that we can continue to operate. If they were not supporting that program, then I would be concerned that they were unhappy with what we are doing. As long as they continue to support us financially, I have no qualms that they are happy with what we are doing.

Senator GRASSLEY. Mr. Chairman, I have no further questions.

THE CHAIRMAN. Thank you, Senator.

Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

In Alabama, my home State, it is my understanding that there are 139,513 retired workers affected by the notch, and approximately 7 million nationwide. Is this figure similar to what you have come up with?

Mr. COOPER. I believe if my figures are correct there are approximately 7.9 million or 7.6 million in the transition period, the 1917 through 1921. Now you are going to increase that figure, and we have been trying to run down accurate figures of that, of how many. Each source that we go to, we get a different figure.

Consequently, I believe a conservative estimate in that period of 1917 through 1928 would be closer to 14 to 15 million.

Senator SHELBY. Closer to 14 to 15 million?

Mr. COOPER. I believe that would be conservative, based on the number of people that were born in that time period.

Senator SHELBY. This is including people on what I would call the outer perimeter?

Mr. COOPER. Yes.

Senator SHELBY. Would move it from 1917 to 1929, the way that Senator Sanford has done here?

Mr. COOPER. Yes.

Senator SHELBY. If the 14 or 15 million people that will be affected by the notch get as involved as your group, those born between 1917 to 1921, I believe we can bring this issue to a head. I believe we can get a vote to correct the severe inequity created by the notch.

I do want to follow up on what Senator Grassley had asked you. I was also co-sponsoring Senator D'Amato's bill earlier, and have learned from reading the figures and so forth that it would cost more. From your experience would you say that the notch year babies are basically solid behind the Sanford proposal?

Mr. COOPER. I believe you could say that, yes. Any of them that I have experience with, and this seems to be the general conclusion that I am receiving in my correspondence from other parts of the United States.

Senator SHELBY. I encourage you to keep working and bring these other people in. I believe that if we remain committed in our efforts to correct this problem we will have a chance to vote on the issue in the Senate and the House. With your continued hard work, I believe we will be successful.

Mr. COOPER. Thank you.

Senator SHELBY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Cooper.

We have a witness from the Social Security Administration. Due to his pressing duties, we are going to call on him now. He is Mr.

Michael Carozza who is Deputy Commissioner for Policy and External Affairs of the Social Security Administration.

STATEMENT OF MICHAEL C. CAROZZA, DEPUTY COMMISSIONER FOR POLICY AND EXTERNAL AFFAIRS, SOCIAL SECURITY ADMINISTRATION

Mr. CAROZZA. Mr. Chairman, members of the committee, I appreciate the opportunity to testify in connection with your consideration of the notch. I would like to summarize my statement and submit the full statement for the record.

The CHAIRMAN. That will be fine.

Mr. CAROZZA. Thank you.

One of Commissioner Hardy's highest priorities is to educate the public about social security, and the so-called notch warrants a complete explanation. I welcome this opportunity to clarify the history of the notch issue.

The notch has been defined in several different ways. Generally, however, it refers to the difference in benefits payable to workers born after 1916 who have their benefits computed under the new and more equitable computation method enacted in 1977 and benefits payable to workers with similar earnings histories born between 1910 and 1916 who have their benefits computed under a flawed computation method enacted in 1972. In particular, some beneficiaries born in the 1917 to 1921 period believe that they are treated unfairly compared to those born in 1916 and earlier years.

In actuality, the notch occurs because workers born between 1910 and 1916 receive unintended windfall benefits. They receive these windfall benefits because of the flawed 1972 benefit computation method which overcompensated for inflation and allowed for inequitable wage replacement ratios. This method was corrected by the 1977 amendments. All workers born after 1916 have their benefits computed under the new more equitable method.

No inequity has occurred with regard to those people born in 1917 and later. They are receiving appropriate benefit levels that were intended by Congress and that compare favorably to benefit levels for people born prior to 1910 who didn't profit from the unintended windfall caused by the flawed 1972 computation method.

Mr. Chairman, a review of the major events that led to the current notch situation is appropriate. In 1972, in order to maintain the purchasing power of Social Security benefits after a worker retires, Congress provided for automatic cost of living adjustments beginning in 1975. However, the computation method in the 1972 legislation was flawed. It overadjusted the benefits of workers retiring in the future for increases in the cost of living.

This overadjustment occurred for two reasons. First, cost of living increases meant for retired workers were also incorrectly built into the future benefits of workers who had not yet retired. Second, workers' wage increases also generally reflect cost of living increases. The flawed benefit calculation took into account increases in both wages and prices. Thus, during a person's working years, his or her future benefits were increased more than necessary to reflect increases in the cost of living.

This overadjustment of benefits, combined with the very high inflation of the 1970's, resulted in unanticipated increases in overall benefit levels. Benefits for people initially affected by the flawed computation method, generally those born in 1910 and later, increased dramatically. It was projected that benefits for many workers retiring in the future would substantially exceed their preretirement earnings.

After 3 years of exhaustive study, Congress in 1977 enacted a major, well thought out revision of the Social Security benefit structure. It was designed to put a stop to runaway benefits, restore more appropriate benefit rates, and help solve the financing problems then facing Social Security.

In addition, Congress made a number of related changes. First, replacement rates under the new computation method were deliberately set at about 5 percent lower for age 62 retirees than the rates that were expected to occur under prior law in January 1979. This change was made in order to eliminate some of the unintended rise that had occurred under the old computation method.

However, inflation after enactment of the 1977 amendments was higher than had been expected. This caused replacement rates under the old computation method to rise more rapidly than had been anticipated. As a result, when the new computation method went into effect in 1979, the reduction in replacement rates at age 62 was about 7 percent rather than 5 percent.

Second, people born before 1917 were allowed to continue to receive the windfall benefits under the old, flawed computation method. This was done because Congress wanted to avoid reducing benefits for people already receiving them. However, this has the effect of increasing the difference in benefit amounts under the old and the new methods.

Third, Congress provided a transitional benefit computation method for workers born in the years 1917 through 1921. It was designed to give the greatest protection to workers who reached age 62 and retired just after the new computation method became effective. This group was most likely to have made retirement plans based on the benefit levels under the old law.

Thus, the benefit levels provided under the 1977 legislation were both intended and appropriate.

I want to emphasize that the difference in benefits computed under the old and new methods is somewhat larger than had been anticipated, not because benefits under the new computation method were lower than had been intended, but rather because benefits under the old method were higher than expected.

Several bills have been introduced which were intended to fix the notch. These bills would reduce or eliminate the difference in benefits under the old and new computation methods by increasing benefits for people who were born in 1917 and later. That is, they would extend all or some part of the unintended windfall to additional groups of people. As a result, these bills are very expensive. Their costs over the 1988 through 1996 period range from $24 billion to more than $375 billion. The difference in cost is related directly to how much of a windfall is provided to people born after 1916 and how many people born after 1916 participate in the extension of the windfall.

Mr. Chairman, the financial soundness of the Social Security trust funds rests on policies developed by the bipartisan National Commission on Social Security Reform and enacted in the Social Security Amendments of 1983. The Commission unanimously recommended that Congress not alter the fundamental structure of the Social Security program or undermine fundamental principles.

Due to the policies adopted by the Commission, the Social Security trust funds are continuing to grow. But the assets that will be accumulated are not a surplus; rather, they are an essential reserve to meet the program's benefit obligations as the baby boom generation retires.

In addition, the bipartisan budget agreement of November 20, 1987, precludes the introduction of any costly legislative proposals by Congress or the administration.

As you know, the General Accounting Office in consultation with the Secretary of Health and Human Services is studying the notch issue. The report,[1] which is expected to be released in the near future, will analyze various proposals to address this issue and alternative ways to finance these proposals. We intend to review this report and evaluate any recommendations submitted by the General Accounting Office.

In any event, the Administration will continue to support the policies established by the bipartisan National Commission on Social Security Reform and the bipartisan budget agreement.

Mr. Chairman, in conclusion, let me emphasize three points. One, some workers born between 1910 and 1916 receive windfall benefits as a result of a flaw in the 1972 computation method.

Two, no inequity has occurred with respect to workers born after 1916. All workers born after 1916 receive appropriate benefits. These benefits are at the level that Congress intended when it passed the 1977 legislation which corrected the flaw in the 1972 computation method.

Third, consistent with the policies of the bipartisan commission, there is no surplus in the trust fund reserves to pay for extending the windfall benefits received by the 1910 to 1916 group to additional workers.

Mr. Chairman, we look forward to working with this committee to clear up some of the misconceptions about the notch and to alleviate beneficiary concerns about the issue.

Thank you.

[The prepared statement of Mr. Carozza follows:]

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[1] Copies of the above publication may be obtained from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877, entitled "Social Security—The Notch Issue," GAO/HRD-88-62.

STATEMENT

BY

MICHAEL C. CAROZZA

DEPUTY COMMISSIONER FOR POLICY AND EXTERNAL AFFAIRS

HEARING ON THE "NOTCH"

BEFORE THE

SPECIAL COMMITTEE ON AGING

Mr. Chairman, members of the committee:

I appreciate the opportunity to submit the following statement to your committee in connection with its consideration of the "notch." One of Commissioner Hardy's highest priorities is to educate the public about Social Security, and the so-called "notch" warrants a complete explanation. Therefore, I appreciate this opportunity to clarify the history of the notch issue.

Introduction

The notch has been defined in different ways by different people. Generally, however, it refers to the difference in benefits payable to workers born after 1916, who have their benefits computed under the new and more equitable computation method enacted in 1977 and benefits payable to workers with similar earnings histories born between 1910 and 1916, who have their benefits computed under a flawed computation method enacted in 1972. In particular, some beneficiaries born in 1917-21 believe that they are treated unfairly compared to those born in 1916 and earlier.

In actuality, the "notch" occurs because workers born between 1910 and 1916 receive unintended windfall benefits. They receive these windfall benefits because of the flawed 1972 benefit computation method which overcompensated for inflation and allowed for inequitable wage replacement ratios. This method was corrected by the 1977 amendments, and all workers born after 1916 have their benefits computed under the new and more equitable method.

No inequity has occurred with regard to those people born in 1917 and later. They are receiving appropriate benefit levels that were intended by Congress and that compare favorably to benefit levels for people born prior to 1910, who did not profit from the unintended windfall caused by the flawed 1972 computation method. All of the bills that have been introduced to deal with the notch would extend the unintended windfall benefits to more groups of beneficiaries and would cost from $24 billion to $375 billion over the next 10 years according to estimates of the Social Security Chief Actuary.

The financial soundness of the Social Security trust funds rests on the policies developed by the bipartisan National Commission on Social Security Reform and enacted in the Social Security Amendments of 1983. The Commission unanimously recommended that Congress "not alter the fundamental structure of the Social Security program or undermine its fundamental principles." Due to the policies adopted by the Commission, the Social Security trust funds are continuing to grow. The assets that will be accumulated are not a surplus, but rather an essential reserve to meet the program's benefit obligations as the "baby boom" generation retires. In addition, the bipartisan budget agreement of November 20, 1987, precludes the introduction of any costly legislative proposals by Congress or the Administration.

Effects of 1972 Legislation

A review of the major events that led to the current notch situation is appropriate. In 1972, in order to maintain the purchasing power of Social Security benefits after a worker retires, Congress provided for automatic cost-of-living adjustments (COLAs) beginning in 1975. However, the computation method in the 1972 legislation was flawed. It overadjusted the benefits of workers retiring in the future for increases in the cost of living.

This overadjustment occurred for two reasons. First, cost-of-living increases that were meant for retired workers were also incorrectly built into the future benefits of workers who had not yet retired. Second, workers' wage increases also generally reflect cost-of-living increases. The flawed benefit calculation took into account increases in both wages and prices. Thus, during a person's working years, his or her future benefits were increased more than necessary to reflect increases in the cost of living.

This overadjustment of benefits, combined with the very high inflation of the 1970's, resulted in unanticipated increases in overall benefit levels. Benefits for people initiall_ affected by the flawed computation method--generally those born in 1910 and later--increased dramatically. It was projected that benefits for many workers retiring in the future would substantially exceed their preretirement earnings.

The dramatic increase in benefits under the flawed benefit computation method caused an increase in program costs. This increase in costs, combined with the adverse economic conditions of high inflation, high unemployment, and sluggish wage growth that were encountered during the 1970's, caused the annual outgo from the Social Security trust funds to exceed annual income. Thus, the overadjustment of benefits for inflation was a major factor in the projected long-term deficit and was expected to have a significant impact on trust fund balances by the mid-1980's.

Beginning in 1975, intense consideration was given to fixing the flaw in the 1972 legislation by Congress, the Administration, and the 1975 Advisory Council on Social Security. As a result of 3 years of exhaustive study, in 1977, Congress enacted a major, well-thought-out revision of the Social Security benefit structure which was designed to put a stop to runaway benefits, restore more appropriate benefit rates, and help solve the financing problems facing Social Security at that time.

This new and more equitable 1977 computation method applies to all workers born in 1917 and later. It provides for indexing a worker's lifetime wages to keep them up to date with average wage increases. It also keeps benefits up to date with the cost of living by providing COLAs once the person reaches age 62. Under this method, replacement rates--benefits expressed as a percentage of preretirement earnings--were stabilized. This means that over time workers with similar earnings histories will generally receive Social Security benefits that replace the same percentage of their preretirement earnings, regardless of the pattern of increases in wages and prices in the economy. Thus, the problem of ever increasing replacement rates caused by the flaw in the 1972 computation method will not recur.

Effects of 1977 Legislation

In addition to revising the flawed computation method in 1977, Congress made a number of related changes. First, replacement rates under the new computation method were deliberately set approximately 5 percent lower for age-62 retirees than the rates that were expected to occur under prior law in January 1979. This change was made in order to eliminate some of the unintended rise that had occurred under the old computation method. However, inflation after enactment of the 1977 amendments was higher than had been expected, causing replacement rates under the old computation method to rise more rapidly than had been anticipated. As a result, when the new computation method went into effect in 1979, the reduction in replacement rates at age 62 was about 7 percent, rather than 5 percent.

Second, people born before 1917 were allowed to continue to receive benefits under the old, flawed computation method that overcompensates for inflation. This was done because Congress wished to avoid reducing benefits for people already receiving them. However, it has the effect of increasing the difference in benefit amounts under the old and new methods.

Third, Congress provided a transitional computation method for workers born in 1917-21. It was designed to give the greatest protection to workers who reached age 62 and retired just after the new computation method became effective. This group was most likely to have made retirement plans based on the benefit levels under old law.

Thus, the benefit levels provided under the 1977 legislation were both intended and appropriate. I would like to emphasize that the difference in benefits computed under the old and new methods is somewhat larger than had been anticipated not because benefits under the new computation method were lower than had been intended, but rather because benefits under the old method were higher than expected.

Benefits under the new method compare favorably with the level of benefits for people who reached age 62 before the unintended rise occurred in the 1970's, that is, people born before about 1910. Replacement rates for workers receiving benefits under the new computation provisions also are generally as high as, or higher than, replacement rates for comparable workers who retired in the early or mid-1970's before the unintended rise occurred. The true situation is that people born in 1910-16, who receive benefits computed under the pre-1977 method, are receiving windfall benefits because that computation method overcompensated for inflation. What the beneficiaries born after 1916 want is the same unintended windfalls that those born in 1910-16 are getting.

Explanation of Attached Graphs

The two graphs that I have attached to my statement illustrate the treatment of workers who have their benefits computed under the old and the new computation methods by comparing benefits for workers who retire at age 65 and who always had average earnings. The first graph illustrates benefits in terms of replacement rates, and the second shows benefits in terms of 1988 dollars.

I would like to emphasize that these graphs are illustrative only. Most workers do not have such regular earnings patterns and actual benefits and replacement rates will vary accordingly. However, the basic principles illustrated by the graphs will hold true, regardless of actual earnings patterns.

These graphs show clearly that the problem we are dealing with is not so much a sudden decrease in benefits for people under the new law, but, rather, a steep increase in benefits for the workers who had their benefits figured under the flawed 1972 computation method.

The first graph, which illustrates benefits in terms of replacement rates--initial benefits as a percent of the prior year's earnings--shows:

- o A steep increase in replacement rates for worker's born just before 1917. This group is the windfall group.
- o Somewhat lower replacement rates for workers born just after 1916 than for the windfall group.
- o Replacement rates for the group born just after 1916 that are as high as, or higher than, any other group of similar retirees except the windfall group.
- o Replacement rates through the year 2000 that stabilize at about 41 percent. Thus, a worker who generally has average earnings can expect Social Security benefits to replace about 41 percent of the earnings he or she has in the year before retirement.

The second graph, which illustrates benefits in terms of 1988 dollars, shows that:

- o Workers born in the 1917-21 period--frequently characterized as the notch years--receive benefits that are higher than any group born before them except for workers born in the 1910-16 period who profited from the flawed 1972 computation method.

- o Workers retiring in the future are projected to receive increasingly higher benefits even though these benefits still replace only 41 percent of the last year's earnings.

  - -- The increase is a direct effect of the new indexed computation method and the economic assumption that wages will increase faster than prices in the future.

  - -- Since people retiring in the future are assumed to have earned higher wages, the amount of their benefits will be higher.

You can also see from these graphs that any proposal that would increase benefits for workers born after 1916 would simply extend the unintended windfall benefits to new groups of Social Security beneficiaries. The cost of such an extension would have to be borne by current and future workers.

Current Notch Proposals

Several bills have been introduced which are intended to fix the notch. These bills would reduce or eliminate the difference in benefits under the old and new computation methods by increasing benefits for people who were born in 1917 and later. That is, they would extend all or at least some part of the unintended "windfall" to additional groups of people. As a result, these bills are very expensive; the cost over 1988-96 ranges from $24 billion to more than $375 billion. The difference in cost is related directly to how much of a windfall is provided to people born after 1916 and how many people born after 1916 participate in this extension of the windfall.

I want to reiterate that the trust funds' financial soundness depends upon the continuance of the policies established by the 1983 bipartisan Commission. Consistent with the Commission's policies, the assets that are currently accumulating are an essential reserve that is required to meet the benefit obligations when the "baby boom" generation retires.

The only way to pay for a proposal that would extend the windfall to additional groups would be to increase Social Security taxes or cut other benefits, either of which would be a departure from the policies established by the bipartisan Commission.

As you know, the General Accounting Office (GAO) in consultation with the Secretary of Health and Human Services is currently studying the notch issue. The report, which is expected to be released in the near future, will include an analysis of the various proposals to address this issue and alternative ways to finance these proposals. We intend to review this report and evaluate any recommendations submitted by the GAO. In agreement, the Administration will continue to support the policies established by the bipartisan National Commission on Social Security Reform and the bipartisan budget agreement.

Conclusion

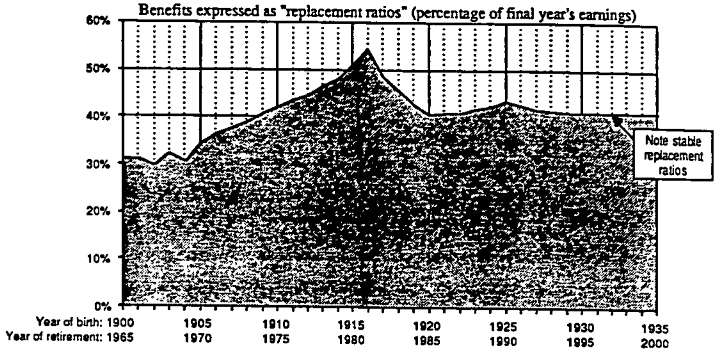
In summary:

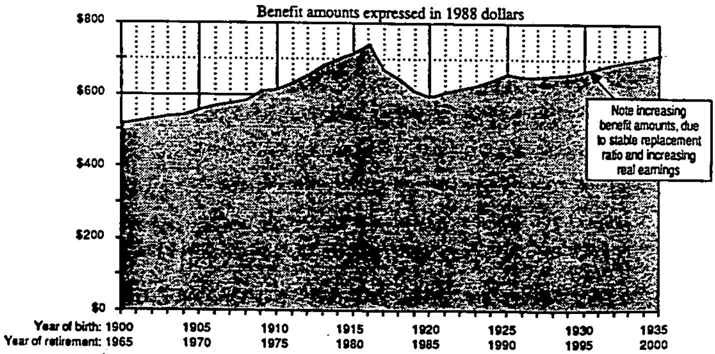
- o Some workers born between 1910 and 1916 receive windfall benefits as a result of a flaw in the 1972 computation method.

- o No inequity has occurred with respect to workers born after 1916. All workers born after 1916 receive appropriate benefits. These benefits are at the level that Congress intended when they passed the 1977 legislation which corrected the flaw in the 1972 computation method.

- o Consistent with the policies established by the bipartisan Commission, there is no surplus in the trust fund reserves to pay for extending the windfall benefits received by the 1910-16 group to additional workers.

Illustrative Social Security benefits payable to workers retiring in various years at age 65, having had average earnings during their careers





Social Security Administration
Office of the Actuary
January 27, 1988

The CHAIRMAN. Thank you very much, Mr. Carozza.

You assert, first of all, that there is no inequity on the basis that in 1977 that's exactly what Congress intended. Well, I was a Member of the House in 1972 and I recall voting on the 1972 amendments. By 1977 I was a Member of this body, the Senate, and recall what was intended, the intent of Congress.

Now since I was in the Senate in 1977 let me refresh your memory or prod you into reading perhaps some of the Ways and Means Committee report—now this was minority views. That's your party, Mr. Carozza, Dorcas Hardy's party. The minority views at that time stated in part:

> Nor does the committee bill mean that dollar amounts of benefits paid in the future would be lower than present levels. To the contrary, dollar amounts, as well as purchasing power of benefits, for future retirees would be higher than present levels. It is important to note that under this proposal a 16-year savings clause or guarantee would be provided that no retiree would receive less during that time than he or she would under the present law formula as it was at the time of the change.

In other words, retirees would have their choice. They could take the benefit available under present law at the point of changeover, or they could take the benefit provided under the new method, whichever was larger.

Now that was a report filed with the bill by the minority, the Republicans in the House Ways and Means Committee.

Then the bill was passed, the amendments were enacted, and 3 months after that the Ways and Means Committee printed a detailed description of the new law. Again members were assured the benefit level provided for the long term is 5 percent below estimated 1979 levels. Included in the legislation is a 5-year guarantee of December 1978 levels to provide a gradual transition to the new system for workers who will reach 62 in 1979 through 1983.

There wasn't a 10 year, though that was the way it was presented to the House. It was passed as a 5-year transition.

But this language that I've just read out of these two, one the report before the bill was passed by Republicans on Ways and Means, and the second one, the Ways and Means Committee explanation 3 months after it became law, certainly reflects congressional intent as far as the House was concerned.

I am speaking to you now as a Senator who was here in 1977 about what our intent was then, and I don't think you are reflecting it. Perhaps you are not in a position to reflect it.

What happened? The actual impact of the 1977 amendments varied considerably from what Congress intended. That's because Congress uses the benefits of the average earner to analyze the legislative impact on beneficiaries. There is evidence, there's plenty of it around, that the transition mechanism failed to guarantee 1978 benefit levels for 65-year-old retirees born between 1917 and 1921, and that average 65-year-old retirees born between 1918 and 1928 have retirement benefits of less than the target levels established under the 1977 amendments.

In other words, despite congressional intent, Congress was wrong. The intent is clear. So to continually hear there is no inequity, number one, when there clearly is an inequity, that flies in the face of facts. It's a ridiculous statement. Then second, and to not reflect on what the intent of Congress was at the time the amendments were adopted, simply is not a decent, honest interpretation of events.

A decent, honest interpretation of the invents is this: What Congress intended was not carried out because of language. The law itself is flawed.

Now to the third point. Senator Sanford, his charts are down, but you saw them.

Mr. CAROZZA. Yes.

The CHAIRMAN. His statement was clear and concise. He projects costs over a 10-year period of roughly $60 some billion and admits that while it might start to decline per year after that there is additional cost. Now what is the cost? It is to correct the inequity. To carry out congressional intent of 1977, we would have to amend the law. Those are the costs.

I would like to have Social Security analyze his figures and tell us whether he is accurate.

Mr. CAROZZA. Mr. Chairman, I can respond to that right now and also to your other two points. Senator Sanford's costs are, I believe, the same costs as the Social Security Administration would show for that bill, that is in the neighborhood of $67 billion or so over the next 9 or 10 years.

On your point about the inequity, I believe if there is an inequity, the inequity is that those persons born in 1910 to 1916 receive windfall benefits due to a flawed computation formula. That is the inequity.

Regarding your third point on the intent of Congress, I joined the Social Security Administration in 1978 so I was not here in Washington at the time of the 1977 amendments. But the best research I have been able to do shows (and I've had the help of people who have been here that long who worked on the bill and the actuaries who did the estimates) that we had a situation where the replacement ratio of benefits was going up. Congress intended to bring them down to a replacement ratio of about 42 percent on average, and that with the amendments the replacement ratio is about 41 percent. So there is just a very small difference there.

The CHAIRMAN. Well, when you listen to individuals you get a little bit more than a difference between 41 and 42 percent. But it is clear that we voted, we depended upon statements made by the committee presenting the amendments.

So the question of an inequity does arise, and it does not just stop with 1921. It carries forward into other years up to 1928 or 1929.

So to the extent that it should be adjusted based on congressional intent and on equity, I think is exactly where we are coming from in this committee in holding this hearing. The difference between whether it is 41 or 42 percent, or as some assert in their individual case, as high as 46 or 47 percent is a question that disturbs us. That's the inequity we are speaking of.

So I am happy that you can verify the amounts of estimates of Senator Sanford. I appreciate that.

Senator Grassley.

Senator GRASSLEY. Yes. Thank you very much.

I don't suppose you thought you would be before a committee quite this soon after leaving the Hill, did you?

Mr. CAROZZA. Well, Senator, I haven't even received my first pay check yet. [Laughter.] But I am happy to be here.

Senator GRASSLEY. At least you would not be unfamiliar with the atmosphere, with the questions that would be asked and everything.

Mr. CAROZZA. That's correct.

Senator GRASSLEY. Let me say first of all, would it be compared to 2 or 3 years ago when we thought that the revival of the economy would not be as long lasting, because this is the longest lasting revival of the economy in the peacetime history of the United States, 65, 66 months I believe, would it be that the strength of the Reagan years and the Reagan economy might be such that improvement in the Social Security Trust Fund was so much beyond expectation that it might permit the fix that we are talking about now that would never have been anticipated 2 years ago, 3 years ago?

Mr. CAROZZA. Well, Senator, I don't think the trust funds are in a position to—there just are not any extra assets in the trust funds. In 1983 when Congress passed and the administration supported the bipartisan amendments of 1983, we projected, and we were able to project that based on strong economic performance, the trust funds would be solvent well into the next century. I think the 1983 amendments have been successful in that regard.

But to take any bill, whether it is Senator Sanford's or any of the other bills, and give more unintended benefits to more people would just reduce the amount that we have in the trust funds that we are holding there to give to beneficiaries of the baby boom generation when they retire.

Senator GRASSLEY. So even though it might be better off than we anticipated, even though the funds might be there to do it, you would still be advising against doing it?

Mr. CAROZZA. That's correct, Senator.

Senator GRASSLEY. So it is not a point of just whether the funds are available or not from your perspective?

Mr. CAROZZA. That's correct. We need all of those funds for the next century.

Senator GRASSLEY. Obviously I disagree with whether or not there is a need to fix. I think that being financially responsible as both of us have to be even though we are from different parties, I think the fact that if funding is available that makes it a little less of a problem where we would be coming from if we didn't have the growth in the Social Security Trust Fund that we have had now. That's my position. I just want to make that very clear.

The next question relates to the comparison between those born in the notch years and, as Senator Pressler has referred to, other people, the bonanza babies. I understand that it is generally understood that the notch babies on average receive less than the bonanza babies. However, I am unclear as to whether there is a consensus as to whether the benefit levels of those who follow the notch babies, those who were born after 1921, in other words, are lower on average than those of the notch babies or are higher than those of the notch babies in real terms. Could you comment on that?

Mr. CAROZZA. Well, Senator, let me make a clarification first. You are talking about benefit levels. I've been talking about replacement ratios. That is, what percentage of a person's preretirement earnings do they get as a Social Security benefit. That's probably the best way to look at this.

In the future, beyond the notch years, the average replacement ratio will be about 41 percent. Of course, if you are a lower earner you will get a higher replacement ratio, and if you are a higher earner you will get a lower replacement ratio; but on average it is about 41 percent.

In the future I would expect benefits to go up each year because we expect future wages upon which benefits are based to go up. We have a chart in my long statement which shows a stable replacement ratio, but because we expect future earnings to go up, future benefits should be higher.

Senator GRASSLEY. We certainly hear from many quarters that any fix of the notch problem will threaten the viability of the Social Security Trust Fund when the baby boom generation is in retirement. Can you give me the range of estimates for the magnitude that the trust funds are expected to reach during baby boomers' retirement years, and what is the range of estimates for the trust fund balances during these years? Could you provide for the record a systematic overview of the estimated ranges in the trust fund balances between now and the time the baby boom generation has passed through the system?

Mr. CAROZZA. Senator, I would be happy to do that for the record.

[Subsequent to the hearing, the following information was received for the record:]

It is true that the Social Security trust funds are now building up a reserve; however, the trust funds can not afford to pay billions of dollars in additional benefits to fix the notch. All the reserves accumulating in the trust funds now and in the future are needed to pay benefits to workers in the future. There is no "extra" money in the trust funds.

Based on the Alternative II-B assumptions in the 1987 Social Security Trustees Report, the total amount of assets in the OASDI trust funds under present law is expected to peak at $12.5 trillion in 2032. (To put this in perspective, this amount represents a reserve at that time of about 3 years of OASDI expenditures; currently, reserves of the OASDI trust funds equal about 5 months' benefits.) Under S. 1830, a prominent notch bill introduced by Senator Sanford, the OASDI trust funds would peak at a level about $1.5 trillion lower than under present law.

The "baby boom" generation will not pass through the Social Security System until about 2050 under current mortality assumptions. Based on the Alternative II-B assumptions in the 1987 Trustees Report, the OASDI trust funds are projected to be exhausted in 2051 under present law. Thus, the need to preserve the buildup in the trust funds to pay retirement benefits to the baby boom generation is clear. Therefore, if S. 1830 were enacted, in order not to exhaust the trust funds before the baby boom generation passes through the system, Social Security benefits would have to be cut or the tax rate would have to be increased.

For example, the Social Security cost-of-living increase for December 1988 (estimated to be 4.5 percent under the Alternative II-B assumptions in the 1987 Trustees Report) would have to be reduced by about 3.1 percent to cover the cost of S. 1830 in the next 10 years, with an additional one-time reduction of about 1 percent in the COLA at the end of the first 10 years to cover the cost after the first 10 years.

Alternatively, if the long-range cost of the bill were met by a flat tax-rate increase in the 20-year period 1988–2007, the tax rate would have to be higher by .135 percent for employers and employees, each, and by .27 for the self-employed. For 1988, this would increase the combined employer/employee Social Security taxes for minimum wage workers by about $20, for workers with average earnings by about $50 and for workers with maximum earnings by about $120. These dollar amounts would be higher in subsequent years.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Carozza, for being our witness today. We appreciate that.

Our next witness is from my own State of Montana. It is Ms. Mary Alice Magness who is not only a very capable person testifying on this matter, but also comes to us as one who works with the elderly day in and day out and is one of the leaders in Montana. Ms. Magness is from Anaconda, MT, and her work with the elderly is outstanding.

Mary Alice, we are pleased to have you here today.

STATEMENT OF MARY ALICE MAGNESS, ANACONDA, MT, AIDE TO THE ELDERLY AT HOME HEALTH

Ms. MAGNESS. Good morning. Greetings from Anaconda, MT.

The CHAIRMAN. Thank you.

Ms. MAGNESS. When I first heard "notch" my first thought was a new type of haircut. After hearing and reading more about the notch, I am convinced that people born between 1917 and 1921 really got a trimming. I am hopeful that I can return to Anaconda, MT and tell my notch friends that things are looking good in Washington, DC.

Thank you for allowing me to attend this most important meeting. I would like to take you through a notch baby's sort of life.

I was 16 years old when I went to work at the Washoe Theater in Anaconda, MT. I got my first Social Security card. It was quite an honor, and we got our picture in the paper, but the Teamster's Union came and joined us in the union because of our publicity.

But from then on I have been a member of Social Security, went in nurse's training, came out, got married. My husband was in the service. His birthday is January 4, 1917, mine is June 24, 1920. We've both paid and paid into Social Security.

He retired in 1977, in January, when he was 62 years old. In 1979 after receiving four Social Security checks he expired and I had to mail the fifth check back. I was 59 years old with no income. I did work and provide for myself.

In 1980 I applied for a widow's pension, and because as a welder for the Anaconda Co., he made more money than I did, I draw benefits on his Social Security. It will be 9 years in June that he has been dead. Since then I have continued to work at Home Health caring for my little people.

Many of them are notch people, and I'm sure whatever benefits my little people get will entitle them at the middle of the month to buy fluid pills. Medicines are so expensive. They can buy their medication so their legs will be down and they can walk to the bank and cash their Social Security checks. Whatever money you give us will come right back to you.

Thank you.

The CHAIRMAN. Thank you, Mary Alice, for speaking up for the little people.

The hearing is meant to dramatize the events that led up to this inequity, the act of Congress that did not work out the way we intended and has been harmful to millions of Social Security recipients. But of course, what we have in mind is to move on from here and back a bill—Senator Sanford's is the one receiving the most support—to make a correction to correct the inequity.

I appreciate very much not only your work in Montana as a nurse in home health care, but I also appreciate the fact that you are here to testify and to fight for those little people. Thank you very much.

Ms. MAGNESS. I'm going to live beyond the year 2000 I hope.

The CHAIRMAN. All right. Thank you. Thank you very much.

Mr. Anthony Purcell.

Mr. Purcell, I know you are from Pennsylvania, but I don't know your home town. I know you are the chairman of the Notch Babies Organization.

STATEMENT OF ANTHONY PURCELL, CHAIRMAN, NOTCH BABIES ORGANIZATION

Mr. PURCELL. That's correct. I'm from Pittsburgh, PA.

The CHAIRMAN. You are from Pittsburgh, all right. Welcome to the committee. We are interested in what your perspective on this question is and what your recommendations are, particularly as a representative, as the chairman of the Notch Babies Organization, what you view as our duties and responsibilities here in Congress.

Mr. PURCELL. Mr. Chairman, members of the Senate Aging Committee, thank you for scheduling this hearing today and allowing me an opportunity to express my great concern over the notch law of 1977 that has affected my Social Security benefits and others.

First, I, Anthony Purcell, Sr., president and organizer of the Notch Babies Organization of Pennsylvania, have come here today to represent our members in Pennsylvania and across the United States. In Pennsylvania alone there are 390,000 notch babies affected by the notch law of 1977. I am one of the 390,000 in Pennsylvania. I was born October 15, 1917.

After working in the construction field for 46 years as an operating engineer and an organizer with the AFL–CIO out of Local 66 in Pittsburgh, I retired in 1982. When I applied for my Social Security I was told that I would receive $124 less per month in my Social Security benefits because I was born in the year 1917. Then again, I was told that I would not get credit on my benefits for the last 4 years of my earnings after age 61 because of retiring at the age of 65. Yet my employer deducted FICA taxes from my pay check every week. The last 4 years that I worked, these were my highest paid years. I averaged anywhere from $35,000 to $40,000 per year in the construction field.

To me, this is not fair, that our Government caused this notch, 1917 to 1921, then they continue to collect FICA taxes from this group of people beyond the age of 61 and gave them no credit for it. This is like putting money in a bank for a long-term investment and the bank kept no record beyond the age of 61. You could not even receive your principal back or interest, for that matter. However, a depositor would have been aware and would have prevented this situation by not depositing. But in the case of the FICA one could not do this as this was a law that was made by our Congressmen and Senators and a past President, Jimmy Carter, in 1977.

Today my children and others are concerned because of what happened to me and millions of others on our Social Security benefits. They fear what might take place when they retire.

In all fairness, I am asking our Government to restore the faith that we had in the past in this great country of ours, not only for the notch babies but for the younger generations that will follow us. If we really want to restore the young people's confidence and ours, why not support a reasonable solution, notch solution.

All we are asking for is what rightfully belongs to us. We do not want the benefits taken away from the people who were accidentally overcompensated before 1917.

No group of Americans should be penalized or discriminated against merely because of an accident of birth. The Constitution reads, "all men are created equal;" it does not read "except the people born in the years 1917 through 1921." The notch is the greatest shame of our country.

I believe that our country should take care of the elderly who are in dire need. Many I hear from are bedridden, dying, asking for someone to help them. I have given up my pleasures of retirement to help these people. They need your help as well as mine.

With your permission, I would like to read one of the many letters I receive from some of these people who are suffering due to the notch law of 1977. Now this is a letter here from John H. Cloney and Mrs. Cloney from Wilkinsburg, PA. I receive thousands of these letters. Me and my wife and the committee read these and hold on to a few of them.

This says:

> Gentlemen, Dear Sir: My husband is one of the notch babies. His birthday, December 3, 1919. I hope you are successful because we can sure use the money as we both need medicine we cannot afford now and our clothes are just about worn out. So God bless you in your efforts, and thank you. John and Bea Cloney.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Purcell.

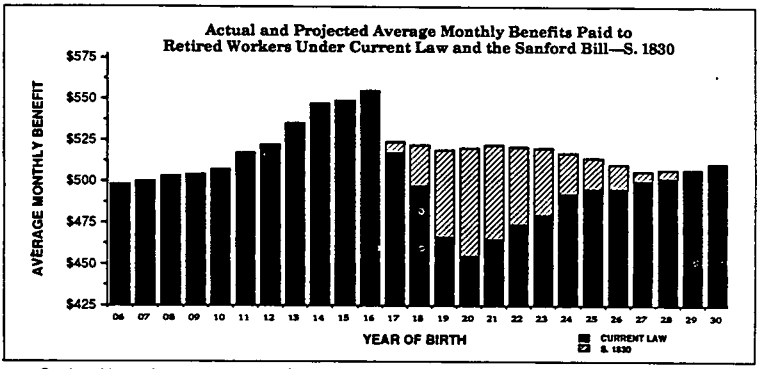
Senator Heinz couldn't be here today due to an earlier commitment which he couldn't avoid, and he asked that I express not only my own appreciation and the committee's appreciation, but his personal appreciation that you came forward to testify today. On behalf of all of us, I want to thank you for that very good testimony. We very much appreciate it.

Mr. PURCELL. Thank you, Mr. Chairman.

[The prepared statement with additional information, of Mr. Purcell follows:]

Let's Right the Wrong.

Over 1 million Pennsylvanians and Ohioans born in the "Notch Years" after 1916 lost almost $1 billion in Social Security benefits this year. The Notch injustice was caused by a Congressional error, and now politicians and even some groups that claim to represent Senior interests say it's too complicated and costly to solve. But there is a solution. In October 1987 Sens. Terry Sanford and Arlen Specter introduced S. 1830, legislation that will restore fairness to the Social Security benefit system.



Senior citizens born between 1917 and 1928 receive less in Social Security benefits than other Americans with identical work records. S. 1830 will correct the problem and restore fairness.

The Sanford Bill costs less than other Notch reform bills, while doing better for almost everyone. The Sanford Bill:

- Increases annual benefits for the average Notch Baby born between 1917 and 1928 by $383. (Notch Babies born between 1917 and 1921 will receive an average increase of $524.) Actual increases will range from less than $100 to more than $1,200 per year, depending on date of birth, age at retirement, and earnings history.
- Recognizes the legitimate claims of current retirees by providing retroactive payments up to $1,000 per worker for past losses.
- Permits Trust Fund assets to grow to over $1 billion by 1999.
- Guarantees a stable level of future benefits for all retirees.

It's time to right the wrong.
Ask the politicians and Senior interest groups to support S. 1830.

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
JAMES ROOSEVELT, CHAIRMAN
2000 K ST. N.W. WASHINGTON, DC 20006

NOTCH BABIES GRASS ROOTS NATIONAL COALITION

Notch Babies Organization Of PA
P.O. Box 11010· Pittsburgh, PA 15237
President: ANTHONY PURCELL

February 8,1988

TO ALL; PRESIDENTIAL CANDIDATES:

Although testimony on the Social Security Notch Problem clearly establishes an unintended inequity. Ten years have passed and Congress remains uncommited on a reasonable solution to correct this problem. More-over, there is no evidence to indicate the current Administration intends to do anything positive on this issue. Meanwhile, millions of recent retirees- Notch Babies- are victims of arbitrary discrepancies in benefit levels.

Notch groups across the country, disappointed and deeply concerned with Congress" "Ten Years of Inaction" have decided to get involved in the Presidential primaries and address this issue to the candidates of both political parties.

The "Notch Babies Organization, of Pennsylvainia" is proceeding with an action plan, for preparations of it's members, and families, and other volunteers, who will voice our issues and select, and vote for a "Party Presidential Candidate" "Democrat/ Republican" in the Penna Primaries, in 1988. We intend to demonstrate a unity of purpose and substantial voting strength on election day. "Ten Million Strong" Notch Babies, and their families. We can bring up (60 Million Votes") come election day. Across the United States of America.

We have adopted a set of resolutions that focus on "Social Security Issues" A reasonable "Notch Solution" including our primary objective- (A brief outline is enclosed") We urge all political cadidates and both parties,-to adopt those principles in their campaign platforms.

<u>WE ENCOURAGE A PERSONAL VISIT WITH EACH CANDIDATE</u>" To discuss these issues in detail.
Please have your"State" Coordinator contact us to arrange a convenient meeting date.

Sincerely,

Maurice (Buzz) Quinlan

Buzz Quinlan
Vice President
412- 828- 9187

Sincerely,

Anthony Purcell Sr.

Anthony Purcell,Sr
President.
412- 366- 4202

CC: National Campaign Chairman
State Campaign Chairman
Encl: Outline of Resolutions

ROYBAL CONTINUES PUSH FOR SOCIAL SECURITY NOTCH REFORM
123 BIPARTISAN COSPONSORS JOIN
ALTERNATIVE NOTCH REFORM: PROVIDES BENEFIT EQUITY;
LESS COSTLY TO THE TRUST FUNDS;
URGES CONGRESS TO ACT ON H.R. 1917 IN 100TH CONGRESS

Washington D.C., April 2 — California Congressman Edward R. Roybal, Chairman of the House Select Committee on Aging, today introduced legislation to correct the problem known as the Social Security Notch. He was joined by 123 bipartisan cosponsors, including the ranking minority member of the Select Committee on Aging, New Jersey Congressman Matthew J. Rinaldo.

"My goal has always been to press for a responsible solution to the Notch that will restore faith in the system for millions of Notch babies and provide maximum protection to current and future beneficiaries, without undoing the necessary reforms of 1977," Roybal exclaimed.

The Notch was created by a failure in the 1977 amendments to gradually phase-in a six to ten percent benefit reduction. The five year transition formula, which excluded post age 61 earnings in calculating benefits did not work. This, and the unanticipated double-digit inflation of the late 1970's and the early 1980's reduced the average benefit for an age 65 year old retiree born in 1917, the first year of the Notch, to ten percent. In susbsequent years, discrepancies of 20 percent or more have been noted.

"I do not believe that we in Congress ever intended such a drastic cut in benefits over such a short period of time," Roybal asserted.

"My bill from the 99th Congress included a 30 year transition into the new benefit formula, and provided complete resolution of the the Notch problem. Current estimates by Social Security Administration actuaries for last year's bill, however, are $243 billion over 10 years.

"Technical corrections have been made to my Notch legislation from last year which substantially reduce the cost while still providing equity to those individuals born during the years 1917-1921. Last year the Social Security actuaries estimated the cost of this proposal to be approximately $45 billion over 10 years. I expect more formal cost estimates shortly. This amended legislation, which I am introducing today as H.R. 1917, would allow for a 10 year transition to the new benefit formula," Roybal continued.

Under this ten-year formula, average earning 65 year old retirees born between 1917 and 1924 are projected to receive higher benefits than under current law, while 65 year old retirees born after 1924 would receive the same level of benefits projected under current law.

"There are some who believe that there is a need to cut benefits or raise taxes to pay for Notch reform. My legislation will protect beneficiaries while maintaining significant Trust Fund Reserves for the next century," Roybal stated.

Social Security actuaries project total reserves growing from this year's $44 billion to over $540 billion by 1995.

"Certainly some of these reserves should be used to correct this major unfairness," Roybal asserted.

"This blatant inequity should not exist. Such arbitrary discrepancies in benefit levels are unfair and undermine confidence in the Social Security system. H.R. 1917 solves this problem, responsibly and fairly," Roybal concluded.

Let's Right the Wrong.

Over 1 million Pennsylvanians and Ohioans born in the "Notch Years" after 1916 lost almost $1 billion in Social Security benefits this year. The Notch injustice.

Dear Member & Friends;

Enclosed; You will find a copy of the, Social Security Platform Resolutions. These "Resolutions" have been adopted by the; " Notch Babies Grass Roots Coalition" across the U.S.A.

We are asking everyone; Not only "Notch Babies" to present each"Candidate" up for election a copy of these "Resolutions" and solicit their "Pledge" to support same.
In case of the Presidential Candidate; We ask them to make it part of the National Platform.

These "Resolutions" are not only for the "Notch Babies" benefit. It also will give some means of security for the current and future retirees. On their Social Security Benefits. Which they also are looking forward to recieve.

After you get the answer from the "Candidate" on the "Resolutions" Please let me know; By mail or Phone. This way we will know how to throw our support in the comming elections.

SOCIAL SECURITY PLATFORM RESOLUTIONS

1. Remove Social Security Trust Fund operations completely from the Budget process including all calculations of the annual deficit reduction targets.

2. Restore benefit equity to the Social Security program by correcting the unintended, rapid reduction in benefits for persons born after 1916. Notch reduction averages in the five year transition are more than double congressional intent. (1977 Social Security Amendments)

3. Maintain the solvency of the Social Security Trust Funds on a sound, pay-as-you-go basis by reducing future payroll tax rates to the lowest possible level consistent with the maintenance of a healthy Trust Fund reserve and the payment of full and fair benefits to current and future retirees.

4. Assure the administrative integrity of the Social Security Administration by restoring Social Security to its original status as an independent government agency governed by its own Board of Directors appointed by the President and confirmed by the Senate.

We have adopted the above resolutions that focus on Social Security issues, including our primary objective - Notch correction. We urge all political candidates and both parties to adopt those principles in their campaign platforms.

Thank You,

Anthony Purcell Jr

Anthony Purcell,Sr
President. And the
Notch Committee.

NOTCH BABIES GRASS ROOTS
NATIONAL COALITION

NOTCH BABIES ORGANIZATION
P.O. BOX 11010
PITTSBURGH, PA 15237
ORGANIZED JAN 1, 1986

NOTCH BABIES GRASS ROOTS NATIONAL COALITION
Notch Babies Organization Of PA
P.O. Box 11010 · Pittsburgh, PA 15237
President: ANTHONY PURCELL

February 8, 1988

President Ronald Reagan
The White House
1600 Pennsylvania Ave, N.W.
Washington, D.C. 20510

Dear Mr. President:

For your information; Enclosed is a copy of our letter to all Presidential Candidates concerning a distressing issue of the Social Security Notch "Notch Law of 1977" Why is it, you do not want to face this issue? I have written to you many times on this "Notch Problem" No answer.

Is this problem to dense for you? You have faced other problems like a real President. Why not stand up to this issue?

Truth of the Notch inequity has been clearly established; Congress intended a 5% to 7% reduction of benefits in 1977 amendments, but the optional formulas, coupled to an accelerated 5 year transition, simply failed. Many grotesque examples can be cited, however sufficient evidence of the problem may be drawn from the S.S.A. annual statistical report, 1987; average reductions in the transition are more than double Congress intent, and benefits of 'recent retirees" are lower than any other retirees since the turn of the century.

Mr. President, millions of retirees are adversly affected by the unintended benefit reductions and need your help in getting this lingering issue on the "Notch Problem" moving through Congress in the fall session. Specifically; That open hearings will be conducted In February, 1988 by the "Senate On Aging Committee" and the House Ways & Means in March 1988. We have the assurance that the G.A.O. will release the (Notch Study, pending since April, 1986.

Vice President, George Bush has taken the same stand as you. He will not face up to this "Notch Problem. This could defeat him in the comming Presidential election. There are 60 Million Votes out here that could oppose him. "Due to this Notch Problem." Let's face facts. Can we count on your support?

Sincerely,

Anthony Purcell, Sr
President.

CC; National Campaign Chairman
State Campaign Chairman
News Media.

The CHAIRMAN. Our next witness is Dr. Arthur Flemming who is an expert on social security and the cochairman of Save Our Security.

Dr. Flemming, we are honored with your presence here today.

STATEMENT OF DR. ARTHUR FLEMMING, CO-CHAIRMAN, SAVE OUR SECURITY

Mr. FLEMMING. Thank you, Mr. Chairman.

Senator Melcher, and members of the committee, I am appearing before the committee today as cochair of SOS, Save Our Security, a coalition of 110 national, State, and local organizations dedicated to maintaining the integrity of our Social Security System.

This statement has been circulated to all of the member organizations of SOS with the request that each organization indicate whether or not it subscribes to the basic position taken in the statement. Because I was invited to appear as a witness only a week ago Friday, we have not had time to hear from our members. Actually, I was able to get the statement in circulation only last Thursday. I therefore request permission to file with the committee a complete list of the organizations subscribing to this statement no later than 15 days from the date of this hearing, if that is agreeable, Mr. Chairman.*

The CHAIRMAN. Yes, that is agreeable, doctor.

Mr. FLEMMING. I might say that in the short period of time that the organizations have had the opportunity of considering it, we have been notified that organizations such as the American Association of Retired Persons, the National Council of Senior Citizens, the National Council on Aging, the Older Women's League, the Viller's Advocacy Associates, the National Center and Caucus for the Black Aging, the National Council La Razza, the Child Welfare League, the American Federation of State, County, and Municipal Employees, the American Council of the Blind, the National Alliance for the Mentally Ill, the National Mental Health Association, the Health Security Action Council, and so on, have indicated their concurrence in the basic position taken in the statement.

May I say that as a coalition we are concerned, and I personally am concerned, that a group of Social Security beneficiaries believe that the Congress has acted in such a manner as to result in their being treated unfairly. I personally appreciate, Mr. Chairman, your decision and the decision of your colleagues to provide those who feel this way with the opportunity of presenting their point of view to you. We likewise appreciate the opportunity that you have afforded us of presenting our views on this issue.

As has been pointed out time and again this morning, the Social Security System confronted a very serious financial crisis in the middle 1970's. The crisis grew out of the fact that the method used in the 1972 amendments to make cost-of-living adjustments resulted in the over-indexing of benefits for future beneficiaries. This was due to a legislative mistake.

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*See p. 66.

The financing of the Social Security System, namely the rate of payroll contributions, had been based on the replacement of the average worker's earnings at about 45 percent.

If the 1972 mistake had not been corrected the average worker's income would have been replaced at a rate well in excess of 45 percent. In fact, it was estimated that as a result of the mistake in the long run benefits would have exceeded the wages they were intended partially to replace. The Social Security Administration estimated that if the mistake had remained in effect it would have been necessary to raise the joint payroll contributions up to 27 percent of payroll. I think that does give us some concept of the order of magnitude of the mistake.

Now it is clear that if a replacement rate well in excess of 45 percent, up to 60 percent or more, had remained in effect either the Congress would have had to enact a sharp increase, namely, move the payroll contribution up to 27 percent or the system would have been bankrupt. Now that's the only time I would use the word "bankrupt," Mr. Chairman. The seriousness of that situation I think is sometimes overlooked because it is a good many years back of us now.

Confronted with this situation, the Congress very wisely decided in 1977 to enact a new method of benefit computation which stabilized replacement rates, that is, the relationship of benefits to recent earnings. For the average worker the replacement rate is now 42 percent, will be 42 percent in the year 2000 and beyond. That's the average of course. For some low income beneficiaries it is 60 percent, and for high income beneficiaries it is 25 percent, but the average is 42 percent.

Many persons who had retired during the period that the mistake had been in effect, those born between 1910 through 1916, had obviously received a windfall. Congress didn't intend them to get benefits based on the replacement rate that they were receiving. The Members of Congress could have decided that the windfall should cease as soon as the mistake had been corrected. That would have been an understandable decision because of the seriousness of the mistake.

But instead, Congress said in effect that they did not want to lower the benefits of workers who had already retired and were already receiving those benefits. They recognized that if they did so it would be very difficult for the retired worker to replace the windfall.

Thus a notch was created because of the higher benefits received by those who retired under the 1972 law as compared with those who would receive benefits under the replacement rate set forth in the new law, the 1977 law.

Because of a 5-year transitional provision in the 1977 law, as has been pointed out, some of those who were first subject to the new method of computing benefits are receiving better treatment than those who became eligible later.

Congress could have decided at that time to have kept a larger number of beneficiaries at the higher replacement rate provided by the 1972 amendments. If it had done so, it would have been confronted with the necessity undoubtedly of increasing payroll contributions. It would also have been confronted with the pressures of those who were just outside any new "notch" it might have established to be included under the higher replacement rate.

Responding to these pressures would have led to a situation where the system would once again have been confronted with a financial crisis. This is undoubtedly why Congress decided to establish the notch at the point it did.

If Congress now decides, for example, to treat those born from 1917 to 1921 in a manner approximating those born between 1912 through 1916, there will be an increase in expenditures from the Social Security Trust Fund.

If these expenditures are covered by utilizing the reserves in the trust fund it will weaken the financial foundation on which the system rests. It will not bankrupt it, but it will weaken the foundation on which the Social Security System rests. There is no extra money in Social Security. The reserves are being built up as a contingency against unexpected changes in economic performance and to meet greater expenditures later on. If the increased expenditures growing out of a new "notch" are covered by increasing payroll taxes it obviously will add to the present tax burden.

There has been, Mr. Chairman, some discussion here today of the condition of the trust funds, and the growing reserves. In this connection, I would just like to quote from the 1986 annual report of the trustees. "The actuarial estimates indicate that the assets of the Old Age and Survivors Insurance and Disability Insurance Trust Funds will be sufficient to permit the timely payment of OASDI benefits for many years into the future. The long-range 75-year estimates indicate that under the intermediate assumptions the OASDI program will experience about three decades of actuarial surpluses with continuing actuarial deficits thereafter. The surpluses in the first part of the 75-year projection period approximately offset the later deficits so that the program as a whole is said to be in close actuarial balance." That's the judgment of the trustees in their 1986 report, namely, that the program is "in close actuarial balance."

Any proposal to increase the number of beneficiaries who would participate in the windfall payments because of the 1972 mistake would confront the same financing problems: Either weaken the financial integrity of the system or raise taxes.

Mr. Chairman, at this point I would like to say this. I've had the privilege of watching and being involved in the evolution of the Social Security System over a period of about 50 years. I do not know of anything that our system of government has introduced and stayed with that has been handled in a more responsible manner than the Social Security System.

It was my observation before I became Secretary of HEW, my observation during the period I served as Secretary of HEW, and my observation since then, that whenever Congress has decided to increase Social Security benefits it has always in a responsible manner provided for increased revenues.

Senator Sanford in his presentation pointed to the importance of protecting the reserves that are building up in the system at the present time. I agree. I feel that one way to protect those reserves is whenever we decide to increase expenditures; namely benefits, to decide at the same time to increase revenue.

I appreciate the fact that there are a lot of assumptions that go into the development of the estimate that at the present time the system "is in close actuarial balance." But if any feeling develops that because recently the economy has resulted in revenues over and above what we anticipated in the last few years and that therefore we are justified in increasing expenditures without increasing the income, I would urge that the matter be referred to the actuaries and to the trustees so that they can take a look at it and see whether or not although this may have happened, they believe that the reverse may happen 5 or 10 years down the road.

The Congress has built into the Social Security law a provision for a periodic review of the entire system by an advisory council appointed by the Secretary of the Department of Health and Human Resources, a council charged with reporting to both the President and the Congress. The next review will take place in 1989.

The issue now being considered by this committee is the type of issue that the Congress could consider having the 1989 advisory council weigh along with all other issues that may still be pending at that time relative to benefits and relative to revenues. I think that experience has taught us that this periodic evaluation of the system as a whole leads to recommendations that if implemented contribute to the maintenance of the integrity of the system.

As I've thought about this, as I've tried to represent the point of view of the organizations I have identified, I've tried to put myself back in the position I was in as Secretary of HEW and as a trustee of the system to see what kind of advice I would give on this particular matter as I think in terms of what the Social Security system means to so many of our people. I always felt that when I was functioning in that capacity I was under obligation to consider the total picture.

I would like, if I may, to go back to the comments that have been made on the rate of replacement. I appreciated the testimony given by the representative of the Social Security Administration on this point. One of their tables that I have had the opportunity of reading, which I think is also reflected in their testimony, has helped me.

This table shows—I am using the table showing retirement age at 65.* They have another table showing retirement age at 62. But they show, for example, that a person born in 1905—that happens to be my own year of birth, so I have a special interest—1905 would have a replacement rate of 34 percent.

Then you go up to 1907, and it is 37 percent. In 1910 where you begin to have some of the impact of the 1972 amendments it went up to 42.3 percent, in 1912, 44.8 percent, 1915, 51 percent, and 1916, 54 percent. There's the windfall. That's when Congress stepped in and said "no more" as far as the windfall was concerned.

So then they did put into effect the transitional period. Those born in 1917, if they drew benefits at 65, drew them at a replacement rate of 48.7 percent, down from the 54 percent. If they were born in 1918, 45.8 percent; 1919, 42.9 percent; 1920, 41.3 percent.

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*See p. 49.

It has been helpful to me to keep the replacement rate in mind in making comparisons based on year of birth because I appreciate that quite a number of other factors enter into determining actual benefits such as the age at which the person decides to draw benefits, her or his earning record, and so on. So that when you take a look at the benefits that an individual is receiving as over against what another individual is receiving, you do have to analyze each case very carefully. But the replacement rates do apply to the people who were in a given year, and they have helped me to try to understand the nature of the issue that confronts us and what I feel was the reasonable solution that was incorporated in the 1977 law.

I appreciate the fact that the Congress is looking at this transitional period provided for in the 1977 law. If the Congress decides to take any action, I would underline the fact that it is, I think, very, very important not to depart from the principle that if benefits are increased, then we must find additional revenue.

Thank you, Mr. Chairman.

[The list of organizations subscribing to the basic position set forth in Dr. Flemming's statement follows:]

COSIGNERS OF ARTHUR S. FLEMMING'S NOTCH TESTIMONY BEFORE THE SENATE SELECT COMMITTEE ON AGING

American Association of Retired Persons [AARP]. National Council of Senior Citizens [NCSC]. National Council on the Aging [NCOA]. Older Women's League [OWL]. Villers Advocacy Associates. National Center and Caucus for the Black Aged. National Council of La Raza. Child Welfare League. American Federation of State, County & Municipal Employees AFSCME Retired Program. American Council of the Blind.

National Alliance for the Mentally Ill [NAMI]. National Mental Health Association [NMHA]. Health Security Action Council [HSAC]. Save Our Security (SOS) Coalition of New York. Father Tom Harvey, Executive Director of Catholic Charities. National Mental Health Law Project. National Association of Retired Senior Volunteer Program Directors. National Association of Foster Grandparent Program Directors. National Association of Senior Companion Project Directors. American Federation of Government Employees [AFGE].

World Institute on Disability. International Association of Machinists [IAM]. Bakery, Confectionary, & Tobacco Workers International Union. International Ladies Garment Workers Union. Epilepsy Foundation of America. Association for Retarded Citizens of the United States [ARC]. United Auto Workers. United Auto Workers, Social Security. Spina Bifida Association of America. United Cerebral Palsy of America.

National Consumers League. Retail, Wholesale & Department Store Union. A. Philip Randolph Institute. Carpenters International Union. Communication Workers of America. International Brotherhood of Electrical Workers. American Veterans Committee. International Union of Electrical Workers. National Urban League. National Council of Negro Women.

The CHAIRMAN. Dr. Flemming, as always, I think your advice is sound. If we are going to be equitable it will be necessary to make some adjustments for the notch people, but also to find additional revenues to offset them. I think both the Senate and the House would require that.

It appears to me that in the transition period after the 1977 amendments were passed that when the bill was reported to the floor of the House it carried with it the recommendation of 10 years transition. But in conference it was reduced to 5 years. Perhaps the inequity would not have been as startling if a 10-year transition had been followed. That is part of the Sanford proposal, that we attempt to do that now. It does not of course take the money away from those who benefited from the so-called windfall but creates a period of transition that perhaps would have been wiser in 1977.

What about that? Is 5 years versus 10 years part of our problem now?

Mr. FLEMMING. I appreciate the fact that the Congress had before it at that time a proposal, a proposal from the Executive Branch at that time to have this transition period over a span of 10 years rather than a span of 5 years. Now I did not follow that discussion closely, and I am not clear as to the reasons that the Congress felt were controlling that led them to the 5 years over against the 10. I suspect that the fiscal aspect of it had something to do with it.

I was interested in your dialog with the representative of the Social Security Administration on the fact that the gap was wider than some had in mind at that time. I recognize that, but that gap is wider because the windfall was greater than Congress anticipated. I mean, as you recall, right after 1977 the inflation rate skyrocketed, and consequently the windfall was greater.

I think what those in the transitional period really received in terms of a replacement rate was completely consistent with what Congress had in mind at that time, but the gap was wider because of the fact that the windfall was greater.

It seems to me that as we look at the issue that is before us, we always have to take a look at the factual situations that are presented over against the windfall. That's the comparison, because if we compare what is happening to the members of the transition group as over against other beneficiaries, the other beneficiaries are being handled under a replacement rate that Congress intended them to be handled under.

I suspect that the decision that was made at that particular time was a fiscal one. Of course all of the costs of the 1977 amendments have been built into the system and have been given consideration in connection with the 1983 amendments on the basis of the recommendations of the presidential commission. So that if we now should decide to go to a 10-year rather than a 5-year transition, obviously there would be additional costs, and here again I think we should get additional revenue for that. What Congress is looking at is whether or not it wants to add to the number of persons who would benefit from the windfall growing out of the mistake that was made in 1972. To me, that's the kind of issue that confronts us.

The CHAIRMAN. Well, I thank you very much, doctor, because I think Congress should maintain what we started in 1983 with those corrections. Of course people are paying more Social Security taxes, and we have programmed higher salary earnings or wage earnings to be taxed on the basis of Social Security. So that leaves us with—what are we talking about? Are we talking about somehow making the corrections out of the Treasury? I don't think so.

What's left? Well, there are a few things left. The question of whether those who are not covered by Social Security, and there are some I am told that if they were covered by Social Security there might be as high as a $6 billion gain over a number of years. And there is the question of what are the taxes imposed on some of the Social Security recipients in the higher brackets. That's another possibility.

When I think that an inequity exists, and then say to myself well, it ought to be corrected if Congress wants to correct it, if the votes are here to correct it, then I think that it puts the responsibility on those of us feeling that way to come up with the revenue. So I think your comments are appropriate and I very much appreciate them, doctor.

Senator Simpson.

STATEMENT OF SENATOR ALAN K. SIMPSON

Senator SIMPSON. Mr. Chairman, I thank you for the opportunity to speak a moment. I didn't enter an opening statement this morning so I would like to make a few comments. Now we've got a tough one before us. Too bad Dear Abby unleashed it on the world, but we have to deal with it; there is tremendous, heavy pressure to do that. I hope we can do that without resorting to emotionalism and high drama in discussing this issue.

What I find most curious in my time on this committee, is that of the nearly 30 major advocacy groups for the elderly who have taken a position, I don't know why there was not more participation from those who are opposed to this particular issue. Here we get down to the tail end and only find you opposed Dr. Flemming, a man I have great admiration and regard for. You and I have had our differences in the past, but I have the deepest respect and admiration for you with regard to our previous discussions on veteran's activities and immigration. But it is curious to me, of the 30 major advocacy organizations that there really are only one or two that favor changing the "notch." Yet, the hearing is consisting largely of those who think that we just must do this.

I want to commend the AARP. I send people who write me about this issue a copy of the information in the AARP publication. I think they [AARP] are being very responsible, and I've had some good struggles with them and will have some more. But the subject here, if we can cut through the fog, the main issue, the fundamental question in all of this: Whether a notch correction is appropriate. The issue is not whether there is any inequity in the 1977 amendments to the Social Security Act.

I have shared with our chairman, and I have the deepest respect for him, that I think oversight is our job here, not cheerleading and handholding. I mean that sincerely, and I'm not trying to be a smart alec. We've got real problems. We've got some terrible problems with Social Security which are coming in the year 2030 when everyone will admit it is going to be in "dramatic drawdown"—that's the phrase that is used—actuarially unsound. How can it work when a person paid in a maximum of $60 annually when Social Security began; now a person can put in up to $3,600 annually; and in the year 2050 you will be putting in 40 percent of your income; and when it started there were 41 people paying in and one person taking out; in 1950 there were 16 paying in and one person taking out; now there are about three paying in and one taking out; after the year 2000 there will be two paying in and one taking out.

So what are we doing here? Why are we diddling and dithering around with an issue that is going to eat our lunch and the lunch of young people and old people? Yet nobody is going to suffer who is in this room.

But let me tell you, when you've got something that pays out three bucks for every buck you pay in—and no one will refute those figures I just gave you about the year 2030—there will indeed be on dramatic "drawdown." And here we are doing something for the notch persons.

The reason Congress fully intended to lower the benefits was because the system was going to go broke. That was the reason we were lowering it and that was the congressional intent. Don't be fooled about what congressional intent was, and it took some pretty gutsy people to do the job. But they didn't have the courage, and I don't think any of us would, to take away the windfall benefits, and yet those were there. They were called windfall benefits.

So any correction is just a delay. Some will say lower the benefits to reasonable amounts, but don't touch mine. There is a real danger here of inflated expectations. If we foster the expectation that Uncle Sam is going to fulfill every single demand of every person over 60 in the United States, we are going to fail miserably or break the bank.

There are those who need our assistance, and I'm ready to give that: SSI, the poor, the destitute. Let's get it to the right places.

When we talk about taxing Social Security, we are hitting the people that can afford to pay the tax. Let's get off of the kick that that isn't right. That's an absurd one. People ought to be paying tax on Social Security who are up in the higher brackets.

But correcting the notch is not going to benefit all individuals under Social Security, and the persons who stand to benefit the most from a notch correction are upper income wage earners who have worked past the age of 62, not the person who is the lower income person because there are four or five criteria that you choose as to how people receive their Social Security benefits—job, type of retirement, that kind of activity.

I am not sure that it is at all appropriate that we should be doing any of that for those notch people. Who is going to pay the bill? That's what I tell people when I go to my town meetings. Are you ready to pay the bill, $25 billion, $75 billion, $300 billion under some of these proposals, and then pretend it is going to come out of the general fund?

Ladies and gentlemen, the budget this year is $1.1 trillion, for 1 year to operate the United States of America. The debt limit extension through May 1989, deftly crafted to by-pass the congressional and the presidential election, is $2.8 trillion—May 1989. Where are we going to find that kind of money? You are not going to get it out of the general fund, and you are not going to get it from the Social Security reserves. We are awash in reserves; I won't challenge that. We may have $600 billion in reserves. But forget that when you go to the year 2030. There won't be any general revenues coming to finance this caper. I don't know why we would pretend there would. I don't know why the other Social Security recipients wouldn't just raise hell with this when they know that it is going to come out of the system and that they are going to have to pay for it, and yet the trust fund is reserved for future retirees.

There will be a CBO study coming out this week. I hope everyone will pay attention to it, especially the staff of this committee, where we have a budget of about $1.1 million. The CBO will release an in-depth study this week of growth and family income, and the study will look at the relative economic success of different types of families and age groups. It is a response to many who have found the slow overall growth in family income to be very interesting. It will show that family income for elderly families and elderly individuals has gone up 50 percent from 1970 to 1986. That is more than any other group in our society. Family income for married couples with children has gone up only half as much, 26 percent, over the same time period, and single mothers with children have had almost no increase in their income over the last 16 years. We are just beginning to turn our attention to them.

But I think it is a real mistake for this very important committee with this very able chairman to be in the role that is not oversight, because unless we get ourselves reined in here and get rid of some of this hype and hysteria and hoorah, we are going to find that in the year 2020 that 60 percent of the domestic budget of the United States is going to people over 60. No society can exist very long when they are not tending to the young.

Those are my comments. They are strongly held obviously. I agree with the New York Times in their article of January 13 when they said, and I quote, that this is a "budget busting giveaway fired by greed, not fairness." I conclude my remarks.

The CHAIRMAN. Well, I thank you very much, Senator, for your comments. The lot of this committee is oversight, investigation and oversight. This of course is an oversight hearing.

I think the comments that you make, while not inappropriate, escape part of what has occurred here this morning. I think you, Senator Simpson, may be under the impression that we are discussing the type of correction that others have offered for this.

This morning we have been zeroing in on the type of correction that Senator Sanford has offered and has identified the cost over the next 10 years of about $60-some billion; not a small sum, but considerably less, a fraction of what some other proposals have been to correct the notch problem.

There would be additional costs after that, but after 10 years they would decline.

So the comments you have made, while not inaccurate, might have been principally concerned with the higher cost bills that have been before Congress.

There is an additional report that will be coming out very specific to this question and that is the General Accounting Office report on the notch. I am not aware of just when that report will be finalized, but I hope it is within the next several weeks.

Senator SIMPSON. Mr. Chairman, I know about Senator Sanford's bill, and I have tried to bring myself up to date on it. It would still dip into trust fund reserves. There is no way to say that will not happen. Why even try to invest $60 billion when we don't have to invest anything?

The CHAIRMAN. Is that a question?

Senator SIMPSON. No. I'm just making a comment, a dazzling comment I thought.

The CHAIRMAN. Well, I think Dr. Flemming has stated the obvious, that a bill passed to make corrections would have to carry with it the revenue that would be necessary to offset it.

Senator SIMPSON. Well, Mr. Chairman, I think that this man, Dr. Flemming, deserves our careful attention. He is a man we have relied on, you have had him testify more than several times. I am very impressed by what he is saying. It seems to me that we ought to be listening to what the advocacy groups are saying, and few of them are talking about the notch issue. It puzzles me.

So if I come on strong in my remarks, and rather pungent, it is only because one must wonder: Are we speaking for this legislation? It seems to me that we are not being balanced, we are just "for it."

The CHAIRMAN. I am for a correction. There's no question of that, as I have earlier stated. But I carry with that the responsibility in backing the correction that it carry with it the additional revenues which look to be somewhere in the neighborhood of $6 billion per year for 10 years, and then perhaps a declining amount for another 10 or 15 years after that.

Thank you very much, Dr. Flemming. You do honor us by your presence here.

Senator SIMPSON. Thank you, Mr. Chairman.

Mr. FLEMMING. I appreciate the opportunity, Mr. Chairman.

The CHAIRMAN. Our last witness is James Roosevelt, Jr., representing the National Committee to Preserve Social Security and Medicare.

Senator SIMPSON. Mr. Chairman, may I ask unanimous consent that some further questions of mine for Dr. Flemming be entered into the record.*

The CHAIRMAN. Yes, that would be fine.

Our next witness is James Roosevelt, Jr., of the National Committee to Preserve Social Security and Medicare.

Welcome to the committee, and please proceed.

STATEMENT OF JAMES ROOSEVELT, JR., NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, ACCOMPANIED BY GEORGE ALLEN JOHNSTON, DIRECTOR, GRASSROOTS ACTIVITIES AND MEMBER RELATIONS; EDITH DETVILER, MEMBER; AUDREY WEBB, MEMBER

Mr. ROOSEVELT. Thank you, Mr. Chairman.

I am Jim Roosevelt, here representing my father, James Roosevelt, Sr., and the 5 million members of the National Committee to Preserve Social Security and Medicare which he chairs.

With me this morning is George Allen Johnston, Director of Grassroots Activities and Member Relations for the National Committee, and two National Committee members who well demonstrate the unintended effects of the notch.

On behalf of the millions of senior citizens who have been unfairly penalized by the error in the 1977 Social Security legislation that caused the notch, I want to thank you and commend you, Mr. Chairman, and this committee for holding this hearing.

*See appendix, item 3 p. 138.

I ask that I be allowed to submit a written statement for the record and I will confine my remarks to a brief oral statement.

The CHAIRMAN. Without objection, so ordered.

Mr. ROOSEVELT. Thank you.

This hearing provides the National Committee and all those who are adversely affected by the flawed 1977 benefit formula with an opportunity to finally address the many misconceptions that have grown up over the years and that have prevented passage of legislation to correct this error.

In the years since 1977 and in the years since it was recognized that benefits were reduced by as much as 25 percent instead of the 5 percent that had been expected by Congress, 3 million notch victims have died. It is little wonder then the frustrated but tenacious grassroots leaders who have kept this issue alive the last 5 years have been described in Time magazine as the Hell's Angels of Special Interests.

They are so strident because they recognize the hope of some that the continued mortality of notch seniors will provide the solution to this injustice the Congress has denied these past years.

We thank the committee for helping to frustrate that unworthy hope by focusing public attention on this issue.

It is unfortunate that those responsible for the notch cannot be here today to explain what went wrong in the 1977 legislation. But instead of allowing that an unintended mistake had been made and working to correct it, the House Ways and Means Committee has blocked every attempt by other House Members to enact correcting legislation and until recently has refused to even consider a full and fair hearing on this issue. That committee has unfortunately insisted on advancing two contradictory notions: That the notch does not exist and that it is too expensive to correct. That view has been mirrored by some members of the Senate Finance Committee.

This specious defense has been echoed by other senior organizations that have not taken the time to examine the intent and the actual consequences of this legislation. They are unwittingly playing into the hands of those who would use large trust fund balances to hide the deficit.

As our chart clearly shows, the Sanford-Ford legislation does not jeopardize the trust fund balances, leaving more than adequate reserves to provide for future retirees.

But these facts have not stopped the Social Security Administration, as we heard here this morning, from trumpeting fallacious arguments against the notch instead of representing the millions of seniors who have been wronged by this flawed benefit computation formula.

We all have a right to ask where the Social Security Administration has been over the past 10 years when it was becoming apparent that the 1977 formula was not serving its intended purpose.

Today the Social Security Administration has again submitted testimony that obscures the truth about the notch. Replacement rates, mythical average earners, and other arcane measures are attempts to distort the bottom line facts—the dollar amount in monthly benefit checks. The facts are that this formula resulted in actual benefit reductions of as much as 20 percent lower than what they should be. That was never intended by Congress, as you, Mr. Chairman, have said this morning.

The fact is, these two sisters here at the witness table with me have come all the way from Minnesota to demonstrate what the Social Security Administration would rather you did not know. They have virtually identical earnings histories having worked for the same company in the same job for 25 years, but because Edith Detviler is 1 year younger than her sister Audrey, her benefit is 20.7 percent lower than her sister's.

That is just plain wrong, and all the efforts of the Social Security Commissioner to obscure this fact with bureaucratic mumbo-jumbo, with charges that these seniors are greedy, or with attacks on those who support a resolution of this problem is not going to change the wrongness of this formula or the injustice that it will work on nearly 20 million senior citizens.

We do not take issue with the intent of the 1977 legislation but with the consequences. We have found that 20 million seniors born between 1917 and 1928 have been or will be affected by the 1977 formula. Our written testimony goes into the technical reasons how that formula is flawed.

Our chart shows the target level of benefits set in the 1977 amendments. Benefits for average earners born between 1917 and 1929 are lower still than the "guaranteed level" promised by Congress to beneficiaries born between 1917 and 1921.

We believe those consequences were not intended by the Ways and Means Committee. That committee assured members that benefit reductions would amount to no more than 5 percent over a 5-year period. In the years since, more than 200 Congressmen and Senators from both sides of the aisle, many of whom supported the 1977 legislation, have signed on to bills that would correct the notch because they have met with and heard from constituents whose benefits are 15, 20, and even 25 percent lower than they should be.

Of all of those legislative efforts, we believe S. 1830, introduced by Senator Terry Sanford of North Carolina, who explained it here today, and its companion House bill, H.R. 3788 introduced by Representative Harold Ford of Tennessee, would be the most equitable and the most affordable. These bills would level out the benefit amounts for most people retiring in the last quarter of this century, and it would not create, notwithstanding another erroneous argument advanced by those fighting against a notch solution, benefit levels equaling those of the so-called bonanza babies born between 1912 and 1916. These bills would simply correct the notch and restore the original intent of Congress.

The Sanford-Ford legislation was crafted by Senator Sanford after an agreement by grassroots notch leaders from across the Nation to support a scaled-down notch solution. It does not provide full retroactive compensation for lost benefits, but it does provide some retroactive compensation. It would cost approximately $5 to $6 billion a year for the first 5 years and would restore the intent of the 1977 legislation in providing a gradual reduction of benefit levels without jeopardizing trust fund reserves. It is fully 20 percent less expensive than the most popular House measure, H.R.

1917, and one-third the cost of what has been the most widely supported Senate measure, S. 225.

It is a correction that must be made in the name of equity and trust in our Social Security system, and it is a correction that can be made without jeopardizing the integrity of the trust funds.

Mr. Chairman, the National Committee to Preserve Social Security and Medicare is not alone in recognizing the notch for the injustice it is. The American Bar Association debated this issue 2 weeks ago and passed a resolution calling for a legislative correction. Five of the remaining ten Presidential candidates have committed to correcting the notch, and nearly every candidate has recognized the notch as a benefit disparity of unintended magnitude.

The Veterans of Foreign Wars membership has voted to support a legislative correction, and notwithstanding AARP's Washington office position, in 1986 their membership voted to support a legislative correction. The Gray Panthers, the Retired Teamsters, and the Jewish War Veterans also support us in this cause, and most importantly, millions of notch victims look to this Congress for relief from the erroneous formula Congress imposed on them in 1977.

Thank you for the opportunity to testify today, Mr. Chairman, and thank you for your personal interest and leadership on this issue. I would welcome any questions to either myself or to Allen Johnston, on a technical issue.

I would like to introduce Mrs. Detviler, and her sister Mrs. Webb for brief statements.

[The prepared statement of Mr. Roosevelt follows:]

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

2000 K Street, N.W., Suite 800, Washington, D.C. 20006 (202) 822-9459

STATEMENT OF THE NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

PRESENTED TO THE
U. S. SENATE
SPECIAL COMMITTEE ON AGING

REGARDING
THE SOCIAL SECURITY NOTCH PROBLEM

FEBRUARY 22, 1988

The National Committee to Preserve Social Security and Medicare is a national grassroots organization representing five million Americans, many of them senior citizens affected by the Social Security Notch. The National Committee welcomes this first hearing in the U. S. Senate to examine the Notch inequity and proposals for solving the problems caused by the unforeseen results of the 1977 Social Security Amendments. We commend you, Mr. Chairman, for providing this opportunity for affected individuals and their representatives to be heard. Corrective action has been long delayed, but we look forward to a resolution of the Notch problem this year.

When Congress debated the 1977 Social Security Amendments, there were many controversial issues -- the increase in tax rates, a rise in retirement age, universal coverage. But one issue that was not even discussed in the many hours of floor debate in either body was the reduction in benefits to future retirees.

One reason there was no debate was undoubtedly the fact that Members of Congress were sensitive to the criticism they might receive for cutting benefits for the first time in history.

A more important reason benefit reductions were not a subject of controversy during floor debate in either the House or Senate was the reliance Members placed on the technical expertise of the House Ways and Means Committee and the Senate Finance Committee.

But both House and Senate Committees failed their colleagues and, in turn, their constituents who would reach retirement age in the following ten to twelve years. They had promised their colleagues there would be only gradual, if any, reductions in the benefits of their constitutents who would retire after 1978. At most there would be a five percent reduction after a five year phase in. However, those were hollow assurances since both Committees failed to do any significant analysis of the actual, short-term impact of the change which was being made in the benefit formula.

If the Committees had asked for, or the Social Security Administration had provided, a detailed, year-by-year, analysis of the impact of the changes on actual benefits to workers born after 1916, we are confident that Members of Congress would not have voted to cut benefits as much as 20 percent.

At a minimum, Congress is morally bound to hold benefit reductions to the levels intended by the 1977 Amendments. There is a solution that does restore the original Congressional intent at an affordable cost. The National Committee urges you to support S. 1830 introduced by Senator Terry Sanford because it does the best job of any pending legislation in balancing the twin concerns of benefit equity and fiscal responsibility.

CONGRESSIONAL INTENT:

In 1977, Members of the House were promised that at the end of a ten-year transition period, new benefit levels would be about five percent below estimated 1979 levels. Members of the Senate voted initially for a 2-1/2 percent reduction to be achieved after five years. The Conference Committee adopted both the larger five percent reduction and the shorter five-year phase-in. Even so, the one percent per year reduction was thought to be less than onerous because rising wages were presumed to make a longer transition unnecessary.

Minority views in the Ways and Means Committee report on the House bill confirmed that benefits would not be significantly affected:

> "Nor does (the Committee bill) mean that dollar amounts of benefits paid in the future would be lower than present levels. To the contrary, dollar amounts -- as well as purchasing power of benefits -- for future retirees would be higher than present levels.
>
> "It is important to note that, under this proposal, a 10-year savings clause -- or guarantee -- would be provided so that no retireee would receive less during that time than he or she would under the present-law formula as it was at the time of the change. In other words, retirees would have their choice. They could take the benefit available under present law at the point of changeover, or they could take the benefit provided under the new method, whichever is larger." (House Report No. 702, Part 1, Page 300)

Three months after the Amendments were enacted, the Ways and Means Committee printed a detailed description of the new law. Again Members were assured:

> "The benefit level adopted for the long term is 5 percent below estimated 1979 levels. Included in the legislation is a 5-year guarantee of December 1978 levels to provide a gradual transition to the new system for workers who will reach age 62 in 1979 through 1983." (WMCP: 95-72, Page 3)

ACTUAL IMPACT OF 1977 AMENDMENTS:

Because Congress uses the benefits of the average earner to analyze the legislative impact on beneficiaries, let's look at what actually happens to average earners in relation to the Congressional intent described above.

The attached chart, "Benefits Under Current Law Versus Benefits Expected Under The 1977 Amendments" (Attachment A) shows that the transition mechanism failed to guarantee 1978 benefit levels for 65 year old retirees born between 1917 and 1921 and that all average-earning 65 year old retirees born between 1918 and 1928 have retirement benefits of less than the target levels established under the 1977 Amendments.

Workers born between 1919 and 1924 are the ones most adversely affected by the failure of the 1977 Amendments. The Chart shows that average-earning 65 year old retirees born in those years receive about ten to 12 percent below the transition guarantee level and about eight to ten percent below the post-transition target level established by the 1977 Amendments.

The disparity of benefits for those born during or after 1917 compared with those born earlier is not a perception. It is a real, existing inequity. Edith Detviler and Audrey Webb, who are with us today, are not alone. Another pair of sisters, Lucy and Joanna Tucci of Roselle Park, New Jersey, are also representative of the benefit differences which occurred almost immediately.

> Lucy, born in 1917, retired at age 66. Joanna, born in 1915, retired at age 67. Because Lucy's wages were higher, Lucy actually earned and paid Social Security taxes on 17.5 percent more income than Joanna. But Lucy did not receive any credit for the earnings and FICA taxes paid after age 61. In spite of higher lifetime earnings, Lucy's monthly Social Security benefits in 1987 were only $476 a month -- 15 percent lower than her sister Joanna's benefits of $562.

Attached to this statement are the detailed case histories of these sisters as well as additional case histories of other National Committee members (Attachment B).

It is clear the 1977 legislation reduced benefits far more severely than intended. But rather than recognize this mistake, critics of proposed Notch solutions denounce retirees who have been or will be penalized by the abrupt change in benefit formulas as "greedy" or "unreasonable." What those critics fail to understand or refuse to concede is that Notch victims are merely pleading for fair and just benefits compared with earlier or later retirees as intended by Congress in 1977.

If we look at average benefits being paid to retirees, which are much lower than benefits for the average earner, we can see a similar problem (Attachment C). Retirees born in 1920 who were supposed to be protected by the transition guarantee provisions of the 1977 Amendments receive, on average, $1,200 a year less than retirees born in 1915 and 1916. These 1920-21 retirees also average $600 a year less than retirees born in 1910 and 1911, most of whom were not advantaged by the 1972 Amendments.

Retirees born in 1915 and 1916, the birth years most advantaged by the unforeseen results of the 1972 Amendments, received an average of only $6,800 in Social Security retirement benefits last year. Even this is not an excessive amount of retirement income after a lifetime of work.

CONGRESS FAILED TO ANALYZE IMPACT:

We believe that Members of Congress would not have voted for the transition benefit formula if they had been give a comprehensive analysis of how actual benefits would be affected in the short run, especially for persons who stayed in the work force until age 65 or later and whose earnings after age 61 were excluded from use under the transition provision.

The prestigious American Enterprise Institute, in a legislative analysis published in 1985 entitled *Proposals to Deal with the Social Security Notch Problem*, lays the blame for the inadequacy of the transition guarantee on the lack of analysis of the impact of the guarantee formula:

"Although there appears to be no explicit statement in the legislative history, Congress probably anticipated that even though it was cutting benefits for new recipients from what they would have been under the old law, the actual dollar amounts of benefits they would receive would be slightly higher than those of the groups retiring before them. . . What appears to have been unforeseen, for lack of analysis showing year-to-year benefits under the pending legislation, was that many people becoming newly eligible in the first few years after the new rules became effective would actually get a lower dollar amount of benefits than people who became eligible in the few years just preceding the effective date. (Page 50)

". . .Even if the inflation assumptions made in 1977 had turned out to be accurate, however, the notch would have existed, and in percentage terms the benefit differences it created would not have been much smaller than those that arose. The fact is that the notch arose directly from the provisions enacted in 1977, not from the unexpected economic conditions that followed." Page 52)

In fact, the only benefit analysis given Members of Congress showed replacement rates at age 62 (Attachment D). The replacement rate for the average worker retiring at age 62 was only projected to drop from 44 percent to 43 percent. Charts now used by the Social Security Administration showing the anticipated rates for the average worker retireing at age 65 were not made available at the time the 1977 Amendments were debated.

The Social Security Administration now says that the highest 65 year old replacement rate anticipated in 1977 was 46 percent. Taking the five percent reduction anticipated at time of enactment would have produced an ultimate replacement rate of 43.7 -- not the 42 percent that SSA now claims, without documentation, to have been the original intent of Congrss.

And the actual replacement rates for the average worker retiring at age 65 falls below 41 percent compared to the target replacement rate of 43.7 percent. A three percentage point difference in replacement rates alone means $502 a year in lost benefits. And the guarantee replacement rate should be even higher.

In conclusion, the transition formula did not work because the cuts were too large and the transition was too short. In addition, virtually the entire Notch loss suffered by persons born in 1917 -- and as much as half or more of the loss to Notch victims who retired after age 62 -- is due to the fact that their earnings after age 61 are not considered in computing their benefits under the transition formula. Yet, in spite of excluding post-age 61 earnings, Congress made no change in the year-by-year increase in the number of years counted in indexing and averaging lifetime earnings to compute Social Security benefits new retirees would receive.

TIME FOR A SOLUTION:

Workers born after 1916 who question the smallness of their Social Security benefits after long years of working and paying Social Security taxes are:

1. assured there is no problem with their benefits in comparison to earlier and later retirees or, in contradiction,

2. told their problem would be too expensive to fix.

Mr. Chairman, the facts demonstrate that there is a problem and we support a fair solution that is not too expensive.

Congress waited just five years to amend the Social Security Act when benefits were forecast to rise too rapidly. Yet Congress, as a whole, has not demonstrated anything close to the same sense of urgency or responsibility in addressing the Notch problem.

The National Committee does not advocate a return to the benefit formula of the 1972 Amendments, but we do insist that Congress face up to the errors created by the 1977 Amendments just as they promptly faced up to the problems forecast as a result of the 1972 Amendments.

For nearly two years, the National Committee has worked with a coalition of grassroots retiree organizations composed of workers born in the Notch years and their spouses or widows. Rallies have been held in Washington for the past three years attended by thousands of Notch victims and supporters from around the country.

With the cooperation and endorsement of the National Notch Babies Grassroots Coalition, a fiscally and morally responsible bill has been designed. It was introduced in October 1987 by Senator Terry Sanford as S. 1830. This bill would provide the gradual phased-in benefit reductions the 1977 Act promised, but failed to deliver. And it would provide the intended benefits based on either average earner (Attachment E) or average benefits (Attachment F). Notch retirees would be offered an alternative transition benefit formula which would modestly increase benefits for workers born from 1917 through 1921 and provide smaller increases to some workers born as late as 1928. This new transition would eliminate substantial dollar differences in benefits based solely on a year of birth without leaving another notch in its wake. Future benefits for persons reaching age 62 after 1991 would be stabilized at the levels currently projected under present law.

S. 1830 does the best job of any pending legislation in balancing the twin concerns of benefit equity and fiscal responsibility. A companion bill, H.R. 3788 was introduced in the House in December 1987 by Congressman Harold Ford. The Sanford/Ford bills:

* Restore the original intent of the 1977 Amendments to gradually phase-in a stable level of benefits equal to those paid to retirees who retired in the early 1970s, but less than benefits paid to retirees born between 1912 and 1917 who may be receiving so-called "bonanza" benefits.

* Increase benefits for the average Notch retiree born from 1917 through 1921 by approximately $500 per year. Actual annual increases would range from less than $100 to more than $1,200 depending on the retiree's date of birth, age at retirement, and career earnings history.

* Protect workers born after 1921 and before 1930 by extending the transition benefit formula so as to avoid creating a new Notch.

* Guarantee a stable level of future benefits for those born after 1929 by reestablishing the 1977 Amendments' permanent benefit formula as the sole formula for computing benefits for those reaching age 62 in or after 1991.

Mr. Chairman, there are also "savings" provisions written into S. 1830 and H.R. 3788 to target the major benefits of the new transition provisions to those in greatest need. These bills:

* Save $4 billion over ten years by denying new recomputations to persons born before 1917 who continue to work and receive receive "double indexed" benefit increases.

* Compute new transition benefits on earnings only through age 65 and only up to a frozen maximum of $29,700 per year.

*. Limits retroactive payments to a maximum of $1,000 per family.

S. 1830 IS FISCALLY RESPONSIBLE:

Many Members of Congress fear that the cost of fixing the Notch would undermine future Social Security financing. But over the next ten years, the total cost of S. 1830 equals only ten percent of the $650 billion projected increase in the Social Security Trust Funds (Attachment G). By the turn of the century, total Trust Fund assets will still reach about $1.2 trillion compared with $1.3 trillion under current law.

A more serious roadblock to correcting the Notch is the Federal budget. Despite protestations to the contrary, Congress is continuing to use Social Security surpluses to balance the budget under Gramm-Rudman-Hollings. Not only will we not solve the Notch, but Social Security benefits will continue to be under attack, as they were last November, until Congress really takes Social Security out of the budget.

The National Committee also questions whether Congress is wise to abandon pay-as-you-go financing by accumulating such large reserves and maintaining unnecessarily high payroll tax rates. Understandably, Congress wanted to assure today's workers that there was adequate financing for their benefits. Accumulating such reserves, however, will be illusory if Congress continues to run offsetting budget deficits. More worrisome to today's workers is the precedent that Congress has set by cutting promised benefits, as they did in 1977. If Congress does not correct the Notch benefit cuts, today's workers have reason to fear additional benefit cuts in the future.

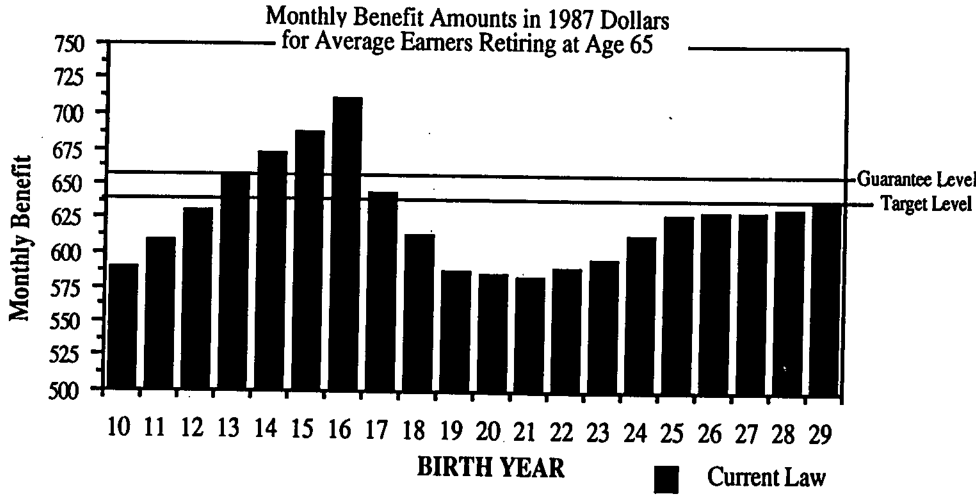
CONCLUSION:

Although there are other proposals before the Congress, the National Committee supports the Sanford bill because it addresses the issue in a fair and reasonable manner. It is the least expensive measure yet introduced which eliminates the Notch for those born from 1917 through 1921 without creating another Notch for retirees in the following seven years.

I urge all members of the Special Committee on Aging to support Senator Sanford's legislation and put an end to the Notch controversy which has so troubled beneficiaries and legislators for yearly ten years. The National Committee is counting on you, Mr. Chairman, to continue as the catalyst for a final resolution of the Notch problem.

ATTACHMENT A

BENEFITS UNDER CURRENT LAW VERSUS BENEFITS EXPECTED UNDER THE 1977 AMENDMENTS



• "Guarantee level" is defined as the benefit level equivalent to that paid to retirees in December 1978--e.g. for 65-year-old retirees born in 1913. This is the amount "guaranteed" to persons born 1917-21 under the 1977 Amendments.

• "Target level" is defined as the benefit level five percent below the 1979 benefit levels--e.g. five percent less than paid to 65-yeear-old retirees born in 1914. This was the benefit level expected to be paid to retirees born after 1921 under the 1977 Amendments.

The guarantee and target levels are so defined based on Congressional intent in 1977. On April 3, 1978, the Ways and Means issued a Committee print (#95-72) which explains that, under the law (PL 95-216) enacted the previous December, "the benefit level adopted for the longterm is five percent below the estimated 1979 level. Included in the legislation is a 5-year guarantee of December 1978 levels to provide a gradual transition to the new system for workers who will reach age 62 in 1979 through 1983."

Source: SSA for Current Law; estimates from Ways and Means Committee Print 95-72 for Target and Guarantee Levels under '77 Amendments

ATTACHMENT B

A PENNSYLVANIA

EXAMPLE OF THE NOTCH

Sidney Ulan and his Sister, Gertrude Warwick of Wallingford

I. Sidney Ulan, born in 1920, is a notch baby. His sister, Gertrude Warwick, is not notched. Gertrude was born in 1915, two years prior to the Notch Years.

	Birthdate
Sidney	December 10, 1920
Gertrude	May 18, 1915

II. Following World War II, Sidney returned from the European theatre as a decorated combat pilot. Together with his sister, Gertrude, he took over the reins of the family business. For the next three and one-half decades they shared the work and split both profits and loses equally.

Sydney's and Gertrude's Social Security records confirm that they have paid almost identical amounts into the Social Security system:

	Total Taxed Wages 1951 to 1981
Sidney	$183,556.50
Gertrude	$185,531.41
Sidney's Wage Difference	-$1,974.91
Percent Difference	- 1.1%

III When Sydney and Gertrude decided to liquidate their business in 1981, Gertrude had already reached age 65 and Sydney was ready to take early retirement at age 62. So Sydney figured that his Social Security check would be about 20 percent less than Gertrude's check since he was taking a reduction for early retirment at age 62.

But instead of a 20% reduction, Sidney was shocked to discover he would get only about one-half of what Gertrude was receiving! And in 1986, Sydney still receives a monthly check of about $440 which is 44.3 percent less ($349 less) than Gertrude's $789 monthly check.

Although Sydney's benefits were reduced by 20 percent because of his early retirement, the Notch actually caused a bigger reduction. Even if Sidney had retired at age 65, his monthly benefit check would still be 30.2% less ($238) than Gertrude's check!

	1986 Full Monthly Age 65 Benefit Rate
Sidney	$551
Gertrude	$789
Sidney's Notch Loss	- $238
Percent Loss	- 30.2%

IV. This month, Sydney will receive about $191 less than Gertrude would have received if she had retired at age 62. And, over the the forty-four months since Sydney first claimed benefits, the Notch has already cost him over $7,500.

MEMORANDUM

A TEXAS

EXAMPLE OF THE NOTCH

Ruby Ford of Chillicothe

I. Mrs. Ruby Ford, born February 11, 1917, is a notch baby who was born 42 days after December 31, 1916, the last non-notch year.

II. If Mrs. Ford had been in 1916, she would be entitled to over 24% more than she is due under the notch formula. Therefore the Notch will cost Mrs. Ford about $1,488 this year — or about $35.42 for each of the forty-two days she was born after December 31, 1916. And she will keep on losing over $124 a month for the rest of her life unless the Notch problem is fixed.

Actual monthly check for 2/17 birthdate:	$518
Monthly check if born 42 days earlier:	$643
Monthly Notch Loss:	$124
Percent Loss:	24.1%

III Mrs. Ford worked at physically demanding jobs in a dairy operation, the aircraft and electronic industry, and as an aide in a nursing home, before spending her last 14 years of paid work as an aide in a State hospital.

Although she could have retired at age 62 in 1979, she continued working and paying Social Security taxes on her modest salary until after her 65th birthday in 1982.

Mrs. Ford assumed that her additional earnings and tax payments for 1979 and 1982 would be added into the calculation of her Social Security benefits just as they had for persons born before 1917. Unfortunaltely she was wrong.

Under the Notch formula , none of Mrs. Ford's earnings after the year she turned age 61 (1978) could be used in calculating her retirement benefits.

Therefore, Mrs. Ford received only about one-third of the benefit increase she would have received if she had been born two months earlier.

MEMORANDUM

AN INDIANA

EXAMPLE OF THE NOTCH

Alfred Carson of Evansville

I. Mr. Alfred Carson, born on October 19, 1917, is a notch baby who was born 10 months after December 1916, the last non-notch year.

II. If Mr. Carson had been born in 1916, he would be entitled to over one-third more than he is due under the notch formula. Therefore, the Notch will cost Mr. Carson about $2,736 this year — or about $276.30 for each of the ten months he was born after December 1916. And he will keep on losing at least $212 a month for the rest of his life unless the Notch is fixed.

Actual monthly check for 10/17 birthdate:	$603
Monthly check if born 10 months earlier:	$815
Monthly Notch Loss:	$212
Percent Loss:	25.7%

III Mr. Carson worked 22 years on an assembly line building refrigerators for Whirlpool.

Although Mr. Carson suffered from angina and had high blood pressure and he could have retired at age 62 in 1979, he continued working and paying Social Security taxes on his earnings until he retired at age 65 in 1982.

Mr Carson assumed that his additional earnings and tax payments for 1979 and 1982 would be added into the calculation of his Social Security benefits just as they had been for persons born before 1917. Unfortunately, he was wrong.

Under the Notch benefit formula, none of Mr. Carson's earnings after the year he turned age 61 (1978) could be used in calculating his retirement benefits.

Therefore, instead of seeing his benefits increased by as much as $200 a month as they would have been if he were born 10 months earlier, Mr. Carson continues to receive a benefit of $603 a month.

MEMORANDUM

A NORTH CAROLINA

EXAMPLE OF THE NOTCH

Hazel Kale of Charlotte

I. Mrs. Kale, born on January 9, 1917, is a notch baby who was born just nine (9) days after December 31, 1916, the last non-notch year.

II. If Mrs. Kale had been born in 1916, she would be entitled to 21.7 percent more than she is due under the notch formula. Therefore, the Notch will cost Mrs. Kale about $1,236 a year this year — or about $137 for each of the nine days she was born after December 31, 1916. And she will keep on losing over $103 a month for the rest of her life unless the Notch problem is fixed.

Actual monthly check with 1/17 birthdate:	$475
Monthly check if born 9 days earlier:	$578
Monthly Notch Loss:	$103
Percent Loss:	21.7%

III Mrs. Kale worked in pyhsically demanding jobs in a hosiery mill for over 20 years. For the last ten years of her work-life, she worked as a processor in a plant which constructs air filters for the lumber and textile industries.

Although she could have retired at age 62 in 1979, she continued working and paying Social Security taxes on her modest salary until she retired at age 65 in 1982.

Mrs. Kale assumed that her additional earnings and tax payments for 1979 and 1982 would be added into the calculation of her Social Security benefits just as they had been for persons born before 1917. Unfortunately , she was wrong.

Under the Notch benefit formula, none of Mrs. Kale's earnings after the year she turned age 61 (1978) could be used in calculating her retirement benefit.

Therefore, Mrs. Kale received absolutely no increase in her benefits because she chose to continue to work past age 61!

In fact, virtually all of the Notch losses of persons born in 1917, and up to half or more of the losses of Notch Babies who work until age 65 or later, is due to the fact that their post-age-61 earnings can not used in computing their benefits under the transition benefit formula.

MEMORANDUM

A SOUTH CAROLINA

EXAMPLE OF THE NOTCH

Agnes Page of Goose Creek

I. Mrs. Agnes Page, born March 27, 1917, is a Notch Baby who was born eighty-six days after December 31, 1916, the last non-notch year.

II. If Mrs. Page had been born in 1916, she would be entitled to 22.6% more than she is due under the notch formula. Therefore, the Notch will cost Mrs. Page about $1,416 this year — or about $16.50 for each of the eighty-six days she was born after December 31, 1916. And she will keep on losing at least $118 a month for the rest of her life unless the Notch problem is fixed.

Actual monthly check for 3/17 birthdate:	$521
Monthly check if born 86 days earlier:	$639
Monthly Notch Loss:	$118
Percent Loss:	22.6%

III After working for years for an insurance company in South Carolina, Mrs. Page had reached the position of supervisor for data entry operations.

Although she could have retired at age 62 in 1979, she continued working and paying Social Security taxes on her modest salary until after her 65th birthday in 1982.

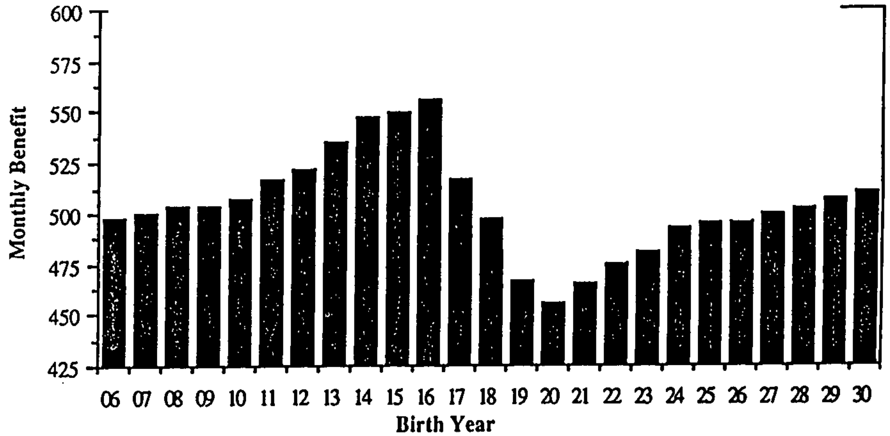
Mrs. Page assumed that her additional earnings and tax payments for 1979 and 1982 would be added into the calculation of her Social Security benefits just as they had for persons born before 1917. Unfortunately, she was wrong.

Under the Notch benefit formula, none of Mrs. Page's earnings after the year she turned age 61 (1978) could be used in calculating her retirement benefits.

Therefore, instead of the substantial increase she would have received if she had been born three months earlier, Mrs. Page received a monthly benefit increase of about $4 a month — or only about $1 for each of the four years she worked after age 61.

ATTACHMENT C

Actual and Projected Average Monthly Benefits Paid to Retired Workers Born Between 1906 and 1930, December 1986



Source: SSA for current law December 1986 benefits 1906-1930, National Committee re-estimates of SSA data for current law 1920-21; National Committee staff re-estimates for current law 1922-30

Prepared by the National Committee to Preserve Social Security and Medicare (National Committee), Washington, D.C. (202) 822-9459, 1/21/88

ATTACHMENT D

REPLACEMENT RATES: HISTORICAL BEHAVIOR AND PROJECTIONS UNDER PRESENT LAW AND UNDER THE COMMITTEE BILL

[In percent]

Calendar year	Replacement rate for worker with— Low earnings [1]	Average earnings [2]	High earnings [3]
Historical behavior:			
1970	45	33	28
1971	47	35	31
1972	48	36	34
1973	51	39	35
1974	54	41	33
1975	56	43	30
1976	57	45	32
1977	58	44	32
Present law:			
1979	57	44	34
1985	58	47	34
1990	60	48	35
1995	66	49	37
2000	75	52	39
2010	84	56	42
2020	91	60	41
2030	96	63	46
2040	101	65	47
2050	106	67	48
Committee bill:			
1979	[4] 57	[4] 44	[4] 34
1985	55	43	26
1990	55	43	26
1995	55	43	27
2000	55	43	28
2010	55	43	30
2020	55	43	30
2030	55	43	30
2040	55	43	30
2050	55	43	30

[1] Assumed at $4,600 in 1976 and following the trends of the average.
[2] Assumed to be 4 times the average 1st quarter covered earnings.
[3] Assumed at the maximum taxable under the program.
[4] Reflects the benefit guarantee provision in the bill.
Note: The estimates in this table are based on the intermediate set of assumptions used in the 1977 OASDI trustees report. The replacement rates pertain to workers with steady employment at increasing earnings and compare the annual retirement benefit at age 62, ignoring the actuarial reduction factor, with the earnings in the year immediately prior to retirement.

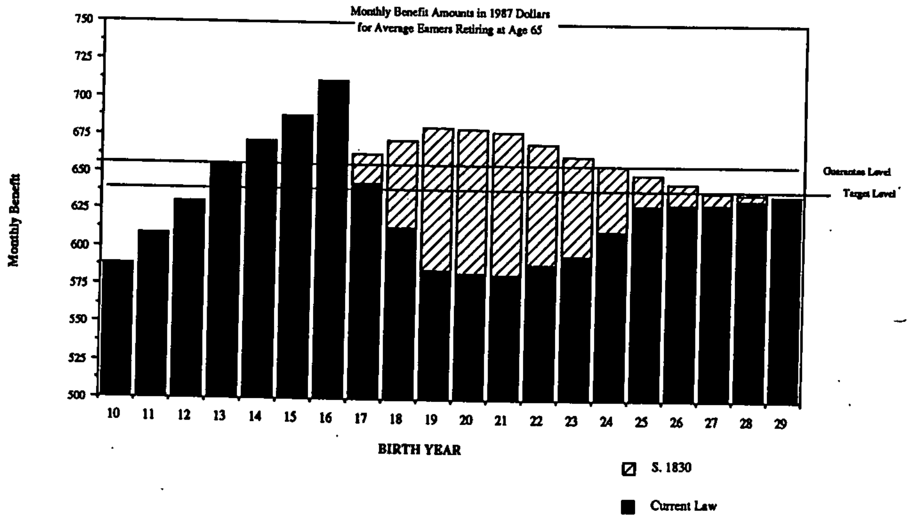
Page 24, House Report No. 702, Part 1, 95th Congress, 1st Session

Report of the Committee on Ways and Means, House of Representatives

to Accompany H.R. 9346

ATTACHMENT E

BENEFITS UNDER CURRENT LAW AND PROJECTED UNDER S. 1830/H.R. 3788 VERSUS BENEFITS EXPECTED UNDER THE 1977 AMENDMENTS



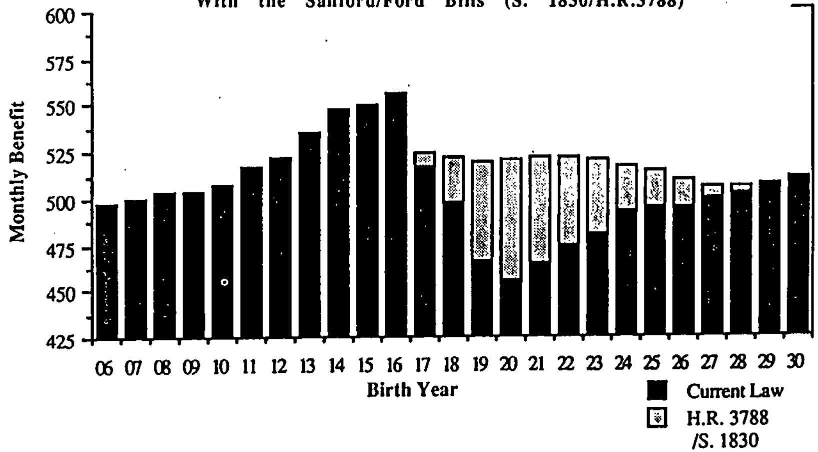
- "Guarantee level" is defined as the benefit level equivalent to that paid to retirees in December 1978--e.g. for 65-year-old retirees born in 1913. This is the amount "guaranteed" to persons born 1917-21 under the 1977 Amendments.
- "Target level" is defined as the benefit level five percent below the 1979 benefit levels--e.g. five percent less than paid to 65-yeear-old retirees born in 1914. This was the benefit level expected to be paid to retirees born after 1921 under the 1977 Amendments.

The guarantee and target levels are so defined based on Congressional intent in 1977. On April 3, 1978, the Ways and Means issued a Committee print (#95-72) which explains that, under the law (PL 95-216) enacted the previous December, "the benefit level adopted for the longterm is five percent below the estimated 1979 levels. Included in the legislation is a 5-year guarantee of December 1978 levels to provide a gradual transition to the new system for workers who will reach age 62 in 1979 through 1983."

Source: SSA for Current Law and S. 1830/H.R. 3788; estimates from Ways and Means Committee Print 95-72 for Target and Guarantee Levels under '77 Amendments

ATTACHMENT F

Comparison of Actual and Projected Average Monthly Benefits Paid to Retired Workers Born Between 1906 and 1930, December 1986 With the Sanford/Ford Bills (S. 1830/H.R.3788)

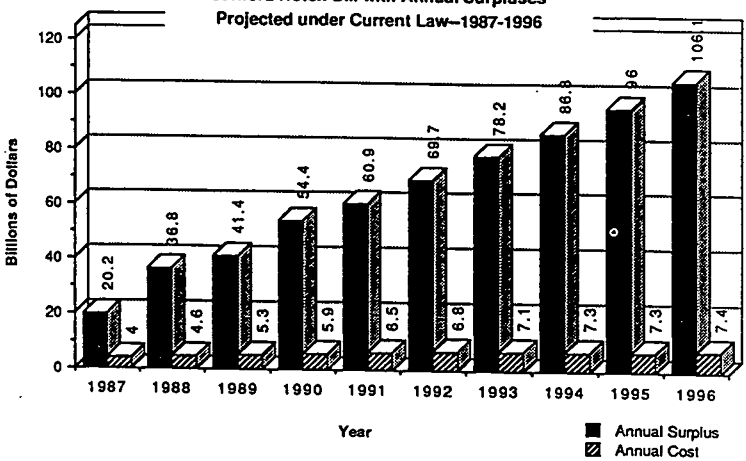


Source: SSA for current law December 1986 benefits 1906-1930, National Committee re-estimates of SSA data for current law 1920-21; National Committee staff re-estimates for current law 1922-30

Prepared by the National Committee to Preserve Social Security and Medicare (National Committee), Washington, D.C. (202) 822-9459, 1/21/88

ATTACHMENT G

Comparison of Annual Costs of the Proposed Sanford Notch Bill with Annual Surpluses Projected under Current Law--1987-1996



- For the first five years, the average annual cost of the Sanford proposal is $5.2 billion, while annual surpluses average $42.7 billion.
- After five years, the average annual cost of the Sanford proposal stabilizes at about $7.3 billion while current law's annual surpluses are projected to increase by about 40 percent -- from $76.1 billion in 1992 to $106.1 billion in 1996.
- Over ten years, the total cost of the proposed Sanford bill, including partial retroactive payments, equals only 10.4 percent of the $650 billion projected increase in the Social Security Trust Funds.

Note: Chart does not reflect $5.4 billion in costs for retroactive benefits of up to $1,000 per retired worker for 1979-1986.

SOURCE: Social Security Administration data arranged in table prepared by the National Committe to Preserve Social Security and Medicare, Washington, D.C. 20006, (202) 822-9459; 10/21/87

The CHAIRMAN. Thank you. If you could, very briefly, we are, as you can see, well beyond 12.

Mr. ROOSEVELT. They have 2 minutes or less.

The CHAIRMAN. All right. Thank you. Which sister first? We want the oldest one first.

Mrs. DETVILER. Thank you, Mr. Chairman, for letting us speak at this hearing.

My name is Edith Detviler. This is my sister, Audrey Webb. We are from Morris, MN.

Audrey was born March 4, 1916, and I was born June 17, 1917, just 15 months apart. So I was the one unfortunate to be caught in the so-called notch years.

We have been inseparable for most of our lives. The only time I can recall being apart was when I got married and left Minnesota to go to California. Audrey followed me 2 years later. Dad called us the Siamese twins. He always said, where you find one you will find the other.

When I was 40, there were problems in the home and I was forced to find work. Just being a housewife during that time, I had no job skills. My sister, as can be expected, went job hunting with me.

A friend of ours, who was a foreman at the Walnut Growers Association, said we could find work at Pacific Press but it was a salt mine, which we found out in short order. We met some very nice people, so it wasn't all bad.

We hired in on October 8, 1957. This was a paper house making magazines such as Time, Newsweek, People, and numerous other publications, a very laborious job consisting of lifting literally tons of paper a day. We fed up to five pockets each, in case one pocket would go dry, the machine would jam up and you were in big trouble; a very demanding and fast-paced operation at the rate of 10,000 magazines an hour. On a good day, it could average considerably more.

For the most part we worked side by side in the same job, receiving the same wages and paying the same amount into Social Security until our retirement 25 years later on October 8, 1982.

Three months before we retired we applied for our Social Security. We sat at the same desk, talked to the same counselor. She at no time mentioned the notch years but said Audrey might get a little more since she worked until she was 66.

When we received our benefits and found out there was more than $100 difference in our checks, Audrey was as upset as I and offered to divide the difference with me because she thought it was so unfair. I politely refused. The fault was certainly not hers.

Today my sister receives $155 more a month than I. This is proof of the big difference the notch years can make in our Social Security benefits. Considering how hard the work was, it makes it all the more difficult to accept the unfairness in this situation. My contribution to the job and Social Security should treat me as fairly as my sister.

According to Social Security calculations, if I were Audrey's twin I would receive $26 more than she gets, but because I was born 15 months later, I get $155 less. At the present time I get $607 and she gets $762. I know this must be the case in many situations, but

Audrey and I have the advantage of being able to compare notes, so we have the proof.

It seems we have to plead abject poverty to get a fair share when the benefits are just paid out with no questions asked to those born before 1917. It is humiliating and a gross discrimination. We have our pride too. We are not asking for a handout. When we signed up for Social Security, I thought everyone would benefit fairly from this program. It seems this is not the case. Why do we have to prove we need it? Those born before 1917 don't have to.

In the 6 years since our retirement, my brother-in-law, Byford Webb, and I have written to several people in government. We have received reasons why the notch years was imposed, but not much interest in trying to correct it.

Senator Terry Sanford's bill would add $76 a month to my Social Security check. This would go a long way toward restoring the money that was taken away from me by the notch years law. This extra money would help pay my utilities.

We hope that the notch problem will be fixed soon as notch victims like ourselves are not getting any younger. Thank you for listening to our story.

[A comparison of the difference between Edith Detviler's and Audrey Webb's Social Security benefits follows:]

NOTCH EXAMPLES

Edith Detviler and her sister, Audrey Webb of California

I. Edith Detviler, born 1917, is a "notch" baby. Her sister, Audrey Webb, is not "notched". Audrey was born fifteen months earlier in 1916, the last pre-notch year.

	Birthdate
Edith	June 17, 1917
Audrey	March 4, 1916

II. On October 8, 1957, Edith and Audrey, who had been homemakers, started jobs as bindery workers in Southern California. For the next twenty five years they worked together every day, in the same heavy labor job, for the same pay, until they retired together on October 8, 1982.

Edith's work record shows that she earned about four percent (3.9%) more than Audrey primarily because Edith worked more overtime since she was single.

	Total Taxed Wages (1957 to 1982)
Edith	$172,915.09
Audrey	$166,228.70
Edith's Wage Advantage	+$6,686.39
Percent Difference	+3.9%

III. In the summer of 1982, Edith and Audrey went to the Social Security office to claim retirement benefits. They were told that Audrey's check would be slightly higher because she worked for 18 months after her 65th birthday. The Notch effect was not discussed.

Instead of a small difference in benefits, Edith's October 1982 benefit rate of $512.60 was $111.80 less -- or 17.9 percent less -- than Audrey's $624.40. Due to the fact that Edith's post-age 61 earnings are not credited under the transition benefit formula and the compounding effect of subsequent cost-of-living-adjustments, both the dollar and percentage differences have grown so that Edith now receives $155.00 less -- or 20.3 percent less -- per month than Audrey.

	1988 Net Monthly Benefit
Edith	$607.00
Audrey	$762.00
Edith's "Notch" loss	$155.00
Percent Loss	20.3%

IV. If Edith had been Audrey's twin sister, rather than born fifteen months later, Edith's net monthly benefit would be $793 or $196 more than the $607 she currently receives. And if Edith's benefits had been computed under the same rules as Audrey's, Edith would receive a net monthly benefit of $752 which is $10 less than Audrey's monthly check.

V. S. 1830/H.R. 3788 would restore $76 of the $155 "notch" loss that Edith has suffered. Audrey's benefit would remain unchanged.

	Net Monthly Benefit Current	Net Monthly Benefit S. 1830/H.R. 3788	Dollar Change
Edith	$607.00	$683.00	+$76.00
Audrey	$762.00	$762.00	-0-
"Notch" Loss	$155.00	$79.00	
Percent Loss	20.3%	10.3%	

The CHAIRMAN. Thank you.

The difference is $150?

Mrs. DETVILER. One hundred fifty-five.

The CHAIRMAN. Then what you are saying, what you just testified is that the Sanford bill would correct it from your viewpoint $76 a month.

Mrs. DETVILER. It wouldn't be quite half.

The CHAIRMAN. You are willing to settle for that.

Mrs. DETVILER. I guess; that's the best we can do.

The CHAIRMAN. Mr. Roosevelt, you said the American Bar Association endorsed correction of this?

Mr. ROOSEVELT. Yes. At their Philadelphia meeting 2 weeks ago they held a debate on this specific issue and adopted a resolution supporting a correction.

The CHAIRMAN. Is this part of the American Bar Association? Which part is it?

Mr. ROOSEVELT. This is a mid-year meeting that debates issues of public policy.

The CHAIRMAN. Does it have a group of the American Bar Association that does this and this group happened to do that?

Mr. ROOSEVELT. This is a committee of the Bar Association on public policy issues.

The CHAIRMAN. I wanted to bring that to the attention of my learned colleague over here. That's your profession.

Senator SIMPSON. That's one committee.

The CHAIRMAN. I'm a veterinarian. Maybe the American Veterinary Medical Association will adopt it.

Senator SIMPSON. Then we're both in trouble.

The CHAIRMAN. Your testimony is pretty much straightforward, Mr. Roosevelt. You are contending that the fund itself projected as we did in 1983 in adopting the change in the law and setting higher taxes in our salary levels, wage levels that the tax would be applied to, you are contending that we can take part of that fund without hurting it.

Now I don't want to pin you down here, but actuaries don't seem to agree with that.

Mr. ROOSEVELT. Mr. Chairman, when the 1983 amendments were adopted the focus had not yet been put on the notch problem. I believe that when the 1983 amendments were adopted the Members of Congress who voted for that still believed that what they intended in 1977 is what was going to occur.

We heard a curious distinction this morning from the Deputy Commissioner between what was intended and what was anticipated. He said that the notch was intended but it wasn't anticipated. I am not quite sure I understand that distinction.

When the 1983 amendments and the higher tax rates were adopted, it was not yet realized that it would produce the result that we have found today in the notch.

The CHAIRMAN. Well, that still doesn't get to it. What we projected was to get to a high level to meet so-called baby boom retirees in 2020, 2030. I don't know, you are ignoring that.

Mr. ROOSEVELT. It is our calculation that the——

The CHAIRMAN. Let me complete that. I don't know that the actuaries in 1983 and 1984 when they looked at all of this, 1982 and

1983 more correctly, when they looked at all of this would want to change their figures now and say it is going to be a little bit better than we anticipated, and by the year 2030 the gloom and doom that Senator Simpson spoke of. Maybe it is better. Do you know? Can you comment on that? Otherwise you are telling us to disregard their advice that was given in 1983.

Mr. ROOSEVELT. Well, it is our calculation that the amount of money that would be required to fund the Sanford bill compromise would not be so great as to have a serious impact on the trust fund 40 or 45 years down the road. For a more detailed answer I would turn to Mr. Johnston who is more familiar with the actual calculation.

Mr. JOHNSTON. Thank you, sir.

Senator Melcher, the experience since 1983 has been much more favorable than was anticipated in 1983. The chart that Mr. Roosevelt referred to earlier contrasts the amount of the annual increase in the Social Security trust funds with the cost of the Sanford bill over the short run.

Our concern, frankly, Senator, is that there is some great danger in building up large trust fund reserves as long as those trust fund reserves are used in the Gramm-Rudman process to hide deficits in other government programs. We think that is a problem not only for senior citizens but also for young taxpayers whose tax rates were increased this year and will be increased again in 1990 to build what are truly unprecedented and massive trust fund reserves which will simply be used to mask deficits in other government programs.

The CHAIRMAN. Well, by 1991 or sometime during that year we are not going to have these trust funds on budget. So I don't know how it masks. I mean, I don't think it ought to mask anything at this point whether it is on budget or off budget. It is a trust fund. But nevertheless in 1991 it will not be on budget, the trust funds will not be on budget.

Mr. JOHNSTON. Senator, that was correct under the 1983 amendments, but the recent Gramm-Rudman fix continues to use Social Security to calculate against the Gramm-Rudman targets until 1993. We will be glad when that process is over because, as I say, we think that is unfair to young people and old people.

I would like if I could, Senator, to get back to an earlier point that I think is very, very important; we heard Dr. Flemming earlier, whom I respect and admire very greatly, and we will hear from Bob Meyers I assume later whom I respect even more. But the fact is the best way to judge Social Security benefits is what happens to a person's actual benefit. Edith and Audrey who are here dramatize how drastically the notch can hit people.

What we have done is determine that the best way to look at that is benefits. That's what this chart shows, and it does show that for the average beneficiary, those people in the notch years, receive less than those people born both before and after them. I think that is a very important point. All that Senator Sanford's bill does is, in effect, fix the pothole.

The CHAIRMAN. Thank you. By the way, I know what we intended, what Congress intended. I was part of the House then in 1972. I also realize that we were overly generous and that the corrections that were made in 1977 were essential. But I also know what we intended in those corrections. We originally intended to phase the new law over 10 years, but then it was changed to 5 years, because we were assured that 5 years was adequate. So I am well aware of congressional intent and well aware that it hasn't worked out the way we intended.

So, what those of us who were here then and can vouch for what our intent was must decide, is do we want to correct it—I personally do—and now. And I want to see what the rest of my colleagues think both in the House and the Senate. I think that's the only fair way to do it.

However, I think I also should make this point. I didn't have to wait until 1980 to hear that we created an inequity by the 1977 amendments. I began to hear it from people who were expressing their concerns in the late seventies. It didn't just pop up in 1983 or 1984 or 1982, whenever this column appeared by one of the columnists. I was hearing that there was an inequity, and it would surface, and it was going to be an inequity of some substance and some size.

What I've learned since then bothers me in that the notch doesn't just affect those born from 1917 to 1921, but it goes beyond that. There is still inequity for some people born up until 1928. That just compounds the problem. It doesn't make it easier.

I think Senator Sanford's proposal isn't all that bad, but I would feel constrained, and I think the Senate would feel constrained in making any corrections to want to show additional revenue as we made the corrections.

Senator Simpson.

Senator SIMPSON. Mr. Chairman, I thank you and I share that concern. This is not $60 billion of pothole repair, it's $60 billion worth of money from people who are in Social Security. That's what it is, and we want to keep that in mind.

I understand that you have a constituency apparently of about 5 million people. Is that a correct statement?

Mr. ROOSEVELT. The National Committee has approximately 5 million members, yes, sir.

Senator SIMPSON. Do they each pay $10 a year?

Mr. ROOSEVELT. They contribute varying amounts that average around $10 a year.

Senator SIMPSON. But the dues if you want to save the system is $10, right?

Mr. ROOSEVELT. The dues amount that is suggested is $10, although I believe it is made clear that smaller amounts are acceptable for people who want to participate.

Senator SIMPSON. How many people pay in over $10?

Mr. JOHNSTON. Senator, I think the average contribution last year was about $14. We would be happy to sit down and discuss the workings of the National Committee with you in your office at any time, as we have asked to do in the past.

Senator SIMPSON. I need to do that because I have said some rather harsh things about your organization and probably would again until we sit down and talk about some things.

Mr. ROOSEVELT. We would appreciate the opportunity for that discussion, Senator.

Senator SIMPSON. I understand you have a governing body, a board of directors; is that correct?

Mr. ROOSEVELT. That is correct, Senator. We would be happy to explain that entire structure.

Senator SIMPSON. If I understand that correctly, it is a three-member board of directors, James Roosevelt and two appointees hand selected by Mr. Roosevelt, is that correct?

Mr. ROOSEVELT. I am not fully familiar with that structure, but I would be happy to arrange for people who are to come and explain it to you.

Senator SIMPSON. Are you paid by that organization?

Mr. ROOSEVELT. No, sir. I am just a volunteer with that organization. I have worked particularly on this issue.

Senator SIMPSON. May I ask Mr. Johnston. Surely you can answer the question as to who is this board of three members?

Mr. JOHNSTON. Certainly, Senator, we would be glad to discuss all these issues with you in your office as we have——

Senator SIMPSON. Well, let's do it here. We've discussed so much passionate stuff here, let's do that here, shall we? Who is on the board? I understand there are just three people and that two of them are selected by James Roosevelt, your father.

Mr. ROOSEVELT. I know the name of one of the other members who is former Judge Bruce Sumner from California. I don't actually know the name of the third member. I really understood the hearing was about the notch so I didn't prepare on the organizational structure of the committee.

Senator SIMPSON. Well, if you can furnish that, because I understand that as of last year there was no senior citizen person on the national committee board.

Mr. ROOSEVELT. Well, my father is a senior citizen.

Senator SIMPSON. Yes.

Mr. ROOSEVELT. We had a surprise 80th birthday party for him over Thanksgiving weekend.

Senator SIMPSON. But we don't have any Ediths and Audreys on the national board, do we?

Mr. JOHNSTON. All three are senior citizens now. Bob Coon is an attorney from New York, Bruce Sumner is a former judge of the Superior Court of the State of California. We certainly would enjoy the opportunity to talk with you about these things, Senator Simpson, as we have tried to do in the past.

Senator SIMPSON. Those are the board members. So we do know who they are, and now we have that in the record as to an attorney and Mr. Sumner and the other gentleman. That's the national board. That's all I was interested in. I appreciate that. Maybe we can see that that's broadened out so that we include the Ediths and Audreys.

You know, I try to keep a sense of humor about this when I can, but I remember Nancy Kassebaum came back from Kansas and reported that she had had a hearing and a town meeting, and some guy got up in the back who was part of the Jim Roosevelt crew, and Nancy said that she thought that their activities were not correct and they misinformed people. A guy got up in the back and said: "Well, you're just mad because his dad beat your dad." [Laughter.]

That's not why I'm in this.

So you have this board. You call yourselves a representative organization when it's run with either a minimal or no member representation and involvement. That's very troubling to me, if you have a membership of 5 million people and you are picking up $10 a crack, that's $50 million.

Mr. JOHNSTON. Senator, we would love to go into all those things with you, but we are here because there are 13,531 people in the State of Wyoming who have been hurt by the notch injustice, and that was the intent of this hearing, and that is certainly the questions we have come to address.

Senator SIMPSON. I don't have any problem with those 13,000 people because I go right into the town meetings and ask them how they are going to pay for it. When I tell them they are going to pay for it, they are not very interested in your idea. So let's get on——

Mr. JOHNSTON. Senator, that's a difference of opinion. As I say, if Social Security were not being used to balance the budget, if you did not need that to meet your Gramm-Rudman targets, then there would be plenty of money both to pay the notch babies, and also perhaps reduce or repeal the tax rate increases that are coming on people my age.

Senator SIMPSON. The chairman is very correct in what he addressed to you in that we are going to put it off budget. That's a good way to fake it all out, we'll put it all off budget and let it rot over there by itself until 2030. That's not very responsible either.

I want to say to you about your chart, the one that's now been covered up on the right. The dip that you show in that chart on the right indicated in red, and I would like that to be shown again if I could please, is in the area of benefit amounts. The only reason we were ever involved in this exercise of correction is because of the replacement rate. The correct variable to look at is the replacement rate which was corrected to around 42 percent average by the 1977 amendments.

In addition, your scale begins at $400, which is greatly magnifying the differences. That is a deliberate distortion in my mind to make things look a lot worse than they actually are. That, in my view, that particular chart——

Mr. JOHNSTON. If that's a question, Senator——

Senator SIMPSON. No, it's not. I've got a little more to do, and then you can have any rebuttal you want. I don't hammer people down. I'll stick here until 2 if you want. But I guess you are getting a little better, I would say that.

Mr. JOHNSTON. Thank you.

Senator SIMPSON. You've cleaned up your act just a shred. Here's the latest one, I'm holding up an envelope, "Important, Urgent Social Security, Medicare Information Enclosed," highly official looking document. Those go out. They are getting a little better, but they are still, you know, enough to terrify anyone, including my 86-year-old mother and my 90-year-old father who when I come home hold up a stack of this stuff and ask me if it (Social Security) is going to be there for them, which is tedious to have to explain to two dear loving people who are 86 and 90 and very tiresome because of this babble.

So you send these out I guess around the country. This is to a family in Wyoming. It says to write Simpson and Wallop and Cheney. You send out a lot of mailings, don't you? How many mass mailings did you do to the elderly in 1985?

Mr. JOHNSTON. Again, Senator, we would be happy to give you a complete rundown on the operations of the organization.

Senator SIMPSON. Can this official answer the question—you are paid by the organization, are you not?

Mr. JOHNSTON. Yes, sir, I am, just as I was when I worked with the Social Security Administration and with the U.S. House of Representatives.

Senator SIMPSON. Right.

Mr. JOHNSTON. Senator, I'll be happy to address that with you at any time, at any place of your choosing. We can go into all these issues to whatever depth you wish to do, as we have asked to be able to talk with you in the past.

I will address the substantive point that you did make with regard to replacement rates.

Senator SIMPSON. Sure.

Mr. JOHNSTON. We have designed another chart, the one that is covered up now, to attempt to illustrate the original intent of Congress when it passed the bill. The original intent of Congress when it passed the bill was to reduce benefit levels by 5 percent from 1979 levels. That would produce a replacement rate of 43.7 percent. The replacement rate under current law goes below 41 percent. That difference, Senator, costs these people, an average notch person, a little over $500 a year.

So if the intent of Congress as written in the minority report of the Ways and Means Committee and in the conference report, and in the Ways and Means Committee publication 95–72 was fulfilled, there would be about $500 more in the check of the average retired notch beneficiary. Senator, while working for the Social Security Administration, I designed a benefit formula being used by the United States under negotiated international agreements, and I know the replacement rates are a mirage and gobbledygook being used by the Social Security Administration to hide the true impact of dollar amounts of the reduction in benefits.

Replacement rates are fine if you want to look over a 30-year horizon. But if you want to look over a 3 to 5 year horizon, Senator, benefits, what's in a person's check, that's what they take to the grocery store, that's how they pay their utility bills, and that's what we ought to be looking at.

Senator SIMPSON. Well, that's fascinating, and I thank you for that. You say the Congress has unfairly cut Social Security benefits for Americans born in the notch years. That's what you say here.

Let me tell you so you have a history lesson—I hate to take on a House staffer. I know—I've been in too many conferences with the House, you can lose your underwear in one of those. But I can tell you this—that in the early seventies Congress double indexed the benefits. I want people to understand what was happening—well, you can shake your head all you want. I mean, if we are going to use mirages and gobbledygook and mumbo-jumbo we get to use our variety too. Those are phrases of yours. "Mumbo-jumbo" I thought was a dazzler because you have made that an art form in your membership solicitations.

In the early seventies Congress double indexed benefits making them rise faster than the cost of living. Now the reason we did our work is because that would eventually bankrupt the program. That was called congressional intent. I don't think you can miss that. To correct the mistake the Congress adjusted then the benefit formula to maintain the solvency of the program.

That did not reduce current benefits. That's what we should have done. We should have gone and taken the windfall from those prior to 1916, but we didn't do that. That's what should have been done. They were receiving more than they ever should have had. We should have taken that; we didn't do that. We did not reduce the current benefits in any way, but it did result in some receiving a larger benefit than others.

So let's keep that in mind as to what we are talking about here. We are not talking about cutting someone below; we're talking about somebody getting more benefits than the other, and the other got more benefits than they ever would have before.

While all this is true, and where are all the advocacy groups that come before this committee, and I do not see Congressman Claude Pepper involved in this caper, and let me tell you, when he's in it, we are all in it. He is superb. He is a great spokesman for the aged in our society, and he is a splendid man, and I trust him. I have the greatest respect for him. He's not in this. AARP is not in this. Former Commissioners of the Social Security System are not in this. Nobody is in this but you and a couple of other straggling groups trying to do something I guess through inflammatory mailings which is offensive.

Now the notch, we've heard it, I'm not going to go into it, but you know the position of these other elderly groups. Their concern is about trust fund solvency. That's pretty real. You can talk about the old check in the grocery store. People want to know what's in there for them. If anybody is not getting there in the United States, we will get them there with SSI or other programs in the United States. So let's get that stuff settled up here.

The transition program was the intent of Congress to do that. I wonder if you are really interested in equity or are you looking for a complex issue that can be very easily distorted and can confuse the elderly in America, or are you raising more money? I would like to have your answer to that.

Mr. JOHNSTON. I would be happy to answer, Senator. The average bonanza baby is receiving, at the top of this chart that you feel is somewhat misleading, a check of $555, Senator, after a full career of work. Now we don't think that particular amount is obscenely high to have a $6,600 a year benefit from Social Security.

Someone at the bottom of that graph is getting $100 a month, or $1,200 a year, less than that. I will tell you, Senator, we are faithfully representing the views of our members which show that correcting the notch and getting Social Security out of the budget are the top two priorities of the 5 million members of the National Committee.

You referenced AARP. Their membership in 1986 passed a resolution which sought a correction of this injustice, and their own surveys show that it is the second highest Social Security priority of their organization. We are doing our best, Senator, to represent those people who are our members who want to see us fight for this correction.

Senator SIMPSON. It seems to me that on most of these issues there is more a group of lawyer warriors out there than there are here, and that puzzles me in this situation.

I understand you have had—since you can't answer questions about mailings and so on, then let me tell you what I have at my disposal, and then you can furnish it in the record. I would think you would want to do it here. I understand that you have had 17 mass mailings to the elderly in 1985, not including newsletters, 28 in 1986. Many of these contain solicitations for funds. Solicitations for funds were contained in 22 of the 28 mailings in 1986, and 13 of the 17 mailings in 1985. There were only a few, very few non-fundraising mailings. There were 16 legislative alerts, and around 6 newsletters, all in a highly dramatic form with the format of the document——

Mr. JOHNSTON. Senator, I am very glad you know so much about our organization which is why we would certainly like an opportunity to sit down and talk with you.

Senator SIMPSON. I know. You've got a chance right here, and you've got a chance later. Just a second. I would like to finish my remarks.

So now we have this mailing which shows a real fundraising operations. I'll include a sample of it in the record, ask unanimous consent that it be included in the record. The sample of the language, we will have that in the record.

[The material referred to follows:]

NATIONAL COMMITTEE TO PRESERVE
SOCIAL SECURITY AND MEDICARE
1300 19th Street N.W.
Washington, D.C. 20036

NO[illegible] You may be losing up to [illegible]00.0[illegible] in [illegible]ity benefits [illegible]ear!

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
National Administration Office
1300 19th St. N.W.
Washington, D.C. 20036

Nonprofit Org.
U.S. Postage Paid
National Committee
to Preserve
Social Security

[redacted]

URGENT! IMPORTANT SOCIAL SECURITY AND MEDICARE INFORMATION ENCLOSED

ATTENTION POSTMASTER: Time Dated Official National Committee Documents Enclosed. Expedite for Immediate Delivery.

Prepared and mailed by and exclusively for the National Committee to Preserve Social Security, a nonprofit, tax-exempt organization. 1300 19th St. N.W., Washington, DC 20036
The National Committee is independent of Congress, every government agency, and all political parties

contribution of $15, $10, $25 or more.

We must show Congress we have the support of millions of ~~Americans~~ who must count on Social Security and Medicare or face crippling financial hardship.

But it takes money and lots of it to nationally distribute five million new Petitions -- about $1,200,000.00 -- and that's money we just don't have.

And, most importantly, you will be helping to make it possible to continue our work here in the Capital with many leaders in Congress to protect, defend and improve the Social Security and Medicare programs.

Remember, my father founded Social Security 52 years ago. Now I need your help to preserve and improve Social Security and Medicare.

Please act today. Sign and return to me your Petition to your U.S. Senators and your Congressman. These legislators may or may not agree with our program -- so we must let them know where you stand:

SENATOR ALAN KOOI SIMPSON
SENATOR MALCOLM WALLOP
CONGRESSMAN DICK CHENEY

And please consider making a special contribution to your National Committee today. I have enclosed a first class, postage-free envelope to speed your reply.

Urgently awaiting your reply, I am,

Most sincerely yours,

James Roosevelt

James Roosevelt
United States Congressman, (Retired)
Chairman, National Committee to
Preserve Social Security and Medicare

P.S. NATIONAL COMMITTEE MEMBERS,

I need your continued support in our fight to defeat unfair cuts in our Social Security and Medicare benefits. Please return your signed Petition, and please include a special contribution of $15, $10, $25 to me today in the enclosed postage-free envelope.

Thank you, Jim

Prepared and mailed by the National Committee to Preserve Social Security, a nonprofit, tax-exempt organization, 1300 19th Street, N.W., Washington, D.C. 20036.
The National Committee is totally independent of Congress, every government agency, and all political parties.
Contributions to the National Committee are not tax deductible, and you need make no special contributions other than annual dues.
The National Committee spends its budget in approximately the following way: legislative advocacy 38%, educational activities 25%, fund raising 15%, administration 20%, other 2%. Detailed financial reports are available from the National Committee and the charitable solicitations department of your state.

Senator SIMPSON. I understand that there have been four mailings mentioning the notch. Almost all of those have asked for contributions, and there has been a request for contributions in all other mailings, usually around $10 per letter.

It seems to me a travesty to take people who are organized sincerely about the notch issue, to ask them for a contribution on an issue that you know is not going to get anywhere because it will break the bank at Monte Carlo. But I assume that you are going to continue that and continue to make them the easy prey for the blue sky that you are promising on this one.

Please provide a copy of your profit and loss statement for the past 3 years.

[Subsequent to the hearing, the following answers were received for the record:]

The National Committee responds to Senator Simpson's request for financial information by submitting its most recent Form 990 tax return, and a copy of the unaudited balance sheet as of February 29, 1988. The National Committee fiscal year ends March 31, and a Form 990 for the current fiscal year will not be available for several months. We draw attention to the schedule of how the National Committee spends its budget: legislative advocacy 43 percent, educational activities 22 percent, fundraising 15 percent, administrative 17 percent, and surplus 3 percent. A copy of this schedule is included in every single mailing the National Committee makes to its members or the general public. [1]

Senator SIMPSON. Please furnish a listing of the salaries you pay to any of your membership, your employees and all other persons affiliated with your organization in any capacity.

A portion of the National Committee's administrative budget goes to pay the salaries of the 48-person staff it maintains in its Washington, D.C., headquarters. Those salaries are set by making use of a comparative salary study prepared by the nationally respected accounting firm, Price Waterhouse, as well as metropolitan Washington, D.C., salary studies. The average annual salary is $31,213, and only two salaries, those of the Chairman and the Executive Director, exceed the salary paid to a Member of Congress. We respectfully decline to reveal the specific salaries of individual employees, out of our respect for their privacy.[1]

Senator SIMPSON. Please explain how you arrived at your determination that 20 million persons are receiving benefits under, and are thus directly affected by, the 5-year transition period (the "Notch").

Senator Simpson has also asked how the National Committee arrived at our finding that 20 million people could be directly affected by the notch. Each year, approximately 2.1 million persons are awarded retirement benefits — 1.6 million retired workers and 0.5 million spouses and children of retired workers. Therefore, there are up to 10.5 million persons who were either born during the "classic" five-year notch period or who are the dependents of such persons.

Since the notch reductions are more severe than Congress intended, persons born after 1921 and before 1930 may also receive benefits lower than those Congress intended. Therefore, the Sanford bill (S1830) and other legislation stretch out the transition protections to those born after 1921. As many as 16.8 million persons born between 1922 and 1929, or their dependents, could have part of their benefits restored by the Sanford legislation. Therefore, a total of about 27.3 million persons would be protected by the Sanford transition provisions.

Since not all persons born during the period 1917-1929 are predicted to have benefits lower than Congress intended, we chose to use a more conservative figure of up to 20 million current or future beneficiaries who are adversely affected by the notch. Indeed, if S1830's transition provisions phase-out as predicted, there would be no increase in the benefits of the average beneficiary born in 1929 because benefit

[1] The full response to Senator Simpson's questions and testimony appears in appendix 1, p. 115.

amounts are expected to reach the levels intended when the legislation was enacted.[1]

Senator SIMPSON. Please document in detail your claim that an elderly person would lose $2,000 per year under the 5-year transition formulas.

We stand by our estimate that the average retired worker beneficiary born between 1917 and 1928 receives or will receive an average of approximately $660 a year less than the average retired worker beneficiary born between 1912 and 1916.

Similar figures can be found in the March 24, 1988, GAO Report, *Social Security: the Notch Issue*. This Report (page 53) shows the average loss for average earners born between 1917-21 to be $372 a year at age 62 and $1,327 at age 65 when compared with persons born in 1916. The mid-point for these losses is $849 a year.

Previous hearings of the House of Representatives have documented that the actual reductions can vary widely depending upon a person's year of birth, age at retirement and earnings history.

For instance, Edith Detviler, who testified at the hearing, has a benefit loss of $1,860 per year, when compared to her nearly identical sister born 15 months earlier.

Another, more dramatic example, is that of Mr. Alfred Carson of Evansville, Indiana. Mr. Carson, who was born in October 1917, has a benefit loss of more than $2,500 when compared with what he would have received had he been born 1 year earlier. (Example attached.)

Even more severe "notches" can be documented using the case histories of persons born at the bottom of the notch pothole — those born between 1919 and 1923. While such losses may not be common, they are probably just as plentiful as the $6 a month losses noted by the opponents of notch reform. On the other hand, the documented case histories and the figures from GAO and SSA seem to demonstrate that there must be thousands of persons born after 1916 who are receiving benefits of at least $2,000 a year less than the benefits of comparable wage earners born in 1916.[1]

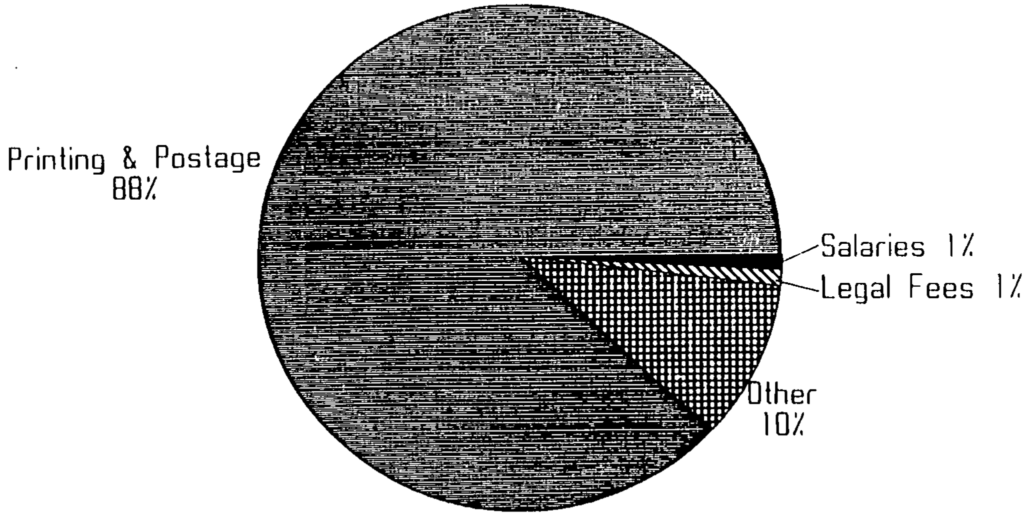
Senator SIMPSON. Please itemize all payments or other forms of assistance given by your organization or its affiliated entities to any group or individual advocating a change, correction, or alteration of the calculation of benefits under the 5-year transition (the "Notch").

The National Committee has assisted various notch organizations throughout the United States with administrative expenses and travel expenses for persons who are coming to Washington to testify at hearings. During the last 2 years, the National Committee has expended approximately $10,000 with notch organizations in about 12 States.

In response to Senator Simpson's final question, submitted separately from his testimony, we can report that our sister organization, National Committee to Preserve Social Security and Medicare (tax-exempt under Section 501(c)(3) of the Internal Revenue Code) was disbanded on March 12, 1987—a full year ago.

[1] The full response to Senator Simpson's questions and testimony appears in appendix 1, p. 115.

Functional Expenses of the National Committee to Preserve Social Security and Medicare



Source: 1985 I.R.S. Form 990

ATTACHMENT # 4

Senator SIMPSON. The return cannot be predicted or predicated in any way because it depends on some very unpredictable things. It depends on the actual benefit level, it depends on the earnings level, it depends on age at retirement and the number of years worked before retirement, and those things can't be gauged or averaged in any way.

Low income persons that you intend to talk about when you talk about groceries will benefit very little from this correction, and those benefiting the most will be those who have been the high earners for a long time and worked past the age of 62.

Now that's what we have here to deal with, and we are going to deal with it honestly. I'll be very pleased to visit with your people anytime, anywhere. Let's just quit blowing smoke to the American people under some guise of saving the system. If you really want to blow some smoke their way, write them and ask them what they are going to do in the year 2030. Some of their heirs and assigns and issue will be around to try to piece that tattered hunk together.

Now go ahead, what do you have to add?

Mr. ROOSEVELT. Senator, I would like to say that we do appreciate your willingness that you have just stated to meet with us later, and we would like to do that.

We do believe that we have been informing our members and that it is our members who have expressed a great interest in this issue, both to us and in communications directly with Members of Congress and Senators.

The point that you make, Senator, about the difficulty of predicting and calculating both the benefits and the ultimate size of the trust fund of course simply reemphasizes the problem that we are facing here of an unintended consequence that we believe needs to be corrected.

Senator SIMPSON. Well, I will look forward to this opportunity. I would like to meet though with James Roosevelt, and I would like to meet with the other two board members.

Mr. ROOSEVELT. I will carry that message to my father, Senator.

Senator SIMPSON. I would enjoy that very much. There are many others here in Congress that would like to do that. Maybe we can get a little group together because a lot of us get the mailings.

I've been doing something quite spirited lately. I notice that the advertising comes out, and it's always quite a moving appeal for money, and frightening the seniors of America. I tell people at town meetings since it says at the top, you know, mail back, it says that the addressee has to pay the postage, I say put a rock in the envelope and mail it back. It will cost them a bundle to pick up the postage on that, or throw an old spoon in there, a little piece of lead and mail it back, and maybe they will have a hell of a postage bill and they won't be so interested in sending out the material.

Then we have a bill in Congress which is directed toward deceptive fundraising which is getting quite a reaction in the House, Democrats and Republicans alike, and in the Senate too, which apparently really is aimed at some of this activity here.

I share with you that I am interested in Social Security. This will be beautifully distorted, what I have said, but I've learned that because I go home a lot. I don't take polls, I just go to town meetings and I read my mail. I tell my people that there are organizations that won't allow us to freeze or to limit the cost-of-living allowance and Social Security, and the reason we reacted was because of the stock market crash on October 19. Anyone remember that? So we reacted. By not allowing us to freeze or lessen the cost-of-living allowance, the market will probably tail off on one of those exercises again, and people with their retirement money in the stock market might lose 20 or 30 percent of their life earnings in that exercise, while they won't let us play with 2.1 or 4.2 on the cost-of-living allowance. That's an irony, a disgusting irony, but nevertheless the truth.

So the people of America have to sober up along with us, and I hope they will. They will only do that if they start tearing up their mail. The Social Security recipients in the United States receive all their benefits—everything they put in they get back in the first 30 months of the benefit period. Let the record disclose that is an average that no one has ever challenged. You get all your money back in the first 30 months of the benefit period. Now that's the way that is.

So I am going to suggest since my net worth is public, I send it to my constituents, I list my net worth and I send it to them. My income tax is public, I send that to my constituents. There is nothing I do in public or private life that is not public. So I very much ask this question in all sincerity. This is not a smart alec request. I would like to know what these two fine ladies have paid into Social Security in their lifetimes, and what they have taken out to this point. That is not to denigrate them or lessen them in any way. It is a very important issue.

I believe I heard that their monthly payments differed, but they were both in the $700 a month range. I can't ask you for that. If you would like to waive the Privacy Act so I can get the information from the Social Security System in Baltimore, I would very much like to have that because I think it will be dramatic as to the fact that maybe one of you is getting less than the other, but both of you are into a system which unless we make actuarially sound, and it is not actuarially sound in any way, it is an income supplement, it was never intended to be a pension, it is not a pension. I would like to see those figures, and since you have brought them here I would respectfully ask that they share that information so that we can really compare and put that as part of the record.

Mr. ROOSEVELT. Senator, I have run for Congress and disclosed my personal finances, 10 years of income tax returns. My father has been here for a hearing that I attended with him last year where he answered many such questions and many questions about the organization of the committee.

These two ladies are here as typical beneficiaries. I would not ask them to share their personal finances with the committee. You have done so, and we can talk with them about that afterwards when they are not under this unfamiliar pressure.

Senator SIMPSON. Well, Mr. Roosevelt, I am not asking them for anything about their finances or anything else. I'm asking them about an issue which is the issue of the day: Social Security. If they are "typical" beneficiaries, and I believe you and I believe them, then we want the American people to know what a typical beneficiary is and how much they put in and how much they get out. That's what I'm talking about.

For heaven's sake, unless we get back to some semblance of sanity, that this system has to survive on some basis of what you pay in versus what you get out, like any other pension, and make it actuarially sound. That's what I am speaking of.

Mr. JOHNSTON. Those are our goals also, Senator. I think what we have to recognize in addition to that is equity among people of the same generation. You and I are setting here talking now about equity among generations.

It would seem to me that if we can't preserve a system that has equity within the same generation, we are going to have a very tough time dealing with equity among generations. That is a concern that we have for preserving the system for all generations in the future.

Senator SIMPSON. Let's not deal with equity, let's deal with honesty.

Mr. JOHNSTON. I'd be happy to, sir.

Senator SIMPSON. That would be a better start.

Mr. Johnston. I would be happy to.

Senator SIMPSON. Do you have anything further you wish to say? I wouldn't want to preclude any comment that you have.

Mr. JOHNSTON. We make no apologies for any of the actions that we have taken. We have tried to be as fair and honest as we can be. We think there is a real inequity here. We want to see it solved.

Senator, we would love to be in a situation where we did not have to send out any other piece of notch mail for any reason, including raising funds to continue on with an effort to see this solved. However, we will continue to do that and we will not back off until the Congress recognizes the legitimate complaints of these people and has a solution for them.

Senator SIMPSON. Well, it will be interesting to see when the other advocacy groups join you in that cause. They surely haven't in this one, and there must be something badly wrong.

Mr. JOHNSTON. Their members have, and we would welcome them.

Senator SIMPSON. I believe that concludes it. Thank you very much your courtesy. Thank you. You were good to stay this extra time. And I thank the Chairman, Senator Melcher, for allowing me the honor of presiding over the conclusion of this hearing.

Mr. ROOSEVELT. Thank you, Senator.

Senator SIMPSON. The hearing is concluded.

[Whereupon, at 2:29 p.m., the hearing was adjourned.]

APPENDIX

MATERIAL RELATED TO HEARING

Item 1

SUBMISSION BY NATIONAL COMMITTEE TO PRESERVE
SOCIAL SECURITY AND MEDICARE
TO
SENATE SPECIAL COMMITTEE ON AGING

The National Committee to Preserve Social Security and Medicare ("National Committee") welcomes this opportunity to respond to various questions raised by Senator Alan Simpson at the Special Committee's hearing on the Social Security notch. The National Committee's advocacy of a correction to the notch injustice reflects the concerns of our membership, which has been successful in causing us to respond to their interests as to the notch and other issues. We note this is in stark contrast to the operation of AARP, which is in the embarrassing position of having its Washington office refuse to follow the dictates of the vote of its membership two years ago to pursue correction of the notch injustice.

Among the issues raised by Senator Simpson in his remarks at the hearing were his concern as to whether the governing board of the National Committee is populated by persons representative of the organization. Unlike AARP, which restricts its membership to persons 55 years or older, the National Committee solicits members from the entire population. (See attached letter coded "Youngster Joins.") It appears, however, that the most responsive chord is struck with the senior constituency. Our concerns are not commercial sales to senior citizens. We instead deal exclusively with the preservation and expansion of the Social Security and Medicare programs, which benefit persons of all ages.

Chairman of the Board and founder of the National Committee, Jim Roosevelt, is, of course, the son of President Franklin D. Roosevelt and served in the White House as Secretary to his father when the Social Security program was implemented. He served 11 years in the U.S. Congress, and voted to establish the Medicare program in 1965. A second Board member is Bruce W. Sumner, a former state assemblyman and Superior Court Judge of California. He is currently associated with the California law firm of Wyman, Bautzer, Rothman, Kuchel and Silbert, and is highly sought after for arbitration. Board member Robert Morell Coon, Jr., of New York is a Phi Beta Kappa graduate of Harvard University, where he also received his law degree. He is a member of the New York State Bar Association, section on Trusts and Estates. The three members of our Board are aged 80, 63, and 57, and two of them have been members of the National Committee since 1983. All of them are actively involved in matters relating to senior citizens and retirement issues.

Senator Simpson testified at the hearing that "I do not see Congressman Claude Pepper involved in this caper.... He is a great spokesman for the aged in our society, and he is a splendid man, and I trust him.... I have the greatest respect for him.... He's not in this." While Representative Pepper may not yet be totally "in this," he did sign a House petition to Representative Andy Jacobs, Chairman of the Social Security Subcommittee, asking for a full scale hearing on the notch issue. Further, he stated March 1, 1988, on the Larry King Talk Show that the notch is "the most embarrassing problem that we Members of Congress have to deal with...." Representative Pepper also said, "And, unfortunately, we have not yet figured out how to correct the mistake that we made." We would remind Senator Simpson that over 200 of his colleagues are firmly "in this" and are totally committed to restoring fairness and equity to the millions of notch victims.

The National Committee's activities have received the strong endorsement of Congressman Pepper. We insert here from the public record a statement by Representative Pepper which he submitted to the House Subcommittee on Postal Personnel and Modernization October 1, 1987:

> The National Committee to Preserve Social Security and Medicare is becoming one of the most effective of all the organizations representing the interests of older Americans.
>
> I have watched the National Committee to Preserve Social Security and Medicare from its beginning. Yes, they have made some mistakes but they have also acted to correct any problems and, under the leadership of our former colleague Jim Roosevelt, have added new distinguished capable leadership like that of former Social Security Commissioner Martha McSteen, Landis Neal, Peter Hughes and others to make sure that this organization continues to grow in viability and effectiveness.
>
> Tha National Committee has grown rapidly, experienced some growing pains but now is a mature and effective voice for millions of senior citizens. And an effective organization like the NCPSSM is needed. Over the last several years there have been numerous assaults on social security and medicare. Student benefits have been eliminated, the minimum benefit was killed, the Senate has voted to freze the social security COLA, disability beneficiaries have been heartlessly cut off from their only source of income, medicare premiums and deductibles continue to skyrocket in cost and there are numerous other proposals to weaken social security and medicare.
>
> These events inspired the founding of the NCPSSM and the Committee has been very effective in mobilizing seniors to stand together to protect the integrity of the social security system.

> The NCPSSM is now a most effective and credible advocacy organization for seniors and I encourage them to continue their fine work on behalf of America's senior citizen population.

The National Committee has become, in the words of Representative Pepper, "a most effective and credible advocacy organization for seniors" because of our success in communicating with our members and the general public. We do most of that communication by means of direct mail, and we consider the primary purpose of our direct mail to be, in fact, communication which calls for grassroots advocacy, not fundraising. In this regard, the National Committee wishes to correct the record as to the number of mailings we have made to our members in previous years and the proportion of those mailings which requested funds. Senator Simpson's statements in the hearing are completely at odds with the truth and with the public record. As to its 1986 mailings, we resubmit testimony given before the House Subcommittee on Social Security on March 10, 1987, at page 198:

> In 1986, we mailed a total of 39 mailings to our members. We also mailed recruitment mailings to people asking them to become members. Of those 39 mailings, 24 or 62 percent did not ask for money.
>
> They included legislative alerts, which ask your constituents to write you about an issue. They may have been educational pieces. They may have been newspapers and so forth. But they did not ask for money.
>
> The remaining number, 15, did ask for money. Some of these were renewal notices saying your 1 year membership is up. And, in that case, we would attribute a renewal notice 100 percent to fundraising, because that is all it did.
>
> Many more, however, did two things simultaneously. They requested people to sign petitions or write letters in connection with a special project, and several special projects that we were involved in have been named here today. And they also requested money.
>
> It is not necessary to send in a contribution to the National Committee in order to sign a petition or participate in a special project. And in fact, out of every four of our members who send in petitions or who somehow participate in a special project which involves a fundraising solicitation, out of every four, three of them do not send money and only one does.

As to 1985, our mailing schedule is contained in a letter from James Roosevelt to Chairman Roybal of the House Aging Committee:

> During 1985 our entire membership received twenty-two issue oriented mailings, one or more administrative mailings, and a PAC mailing. Ten of these mailings did not solicit money. That means that nearly every month the entire membership of the National Committee received a mailing that made no mention of money.
>
> In contrast, analysis of AARP's published budget indicates that it mailed to its members up to 48 times in 1984, or nearly once a week. As a member of AARP, I do not recall the last mailing I received from that group that did not try to sell me something. And very few, if any, of their letters urged me to write my Congressman or take some other positive legislative action.

Of our twenty-two mailings, eleven requested National Committee members to take some grassroots action -- letters to their Congressional delegation, a telegram to the President, a phone call to the Budget Committee, or a petition to Congress. Half of these action letters did not ask for money. The grassroots program generated millions of letters, petitions and phone calls to Washington, and established the National Committee, in the opinion of the Older Americans Report, as one of the "ten most important events" relating to senior citizens in 1985.

Educational mailings included our four 24 page newspapers; the newspaper schedule has been increased to six in 1986. Other mailings that did not involve solicitations for money included an alert of when our television show would be aired, and my Christmas letter with a suggestion that members write certain Congressmen thanking them for their support of Social Security and Medicare issues.

I personally review the copy of every letter before it is mailed, and have our research department check it for factual accuracy. Then I have our lobbyists and communications people review it for political sensitivity, and finally my general counsel signs off on any legal implications.

My letters are hard-hitting -- I make no apology for refusing to sugar coat the facts. These are serious issues, even life and death matters for many seniors. Although there is an understandable tendency for some politicians and government bureaucrats to downplay problems, I believe it is better to come to grips with these matters and deal with them now, before another crisis is upon us.

The National Committee responds to Senator Simpson's request for financial information by submitting its most recent Form 990 tax return, and a copy of the unaudited balance sheet as of February 29, 1988. The National Committee fiscal year ends March 31, and a Form 990 for the current fiscal year will not be available for several months. We draw attention to the schedule of how the National Committee spends its budget: legislative advocacy 43%, educational activities 22%, fundraising 15%, administrative 17%, and surplus 3%. A copy of this schedule is included in every single mailing the National Committee makes to its members or the general public.

A portion of the National Committee's administrative budget goes to pay the salaries of the 48-person staff it maintains in its Washington, D.C., headquarters. Those salaries are set by making use of a comparative salary study prepared by the nationally respected accounting firm, Price Waterhouse, as well as metropolitan Washington, D.C., salary studies. The average annual salary is $31,213, and only two salaries, those of the Chairman and the Executive Director, exceed the salary paid to a Member of Congress. We respectfully decline to reveal the specific salaries of individual employees, out of our respect for their privacy.

Senator Simpson has also asked how the National Committee arrived at our finding that 20 million people could be directly affected by the notch. Each year, approximately 2.1 million persons are awarded retirement benefits -- 1.6 million retired workers and 0.5 million spouses and children of retired workers. Therefore, there are up to 10.5 million persons who were either born during the "classic" five-year notch period or who are the dependents of such persons.

Since the notch reductions are more severe than Congress intended, persons born after 1921 and before 1930 may also receive benefits lower than those Congress intended. Therefore, the Sanford bill (S1830) and other legislation stretch out the transition protections to those born after 1921. As many as 16.8 million persons born between 1922 and 1929, or their dependents, could have part of their benefits restored by the Sanford legislation. Therefore, a total of about 27.3 million persons would be protected by the Sanford transition provisions.

Since not all persons born during the period 1917-1929 are predicted to have benefits lower than Congress intended, we chose to use a more conservative figure of up to 20 million current or future beneficiaries who are adversely affected by the notch. Indeed, if S1830's transition provisions phase-out as predicted, there would be no increase in the benefits of the average beneficiary born in 1929 because benefit amounts are expected to reach the levels intended when the legislation was enacted.

We stand by our estimate that the average retired worker beneficiary born between 1917 and 1928 receives or will receive an average of approximately $660 a year less than the average retired worker beneficiary born between 1912 and 1916.

Similar figures can be found in the March 24, 1988, GAO Report, Social Security: the Notch Issue. This Report (page 53) shows the average loss for average earners born between 1917 - 1921 to be $372 a year at age 62 and $1,327 at age 65 when compared with persons born in 1916. The mid-point for these losses is $849 a year.

Previous hearings of the House of Representatives have documented that the actual reductions can vary widely depending upon a person's year of birth, age at retirement and earnings history.

For instance, Edith Detviler, who testified at the hearing, has a benefit loss of $1,860 per year, when compared to her nearly identical sister born fifteen months earlier.

Another, more dramatic example, is that of Mr. Alfred Carson of Evansville, Indiana. Mr. Carson, who was born in October 1917, has a benefit loss of more than $2,500 when compared with what he would have received had he been born one year earlier. (Example attached.)

Even more severe "notches" can be documented using the case histories of persons born at the bottom of the notch pothole -- those born between 1919 and 1923. While such losses may not be common, they are probably just as plentiful as the $6 a month losses noted by the opponents of notch reform. On the other hand, the documented case histories and the figures from GAO and SSA seem to demonstrate that there must be thousands of persons born after 1916 who are receiving benefits of at least $2,000 a year less than the benefits of comparable wage earners born in 1916.

The National Committee has assisted various notch organizations throughout the United States with administrative expenses and travel expenses for persons who are coming to Washington to testify at hearings. During the last two years, the National Committee has expended approximately $10,000 with notch organizations in about 12 states.

In response to Senator Simpson's final question, submitteed separately from his testimony, we can report that our sister organization, National Committee to Preserve Social Security and Medicare (tax-exempt under Section 501(c)(3) of the Internal Revenue Code) was disbanded on March 12, 1987 -- a full year ago.

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY
STATEMENT OF ASSETS, LIABILITIES AND GENERAL FUND BALANCES
FEBRUARY 29, 1988

ASSETS

Current Assets:		
Cash in bank	$1,453,764.	
Accounts receivable-PAC	437,954.	
Total Current Assets		$1,891,718
Property and Equipment at Cost:		
Furniture and fixtures	$ 370,870.	
Leasehold improvements	4,246.	
Automobile	12,039.	
Less accumulated depreciation	(95,404)	
Property Net		291,751
Deposits		1,600
		$2,185,069

LIABILITIES AND FUND BALANCE

Accrued payroll taxes	$ 2,780
Fund balance	2,182,289
	$2,185,069

Youngster Joins

1/15/88

Dear Mr. Roosevelt;

I just want to let you know that I think your committee to Preserve Social Security and Medicare is great! I'm really happy to see someone doing something for the elderly people who have worked so hard and paid for future insurance, in advance and are now being ripped-off! My father is one of them hard working americans. At the age of 58, he has worked all of his life, and most of his time was spent as a farm laborer. Now he is disabled & unable to work, but is having to fight hard to receive social security.

at the present time he still does not "Qualify"!

Here is my $10.00 membership. Good luck, good job and thank you so much!

Sincerely yours

Mrs. Tammy L. Meanor

Tammy Meanor
P.O. Box 330
Janesville, Ca
96114

'88 02/25 14:56 ☎ 301 652 9226 WEWER-DC 03

Form **990** Department of the Treasury Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c) (except black lung benefit trust or private foundation) of the Internal Revenue Code or section 4947(a)(1) trust

Note. You may be required to use a copy of this return to satisfy state reporting requirements. See instruction D.

OMB No 1545-0047

1986

For the calendar year 1986, or fiscal year beginning 4-1, 1986, and ending 3-31, 19 87

Use IRS label. Otherwise, please print or type.

Name of organization: National Committee to Preserve Social Security

Address (number and street): 2000 K Street, N.W.

City or town, state, and ZIP code: Washington, DC 20006

A Employer identification number (see instruction L): 52 : 1274534

B State registration number (see instruction D)

C Section 4947(a)(1) trusts filing this form in lieu of Form 1041, check here ▶ ☐ (see instruction C10)

D Check type of organization—Exempt under section ▶ ☒ 501(c) (4) (insert number), OR ▶ ☐ section 4947(a)(1) trust

Check here if application for exemption is pending ▶ ☐

E Accounting method: ☒ Cash ☐ Accrual ☐ Other (specify) ▶

F Is this a group return (see instruction J) filed for affiliates? ☐ Yes ☒ No

If "Yes," enter the number of affiliates for which this return is filed

Is this a separate return filed by a group affiliate? ☐ Yes ☒ No

G If "Yes" to either, give four-digit group exemption number (GEN) ▶

H ☐ Check here if your gross receipts are normally not more than $25,000 (see instruction B11). You do not have to file a completed return with IRS but should file a return without financial data if you were mailed a Form 990 Package (see instruction A). Some states may require a completed return.

I ☐ Check here if gross receipts are normally more than $25,000 and line 12 is $25,000 or less. Complete Parts I (except lines 13-15), III, IV, VI, and VII and only the indicated items in Parts II and V (see instruction I). If line 12 is more than $25,000, complete the entire return.

501(c)(3) organizations and 4947(a)(1) trusts must also complete and attach Schedule A (Form 990). (See instructions.)

These columns are optional—see instructions

Part I Statement of Support, Revenue, and Expenses and Changes in Fund Balances

	Line			(A) Total	(B) Unrestricted/Expendable	(C) Restricted/Nonexpendable
Support and Revenue	1	Contributions, gifts, grants, and similar amounts received:				
	a	Direct public support				
	b	Indirect public support				
	c	Government grants				
	d	Total (add lines 1a through 1c) (attach schedule—see instructions)				
	2	Program service revenue (from Part IV, line f)				
	3	Membership dues and assessments		31,247,511		
	4	Interest on savings and temporary cash investments		48,834		
	5	Dividends and interest from securities				
	6a	Gross rents				
	b	Minus: rental expenses				
	c	Net rental income (loss)				
	7	Other investment income (Describe ▶)				
	8a	Gross amount from sale of assets other than inventory	Securities: / Other:			
	b	Minus: cost or other basis and sales expenses				
	c	Gain (loss) (attach schedule)				
	9	Special fundraising events and activities (attach schedule—see instructions):				
	a	Gross revenue (not including $ ___ of contributions reported on line 1a)				
	b	Minus: direct expenses				
	c	Net income (line 9a minus line 9b)				
	10a	Gross sales minus returns and allowances	509,971			
	b	Minus: cost of goods sold (attach schedule)	1,538,495			
	c	Gross profit (loss)		(1,028,524)		
	11	Other revenue (from Part IV, line g)				
	12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8c, 9c, 10c, and 11)		30,267,821		
Expenses	13	Program services (from line 44, column (B)) (see instructions)		19,588,872		
	14	Management and general (from line 44, column (C)) (see instructions)		5,262,353		
	15	Fundraising (from line 44, column (D)) (see instructions)		4,427,234		
	16	Payments to affiliates (attach schedule—see instructions)				
	17	Total expenses (add lines 16 and 44, column (A))		29,278,459		
Fund Balances	18	Excess (deficit) for the year (subtract line 17 from line 12)		989,362		
	19	Fund balances or net worth at beginning of year (from line 74, column (A))		2,158,089		
	20	Other changes in fund balances or net worth (attach explanation)				
	21	Fund balances or net worth at end of year (add lines 18, 19, and 20)		3,147,451		

COPY

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Form 990 (1986) Page 2

Part II Statement of Functional Expenses

All organizations must complete column (A). Columns (B), (C), and (D) are required for most sections 501(c)(3) and (c)(4) organizations and 4947(a)(1) trusts but optional for others. (See instructions.)

Do not include amounts reported on lines 6b, 8b, 9b, 10b, or 16 of Part I.	(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule)				
23 Specific assistance to individuals				
24 Benefits paid to or for members				
25 Compensation of officers, directors, etc.				
26 Other salaries and wages	579,196	353,310	225,886	
27 Pension plan contributions				
28 Other employee benefits				
29 Payroll taxes	56,293	34,339	21,954	
30 Professional fundraising fees				
31 Accounting fees	118,234		118,234	
32 Legal fees	178,681		178,681	
33 Supplies	39,981		39,981	
34 Telephone	24,933		24,933	
35 Postage and shipping	5,992,625	4,181,488	856,695	954,442
36 Occupancy	122,459		122,459	
37 Equipment rental and maintenance	17,522		17,522	
38 Printing and publications	17,908,838	12,667,333	2,303,192	2,938,313
39 Travel	128,589		128,589	
40 Conferences, conventions, and meetings	27,603		27,603	
41 Interest				
42 Depreciation, depletion, etc. (attach schedule)	26,091		26,091	
43 Other expenses (itemize): a				
b Statement 1	4,057,414	2,352,402	1,170,533	534,479
c				
d				
e				
f				
44 Total functional expenses (add lines 22 through 43) Organizations completing columns B-D, carry these totals to lines 13-15.	29,278,459	19,588,872	5,262,353	4,427,234

Part III Statement of Program Services Rendered

List each program service title on lines a through d; for each, identify the service output(s) or product(s), and report the quantity provided. Enter the total expenses attributable to each program service and the amount of grants and allocations included in that total. (See instructions for Part III.)

		Expenses (Optional for some organizations—see instructions)
a	Legislative Advocacy (Grants and allocations $)	13,066,236
b	Distribution of educational material to general public and newsletters to membership (Grants and allocations $)	6,522,636
c	(Grants and allocations $)	
d	(Grants and allocations $)	
e	Other program service activities (attach schedule) (Grants and allocations $)	
f	Total (add lines a through e) (should equal line 44, column (B))	19,588,872

81-761 220

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Form 990 (1986) Page 3

Part IV Program Service Revenue and Other Revenue (State Nature)

	Program service revenue	Other revenue
a Fees from government agencies		
b		
c		
d		
e		
f Total program service revenue (enter here and on line 2)		
g Total other revenue (enter here and on line 11)		

Part V Balance Sheets

If line 12 or Column (B) of line 59 is more than $25,000, complete the entire balance sheet. If line 12, Part I, and Column (B) of line 59 are $25,000 or less, you may complete only lines 59, 66, 74, and 75. See instructions.

Note: *Columns (C) and (D) are optional. Columns (A) and (B) must be completed to the extent applicable. Where required, attached schedules should be for end-of-year amounts only.*

	(A) Beginning of year	End of year (B) Total	(C) Unrestricted/ Expendable	(D) Restricted/ Nonexpendable
Assets				
45 Cash—non-interest bearing	1,803,966	2,544,955		
46 Savings and temporary cash investments				
47 Accounts receivable ▶ minus allowance for doubtful accounts ▶				
48 Pledges receivable ▶ minus allowance for doubtful accounts ▶				
49 Grants receivable				
50 Receivables due from officers, directors, trustees, and key employees (attach schedule)				
51 Other notes and loans receivable ▶ minus allowance for doubtful accounts ▶	305,422	437,954		
52 Inventories for sale or use				
53 Prepaid expenses and deferred charges				
54 Investments—securities (attach schedule)				
55 Investments—land, buildings and equipment: basis ▶ 199,553 minus accumulated depreciation ▶ 35,169 (attach schedule)	52,248	164,384		
56 Investments—other (attach schedule)				
57 Land, buildings and equipment: basis ▶ minus accumulated depreciation ▶ (attach schedule)				
58 Other assets ▶ deposits		1,600		
59 Total assets (add lines 45 through 58)	2,161,636	3,148,893		
Liabilities				
60 Accounts payable and accrued expenses taxes	3,546	1,442		
61 Grants payable				
62 Support and revenue designated for future periods (attach schedule)				
63 Loans from officers, directors, trustees, and key employees (attach schedule)				
64 Mortgages and other notes payable (attach schedule)				
65 Other liabilities ▶				
66 Total liabilities (add lines 60 through 65)	3,547	1,442		
Fund Balances or Net Worth				
Organizations that use fund accounting, check here ▶ ☐ **and complete lines 67 through 70 and lines 74 and 75.**				
67a Current unrestricted fund				
b Current restricted fund				
68 Land, buildings and equipment fund				
69 Endowment fund				
70 Other funds (Describe ▶)				
Organizations that do not use fund accounting, check here ▶ ☐ **and complete lines 71 through 75.**				
71 Capital stock or trust principal				
72 Paid-in or capital surplus				
73 Retained earnings or accumulated income	2,158,089	3,147,451		
74 Total fund balances or net worth (see instructions)	2,158,089	3,147,451		
75 Total liabilities and fund balances/net worth (see instructions)	2,161,636	3,148,893		

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Form 990 (1986) Page 4

Part VI List of Officers, Directors, and Trustees (List each officer, director, and trustee whether compensated or not.) (See instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if any)	(D) Contributions to employee benefit plans	(E) Expense account and other allowances
James Roosevelt, 201 E. Sandpointe Santa Ana, CA 92707	Chairman	40,000	-0-	-0-
William Wewer, 7201 Wisconsin Ave. Bethesda, MD 20814	Secretary	-0-	-0-	-0-
Kathleen Marquardt, 2000 K St. N.W. Washington, DC 20006	Director	-0-	-0-	-0-
Dana W. Reed, 3151 Airway Ave. M-1 Costa Mesa, CA 92626	Treasurer	60,000	-0-	-0-

Part VII Other Information

		Yes	No
76	Has the organization engaged in any activities not previously reported to the Internal Revenue Service? If "Yes," attach a detailed description of the activities.		X
77	Have any changes been made in the organizing or governing documents, but not reported to IRS? If "Yes," attach a conformed copy of the changes.		X
78 a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	X	
b	If "Yes," have you filed a tax return on Form 990-T, Exempt Organization Business Income Tax Return, for this year?	X	
c	If the organization has gross sales or receipts from business activities not reported on Form 990-T, attach a statement explaining your reason for not reporting them on Form 990-T.		
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? (See instructions.) If "Yes," attach a statement as described in the instructions.		X
80	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization? (See instructions.) If "Yes," enter the name of the organization ▶ ______ and check whether it is ☐ exempt OR ☐ nonexempt.		X
81 a	Enter amount of political expenditures, direct or indirect, as described in the instructions		
b	Did you file Form 1120-POL, U.S. Income Tax Return for Certain Political Organizations, for this year?		X
82	Did your organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? If "Yes," you may indicate the value of these items here. Do not include this amount as support in Part I or as an expense in Part II. See instructions for reporting in Part III ▶		X
83	*Section 501(c)(5) or (6) organizations.*—Did the organization spend any amounts in attempts to influence public opinion about legislative matters or referendums? (See instructions and Regulations section 1.162-20(c).) If "Yes," enter the total amount spent for this purpose		
84	*Section 501(c)(7) organizations.*—Enter amount of:		
a	Initiation fees and capital contributions included on line 12		
b	Gross receipts, included in line 12, for public use of club facilities (see instructions)		
c	Does the club's governing instrument or any written policy statement provide for discrimination against any person because of race, color, or religion? (See instructions.)		
85	*Section 501(c)(12) organizations.*—Enter amount of:		
a	Gross income received from members or shareholders		
b	Gross income received from other sources (do not net amounts due or paid to other sources against amounts due or received from them)		
86	*Public interest law firms.*—Attach information described in the instructions.		
87	List the states with which a copy of this return is filed ▶ See Stmt. 3		
88	During this tax year did you maintain any part of your accounting/tax records on a computerized system?	X	
89	The books are in care of ▶ Joseph Ransom, CPA Telephone no. ▶ (714) 546-1040 Located at ▶ 3151 Airway Avenue M-1, Costa Mesa, CA 92626		

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

▶ X Signature of officer | Date | ▶ Title

Paid Preparer's Use Only Preparer's signature ▶ [signature] Date 1-6-88 Check if self-employed ▶ ☐

Firm's name (or yours, if self-employed) and address ▶ JOSEPH RANSOM ACCOUNTANCY CORPORATION, Certified Public Accountant, 3151 Airway Avenue, M-1 ZIP code 92626

National Committee to Preserve Social Security
Washington, DC
52-1274534

990
3-31-87
Stmt. 1

	TOTAL	PROGRAM SERVICE	MANAGEMENT & GENERAL	FUNDRAISING
Line 43 - Other Expenses:				
Caging	1,626,997	1,094,815	275,876	256,306
Data Processing	1,100,335	618,144	351,415	130,776
List Rentals	570,834	411,498	49,449	109,887
Dues & Subscriptions	14,587		14,587	
Entertainment	10,673		10,673	
Insurance	24,638		24,638	
Bookkeeping	24,672		24,672	
Management Consulting	293,371		293,371	
Advertising	30,493		30,493	
Bank Processing	240,066	162,545	40,011	37,510
Lobbying	65,400	65,400		
Temporary Help	52,973		52,973	
Taxes & License	2,375		2,375	
	4,057,414	2,352,402	1,170,533	534,479

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY
Washington, D.C.
52-1274534

990
3-31-87
Stmt. 3

Part VII - Line 87

Connecticut
Florida
Georgia
Hawaii
Maryland
Minnesota
New Mexico
North Carolina
Ohio
Oklahoma
Pennsylvania
Rhode Island
Tennessee
Virginia
Washington
West Virginia
Wisconsin
Washington D.C.

SUPPLEMENTAL DEPRECIATION

STATEMENT SD

Year 3-31-87

If S/L Acrs With Extended Lives Elected, Enter Acrs Class (E.G. 3-5-10 Year Property)

Name NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY

SS # 52-1274534

Supplement to 990 Page 1 of 3

No	CLASS	F/S	DESCRIPTION OF PROPERTY	Date Acquired	(Salvage) Cost or Other Basis (Less Land)	FEDERAL DEPRECIATION: METHOD*	Life In Years Or Rate	ADJ.'S TO BASIS: Bonus/ Sec. 179	ITC ADJ	Prior Depreciation	Current Year Deduction	STATE DEPRECIATION: METHOD*	Life In Years Or Rate	ADJ.'S TO BASIS: Bonus Deprec.	Salvage Value	Prior Depreciation	Current Year Deduction
			F+F (W.W)	6-85	49,270	9	5			7,884	9,854						
			F+F (AM. Bus. Svc)	9-85	1,228	9	5			184	246						
			F+F (NBI)	9-85	3,944	9	5			591	789						
			F+F (NBI)	12-85	1,862	9	5			279	372						
			F+F (ABS)	3-86	1,415	9	5			25	297						
			F+F	3-86	1,903	9	5			33	381						
			F+F	1-86	1,643	4	5			82	329						
			EQUIP. (COMPUTER)	5/86	2,190	9	5			ø	219						
			FURN. (A.B.S)	7/86	2,626	9	5			ø	263						
			FURN. (PURCELL)	7/86	2,510	9	5			ø	251						
			EQUIP. (COMPUTER)	7/86	9,922	9	5			ø	992						
			EQUIP. (COMPUTER)	8/86	3,362	9	5			ø	336						
			FURN. (A.B.S.)	8/86	2,533	9	5			ø	253						
			EQUIP. (TELCOA)	10/86	9,412	9	5			ø	941						
			FURN. (W. BELL)	10/86	148	9	5			ø	15						
			FURN. (A.B.S.)	10/86	567	9	5			ø	57						
			EQUIP. (NBI)	10/86	40,588	9	5			ø	4,059						
			EQUIP (A.B.S.)	10/86	7,427	9	5			ø	743						
			EQUIP (TELCOA)	9/86	7,460	9	5			ø	746						
			FURN. (A.B.S.)	11/86	6,184	9	5			ø	618						
											21,761						

FEDERAL RECOVERY PROPERTY TOTAL

STATE RECOVERY PROPERTY TOTAL

* METHOD CODES

PRE-'81 ACQUISITIONS
- TRAIGHT LINE
- 00% DECLINING BALANCE
- 50% DECLINING BALANCE
- 75% DECLINING BALANCE
- UM OF THE YEARS-DIGIT

POST-80 ACQUISITIONS (ACRS YRS MUST BE ENTERED)
- 7-ACRS PERCENTAGE-PERSONAL PROPERTY
- 8-ACRS PERCENTAGE-REAL PROPERTY
- 9-ACRS STRAIGHT LINE
- 0-OTHER

SUPPLEMENTAL DEPRECIATION

Name NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY

STATEMENT SD

Year 3-31-87

If S/L Acrs with Extended Lives Elected, Enter Acrs Class (E.G. 3-5-10 Year Property)

SS # 54-1274534

Supplement to ____ Page 2 of 3

No.	CLASS	F/S	DESCRIPTION OF PROPERTY	Date Acquired	(Salvage) Cost or Other Basis (Less Land)	Federal: METHOD*	Federal: Life in Years Or Rate	Federal ADJ.'S TO BASIS: Bonus/Sec. 179	Federal ADJ.'S TO BASIS: ITC ADJ	Federal: Prior Depreciation	Federal: Current Year Deduction	State: METHOD*	State: Life in Years Or Rate	State ADJ.'S TO BASIS: Bonus Deprec.	State ADJ.'S TO BASIS: Salvage Value	State: Prior Depreciation	State: Curr Yr Deduc
1			FURN. (A.B.S.)	12/86	543	9	5			Ø	54						
2			FURN. (A.B.S)	12/86	2,926	9	5			Ø	293						
3			EQUIP. (H+L)	12/86	2,594	9	5			Ø	259						
4			FURN. (A.B.S.)	2/87	482	9	5			Ø	48						
5			EQUIP. (CTL)	3/87	535	9	5			Ø	54						
6			EQUIP (C.C.P.)	6/86	8,126	9	5			Ø	813						
7			EQUIP. (U.C.S.)	6/86	3,239	9	5			Ø	324						
8			EQUIP. (TELCOA)	5/86	2,903	9	5			Ø	290						
9			EQUIP. (TELCOA)	6/86	3,251	9	5			Ø	325						
10			EQUIP. (TELCOA)	9/86	6,660	9	5			Ø	666						
11																	
12																	
13																	
14																	
15																	
16																	
17																	
18																	
19																	
20																	
					187,523						3126						

FEDERAL RECOVERY PROPERTY TOTAL

STATE RECOVERY PROPERTY TOTAL

*METHOD CODES

PRE-'81 ACQUISITIONS	POST-80 ACQUISITIONS (ACRS YRS MUST BE ENTERED)
STRAIGHT LINE	7-ACRS PERCENTAGE-PERSONAL PROPERTY
200% DECLINING BALANCE	8-ACRS PERCENTAGE-REAL PROPERTY
150% DECLINING BALANCE	9-ACRS STRAIGHT LINE
125% DECLINING BALANCE	0-OTHER
SUM OF THE YEARS-DIGIT	

128

SUPPLEMENTAL DEPRECIATION

STATEMENT SD

Name NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY

Year 3-31-87

If S/L Acrs With Extended Lives Elected, Enter Acrs Class (E.G. 3-5-10 Year Property)

SS # 52-1274534

Supplement to 990 Page 3 of 3

No.	CLASS	F/S	DESCRIPTION OF PROPERTY	Date Acquired	(Salvage) Cost or Other Basis (Less Land)	FEDERAL DEPRECIATION: *METHOD	Life in Years Or Rate	ADJ.'S TO BASIS: Bonus/ Sec. 179	ADJ.'S TO BASIS: ITC ADJ	Prior Depreciation	Current Year Deduction	STATE DEPRECIATION: *METHOD	Life in Years Or Rate	ADJ.'S TO BASIS: Bonus Deprec.	ADJ.'S TO BASIS: Salvage Value	Prior Depreciation	Curr Yea Deduc
1			AUTOMOBILE	7/11/86	12,039	9	5			0	1,204						
2																	
3																	
4																	
5																	
6																	
7																	
8																	
9																	
10																	
11																	
12																	
13																	
14																	
15																	
16								Pg. 1			21761						
17								Pg. 2			3126						
18																	
19																	
20																	
					12,039					0	1,-						

FEDERAL RECOVERY PROPERTY TOTAL	26,091
FEDERAL NONRECOVERY PROPERTY TOTAL	
STATE RECOVERY PROPERTY TOTAL	
STATE NONRECOVERY PROPERTY TOTAL	

*** METHOD CODES**

PRE-'81 ACQUISITIONS	POST-80 ACQUISITIONS (ACRS YRS MUST BE ENTERED)
1-STRAIGHT LINE	7-ACRS PERCENTAGE-PERSONAL PROPERTY
2-200% DECLINING BALANCE	8-ACRS PERCENTAGE-REAL PROPERTY
3-150% DECLINING BALANCE	9-ACRS-STRAIGHT LINE
4-125% DECLINING BALANCE	6-OTHER
5-SUM OF THE YEARS DIGIT	
6-OTHER	

unitax

'88 02/25 15:02 ☎ 301 652 9226 WEWER-DC 12

Form **990-T** Department of the Treasury Internal Revenue Service

Exempt Organization Business Income Tax Return

(Under Section 511 of the Internal Revenue Code) For calendar year 1986 or other tax year beginning ...., 1986, and ending ...., 19 ......

OMB No. 1545-0687 **1986**

Name of organization: National Committee to Preserve Social Security

Address (number and street): 2000 K Street, N.W.

City or town, state, and ZIP code: Washington, DC 20006

A Employer identification number (employees' trust see instruction for Block A): 52 : 1274534

B Enter unrelated business activity codes from page 12 of instructions: 7310 | 6355

C Check box if address changed ▶ ☒

D Exempt under section ▶ 501 (c) (4)

E Check type of organization ▶ ☒ Corporation ☐ Trust ☐ Section 401(a) trust

F Group exemption number (see instructions for Block F) ▶

If the unrelated trade or business gross income is $10,000 or less, complete only page 1 and Part III on page 2, and sign the return. Complete all applicable parts of the form (except lines 1 through 4) if unrelated trade or business gross income is over $10,000.

Taxable Income

1	Unrelated trade or business gross income (state sources ▶ ....)	1	
2	Deductions (including net operating loss) (complete Parts I and II instead of lines 1, 2, 3, and 4 if you have gross income over $10,000)	2	
3	Unrelated business taxable income before specific deduction (subtract line 2 from line 1)	3	
4	Specific deduction (see instructions)	4	
5	Unrelated business taxable income (subtract line 4 from line 3 or enter amount from line 33, page 2. If line 4 is greater than line 3, enter the lesser of zero or line 3.)	5	(1,612,088)

Tax Computation

Organizations Taxable as Corporations (See Instructions for Tax Computation)

6a	Check if you are a member of a controlled group (see sections 1561 and 1563) ☐		
b	If checked, see instructions and enter your share of the $25,000 in each taxable income bracket: (i) $ .... (ii) $ .... (iii) $ .... (iv) $		
c	If checked and your tax year includes July 1, 1987, enter share of tax bracket amounts: (i) $ .... (ii) $		
7	Income tax on amount on line 5, above. Check here ▶ ☐ if alternative tax is used	7	

Trusts Taxable at Trust Rates (See Instructions for Tax Computation)

8	Enter the tax from the tax rate schedule in the instructions on the amount on line 5	8	

Total Income Tax

9a	Foreign tax credit (corporations attach Form 1118, trusts attach Form 1116)	9a			
b	Other credits (see instructions)	9b			
c	General business credit.—Check if from ☐ Form 3800 ☐ Form 3468 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	9c			
10	Total (add lines 9a through 9c)			10	
11	Subtract line 10 from line 7 or line 8			11	
12	Tax from recomputing prior year investment credit (attach Form 4255)			12	
13	Minimum tax on tax preference items (Corporations only—see instructions)			13	
14	Alternative minimum tax (Trusts only—see instructions)			14	
15	Total tax (add lines 11 through 14)			15	
16	Credits and payments:				
a	Tax deposited with Form 7004 or Form 2758	16a			
b	Foreign organizations—Tax paid or withheld at the source (see instructions)	16b			
c	Credit from regulated investment companies (attach Form 2439)	16c			
d	Credit for Federal tax on gasoline and special fuels (attach Form 4136)	16d			
e	Other credits and payments (see instructions)	16e			
17	Total credits and payments (add lines 16a through 16e)			17	
18	TAX DUE (subtract line 17 from line 15) See instructions for depositary method of payment ▶			18	none
19	OVERPAYMENT (subtract line 15 from line 17) ▶			19	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ x Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶ JOSEPH RANSOM, ACCOUNTANCY CORPORATION Certified Public Accountant | Date 1-6-87 | Check if self-employed ▶ ☐ | Preparer's social security no. 572 : 54 : 5L7

Firm's name (or yours, if self-employed) ▶ 3151 Airway Avenue, M-1 | E.I. No. ▶ 95 : 3 5DO73Y

/

Form 990-T (1986) Page 2

Part I Unrelated Trade or Business Income

1a	Gross receipts or sales .... b Less returns and allowances .... Balance ▶	1c	0
2	Cost of goods sold and/or operations (Schedule A)	2	630,397
3	Gross profit (subtract line 2 from line 1c)	3	630,397
4a	Capital gain net income (attach separate Schedule D) (see instructions)	4a	
b	Net gain or (loss) from Part II, Form 4797 (attached)	4b	
c	Capital loss deduction for trusts	4c	
5	Income or (loss) from partnerships (attach statement)	5	
6	Rent income (Schedule C)	6	
7	Unrelated debt-financed income (Schedule E, line 2)	7	
8	Investment income of a section 501(c)(7), (9), (17) or (20) organization (Schedule F)	8	
9	Interest, annuities, royalties, and rents from controlled organizations (Schedule G)	9	
10	Exploited exempt activity income (Schedule H)	10	
11	Advertising income (Schedule I, Part III, Column A)	11	
12	Other income (see instructions for line 12—attach schedule)	12	
13	TOTAL—Unrelated trade or business income (add lines 3 through 12)	13	(630,397)

Part II Deductions Not Taken Elsewhere
(Except for contributions, deductions must be directly connected with the unrelated business income.)

14	Compensation of officers, directors, and trustees (Schedule J)	14	
15	Salaries and wages	15	
16	Repairs (see instructions)	16	
17	Bad debts (see instructions)	17	
18	Interest (attach schedule)	18	
19	Taxes	19	
20	Contributions (see instructions)	20	
21	Depreciation (attach Form 4562) ... 21		
22	Less depreciation claimed in Schedule A and elsewhere on return ... 22a	22b	
23	Depletion	23	
24a	Contributions to deferred compensation plans (see instructions)	24a	
b	Employee benefit programs (see instructions)	24b	
25	Other deductions (attach schedule)	25	
26	TOTAL DEDUCTIONS (add lines 14 through 25)	26	0
27	Unrelated business taxable income before allowable advertising loss (subtract line 26 from line 13)	27	(630,397)
28	Advertising loss (Schedule I, Part III, Column B)	28	(398,127)
29	Unrelated business taxable income before net operating loss deduction (subtract line 28 from line 27)	29	(1,028,524)
30	Net operating loss deduction (see instructions)	30	(583,564)
31	Unrelated business taxable income before specific deduction (subtract line 30 from line 29)	31	(1,612,088)
32	Specific deduction (see instructions for line 4 of page 1)	32	
33	Unrelated business taxable income (subtract line 32 from line 31. If line 32 is greater than line 31, enter the lesser of zero or line 31.) Enter here and on page 1, line 5	33	(1,612,088)

SCHEDULE A—COST OF GOODS SOLD AND/OR OPERATIONS
(See instructions for Part I, line 2)

Method of inventory valuation (specify) ▶

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	
4	Other costs (attach schedule). Insurance related costs	4	630,397
5	TOTAL—Add lines 1 through 4	5	630,397
6	Inventory at end of year	6	
7	Cost of goods sold and/or operations. Subtract line 6 from line 5. (Enter here and on line 2, Part I.)	7	630,397

Part III Statements Regarding Certain Activities and Other Information

		Yes	No
1	At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account) (see page 9 of the instructions for exceptions and filing requirements for TD F 90-22.1)? If "Yes," write in the name of the foreign country ▶		X
2	Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you had any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926.		X

The books are in care of ▶ Joseph Ransom, CPA Telephone number ▶ (714) 546-1040

SCHEDULE C—RENT INCOME FROM REAL PROPERTY AND PERSONAL PROPERTY LEASED WITH REAL PROPERTY

(See Instructions for Part I, line 6)

1. Description of property	2. Rent received or accrued	3. Percentage of rent for personal property
		%
		%
		%
		%
		%

4. Complete for any item if the entry in column 3 is more than 50%, or if the rent is based on profit or income		5. Complete for any item if the entry in column 3 is more than 10% but not more than 50%		
(a) Deductions directly connected (Attach schedule)	(b) Income includible (Column 2 minus column 4(a))	(a) Gross income reportable (Column 2 x column 3)	(b) Deductions directly connected with personal property (Attach schedule)	(c) Income includible (Column 5(a) minus column 5(b))
Add columns 4(b) and 5(c) and enter total here and on line 6, Part I, page 2				

SCHEDULE E—UNRELATED DEBT-FINANCED INCOME (See Instructions for Part I, line 7)

1. Description of debt-financed property	2. Gross income from or allocable to debt-financed property	3. Deductions directly connected with or allocable to debt-financed property	
		(a) Straight-line depreciation (Attach schedule)	(b) Other deductions (Attach schedule)
1			

4. Amount of average acquisition indebtedness on or allocable to debt-financed property (Attach schedule)	5. Average adjusted basis of or allocable to debt-financed property (Attach schedule)	6. Percentage which col. 4 is of col. 5	7. Gross income reportable (Column 2 x column 6)	8. Allocable deductions (Column 6 x total of columns 3(a) and 3(b))	9. Net income or (loss) includible (Column 7 minus column 8)
		%			
		%			
		%			
		%			

2 Total (enter here and on line 7, Part I, page 2) . . . .

3 Total dividends-received deductions included in column 8 . . . .

SCHEDULE F—INVESTMENT INCOME OF A SECTION 501(c)(7), (9), (17) OR (20) ORGANIZATION

(See Instructions for Part I, line 8) .

1. Description	2. Amount	3. Deductions directly connected (Attach schedule)	4. Net investment income (Column 2 minus column 3)	5. Set-asides (Attach schedule)	6. Balance of investment income (Column 4 minus column 5)
Total (enter here and on line 8, Part I, page 2)					

SCHEDULE G—INCOME (ANNUITIES, INTEREST, RENTS AND ROYALTIES) FROM CONTROLLED ORGANIZATIONS

(See Instructions for Part I, line 9)

1. Name and address of controlled organization(s)	2. Gross income from controlled organization(s)	3. Deductions of controlling organization directly connected with column 2 income (Attach schedule)	4. Exempt controlled organizations		
			(a) Unrelated business taxable income	(b) Taxable income computed as though not exempt under sec. 501(a), or the amount in col. (a), whichever is more	(c) Percentage which col. (a) is of col. (b)
					%
					%
					%

5. Nonexempt controlled organizations			6. Gross income reportable (Column 2 x column 4(c) or column 5(c))	7. Allowable deductions (Column 3 x column 4(c) or column 5(c))	8. Net income includible (Column 6 minus column 7)
(a) Excess taxable income	(b) Taxable income, or amount in column (a), whichever is more	(c) Percentage which col. (a) is of col. (b)			
		%			
		%			
		%			

SCHEDULE H—EXPLOITED EXEMPT ACTIVITY INCOME, OTHER THAN ADVERTISING INCOME

(See Instructions for Part I, line 10)

1. Description of exploited activity	2. Gross unrelated business income from trade or business	3. Expenses directly connected with production of unrelated business income	4. Net income from unrelated trade or business (Column 2 minus column 3)	5. Gross income from activity that is not unrelated business income	6. Expenses attributable to column 5	7. Excess exempt expenses (Column 6 minus column 5, but not more than column 4)	8. Net income includible (Column 4 minus column 7)
Total (enter here and on line 10, Part I, page 2)							

SCHEDULE I—ADVERTISING INCOME AND ADVERTISING LOSS (See Instructions for Part I, line 11)

Part I Income From Periodicals Reported on Consolidated Basis

1. Name of periodical	2. Gross advertising income	3. Direct advertising costs	4. Advertising gain or loss (col. 2 minus col. 3) If loss, enter in col. B, Part III. Do not complete cols. 5, 6 and 7. If gain, complete cols. 5, 6 and 7.	5. Circulation income	6. Readership costs	7. If col. 5 exceeds col. 6, enter in col. A, Part III the gain shown in col. 4. If col. 6 exceeds col. 5, subtract col. 6 plus col. 3 from col. 5 plus col. 2. Enter gain in col. A, Part III.
Saving Social Security	509,971	908,098				
Totals			(398,127)			

Part II Income From Periodicals Reported on a Separate Basis

Part III Column A—Advertising Income / Part III Column B—Advertising Loss

(a) Enter "consolidated periodical" or names of non-consolidated periodicals	(b) Enter total amount from column 4 or 7, Part I, and amounts listed in cols. 4 and 7, Part II	(a) Enter "consolidated periodical" or names of non-consolidated periodicals	(b) Enter total amount from column 4, Part I, and amounts listed in column 4, Part II
Enter total here and on line 11, Part I, page 2		Enter total here and on line 28, Part II, page 2	(398,127)

SCHEDULE J—COMPENSATION OF OFFICERS, DIRECTORS, AND TRUSTEES

1. Name	2. Title	3. Percent of time devoted to business	4. Compensation attributable to unrelated business
		%	
		%	
		%	
		%	
		%	
		%	
Total (enter here and on line 14, Part II, page 2)			

National Committee to Preserve Social Security
Washington, DC
52-1274534

990T
3-31-87
Stmt. 2

Part II Line 30 Net Operating Loss:

	3-31-86	588,564
	3-31-87	1,028,524
Available	3-31-88	1,612,088

The organization elects under IRC Section 172 to carryover net operating losses to future years.

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Form **2758**
(Rev. October 1985)
Department of the Treasury
Internal Revenue Service

Application for Extension of Time to File
U.S. Partnership, Fiduciary, and Certain Exempt Organization Returns
▶ File a separate application for each return.

OMB No. 1545-0148
Expires 08/31/88

Please type or print. File the original and one copy by the due date for filing your return. (See instructions on back.)

Name: National Committee to Preserve Social Security
Number and street: c/o Joseph Ransom, CPA; 3151 Airway Avenue H-2
City or town, state, and ZIP code: Costa Mesa, CA 92626
Employer identification number: 52-1274534

(S corporations filing Form 1120S, political or exempt organizations filing Form 1120-POL, corporate exempt organizations filing Form 990-T, or farmers' cooperative associations filing Form 990-C, use Form 7004.)

1 An extension of time until February 15, 1988 is requested in which to file (check only one):
☐ Form 1065 ☐ Form 1041-A ☐ Form 5227 ☐ Form 990-PF ☐ Form 990-BL
☐ Form 1041 (estate) ☐ Form 3520-A ☒ Form 990 ☒ Form 990-T (other than 401(a) trust) ☐ Form 6069
☐ Form 1041 (trust) ☐ Form 4720 ☐ Form 990-T (401(a) trust)
Check here ▶ ☐, if organization does not have an office or place of business in the United States.

2 For calendar year 19 ....., or other tax year beginning 4/1/86 and ending 3/31/87

3 Has an extension of time to file been previously granted for this tax year? ☐ Yes ☐ No

4 State in detail why you need the extension.
Additional time is required to allow outside accountant time to gather data to file an accurate return.

IRS RECEIVED 0817 1987 PSC

5a If this form is for Form 1041, 4720, 5227, 6069, 990-BL, 990-PF, or 990-T, enter the total tax estimated to be due on the return $
b If an estate, enter at least 1/4 of the amount on line 5a and pay with this form $
c All others, enter the total amount on line 5a and pay with this form $

Caution: *Interest will be charged on any tax not paid by the regular due date of the returns filed on forms listed on line 5a above until the tax is paid.*

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; and that I am authorized to prepare this form.

Signature ▶ [signature] CPA Date ▶ 8-14-87

IRS will show below whether or not your application is approved and will return the copy.

Notice to Applicant—To Be Completed by IRS

☒ We HAVE approved your application. (Please attach this form to your return.)

☐ We HAVE NOT approved your application. (Please attach this form to your return.)
However, because of your reasons stated above, we have granted a 10-day grace period from the date shown below or due date of your return, whichever is later. This 10-day grace period is considered to be a valid extension of time for purposes of elections otherwise required to be made on timely filed returns.

☐ We HAVE NOT approved your application.
After considering your reasons stated above, we cannot grant your request for an extension of time to file. (We are not granting the 10-day grace period.)

☐ We cannot consider your application because it was filed after the due date of your return.

☐ Other

FINAL EXTENSION

Date By: Director [signature]

If the copy of this form is to be returned to an address other than that shown above, please enter the address where the copy should be sent.

Please Type or Print
Name
Number and street
City or town, state, and ZIP code

AN INDIANA

EXAMPLE OF THE NOTCH

Alfred Carson of Evansville

I. Mr. Alfred Carson, born on October 19, 1917, is a notch baby who was born 10 months after December 1916, the last non-notch year.

II. If Mr. Carson had been born in 1916, he would be entitled to one-third more than he is due under the notch formula. Therefore, the notch cost Mr. Carson about $2,544 in 1987--or about $254 for each of the ten months he was born after December 1916.
And he will keep on losing at least $212 a month ($2,544 per year) for the rest of his life unless the notch is fixed.

Actual monthly check for 10/17 birthdate:	$603
Monthly check if born 10 months earlier:	$815
Monthly Notch Loss:	$212
Percent Loss:	25.7%

III. Mr. Carson worked 22 years on an assembly line building refrigerators for Whirlpool.

Although Mr. Carson suffered from angina and had high blood pressure and he could have retired at age 62 in 1979, he continued working and paying Social Security taxes on his earnings until he retired at age 65 in 1982.

Mr. Carson assumed that his additional earnings and tax payments for 1979 -1982 would be added into the calculation of his Social Security benefits just as they had been for persons born before 1917. Unfortunately, he was wrong.

Under the notch benefit formula, none of Mr. Carson's earnings after the year he turned 61 (1978) could be used in calculating his retirement benefits.

Therefore, instead of seeing his benefits increased by as much as $200 a month as they would have been if he were born 10 months earlier, Mr. Carson continues to receive a benefit of just over $600 a month.

Item 2

AMERICAN BAR ASSOCIATION Governmental Affairs Office
1800 M Street, N.W.
Washington, DC 20036
(202) 331-2200

March 2, 1988

The Honorable John Melcher
Chairman
Special Committee on Aging
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

In connection with your Committee's February 22 hearing on the Social Security "notch baby" situation, I am writing to share with your Committee the policy of the American Bar Association on this subject.

At the Association's February 8th and 9th Midyear Meeting, our House of Delegates adopted the following resolution which thereby became the official policy of the Association:

> BE IT RESOLVED, that the American Bar Association supports efforts to correct inequities, if any, in the Social Security law that impact upon Social Security recipients born between the years 1917-1921.

We understand the General Accounting Office will issue a report in the near future relating to the treatment of Social Security recipients born between 1917 and 1921.

The Association intends to study the report to determine if it documents inequities between the way recipients born between the years 1917 and 1921 are treated and the way those born before or thereafter are treated. We will communicate to you our position on the pending legislation after we have completed this analysis.

We ask that this letter be made a part of the February 22 hearing record.

Sincerely,

Robert D. Evans

Robert D. Evans

RDE:saw
6203A

cc: Members of the Special Committee on Aging

Item 3

SOS COALITION TO PROTECT SOCIAL SECURITY

SOS SAVE OUR SECURITY

1201 16th ST., N.W., SUITE 222, WASHINGTON, D.C. 20036, TELEPHONE: (AREA CODE 202) 822-7848

April 5, 1988

Senator Alan K. Simpson
261 Dirksen Senate Office Building
Washington D.C. 20510

Dear Senator Simpson:

Arthur S. Flemming has asked me to submit for him his responses to your written questions from the February 22, 1988 Senate Select Committee on Aging hearing on the "Notch."

If you have any further questions, please feel free to contact Dr. Flemming or me.

Sincerely,

Roberta Feinstein

Roberta Feinstein
Executive Director

cc: Senator Melcher, Senate Select Committee on Aging

Answers submitted by Dr. Arthur Flemming to questions from Senator Allan Simpson

1. **How many groups oppose a correction to the "notch"?**

Approximately 40 national organizations representing older Americans, disabled persons, labor and children have signed on to my testimony. These groups represent around 35 million Americans.

2. **Why do you believe the trust funds reserves should not be used to finance a correction?**

If one assumes a correction is appropriate, using trust fund reserves -- they are not surpluses -- would be dangerous. First, most actuaries believe the trust funds should accumulate at least one year of reserves in order to cushion today's beneficiaries against an economic downturn. Also, the trust funds are accumulating reserves against unexpected changes in economic performance and to pay benefits to today's workers, especially those born in the post World War Two baby boom. Siphoning off trust fund reserves to correct the notch would break the promise made in 1983 to today's younger workers who are paying historically high payroll taxes.

3. **What factors determine an individual's Social Security benefit?**

Besides birthdate the other factors determining an individual's Social Security benefit amount include age at retirement, level of earnings during one's working life, and work history pattern.

4. **Are some persons being treated unfairly because of their birthdate?**

Those born between 1917 and 1921 are being treated equitably. They receive a replacement rate consistent with the original intention of the program. That rate is higher than the one received by those who retired before the 1972 amendments but lower than those born between 1910 and 1916 who profitted from an error in the benefit computation formula and the high inflation rates of the late 1970's and early 1980's.

5. **How many people are affected by the "notch"?**

Properly speaking the "notch" babies were born between 1917 and 1921. This group, which can have their benefits calculated under a special formula or the new formula, has been estimated at 7.5 million persons by the Social Security Administration. Substantially larger estimates include workers born after 1921, whom current law does not define as part of the transition group. The purpose of the transition formula was to cushion those close to retirement against unexpected reductions.

6. **Are as much as $2,000 in benefits being lost, especially by low income persons?**

Those born between 1917 and 1921 are receiving a "replacement rate" that is lower than those who were born between 1912 and 1916 and who received the "windfall" that Congress decided to grant them because they had retired before the legislative mistake was corrected. As a group their "replacement" is higher than the rate that prevailed prior to the legislative mistake and higher than the replacement rate now being used for persons born in 1922 and thereafter. Therefore, when compared as a group with all beneficiaries -- except the "windfall" group -- they are not losing anything.

Item 4

STATEMENT BY ROBERT J. MYERS PRESENTED TO THE SPECIAL COMMITTEE ON AGING, U. S. SENATE, ON THE SOCIAL SECURITY "NOTCH", FEBRUARY 22, 1988

Mr. Chairman and Members of the Committee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934-70, being Chief Actuary for the last 23 of those years. In 1981-82, I was Deputy Commissioner of Social Security, and in 1982-83, I was Executive Director of the National Commission on Social Security Reform.

The Social Security Admendments of 1977 drastically changed how benefits are computed. Otherwise, their amounts would have eventually exceeded pre-retirement pay. The old benefit-computation method was continued for persons reaching age 62 before 1979 (born before 1917). The new method applied for those reaching age 62 after 1978. An alternative method, if more advantageous, was made available to 1917-21 births.

It was known during consideration of the legislation in 1977 that a "notch" would occur as between those born before 1917 and those born later, but it was not expected to be large. I argued then that the same approach should be used for earnings after 1978, regardless of year of birth, which would have largely eliminated the "notch". Unfortunately, the Social Security Administration, because of problems with antiquated computers, argued for treating the two groups differently -- and so we have the "notch".

The economic experience after 1977 made things worse than predicted. The difference in benefits was very small for people retiring at age 62. However, for persons retiring at age 65, those born in 1916 now receive as much as $100 per month more than the 1917 births.

This situation naturally seems unfair to those born after 1916. The real problem is that those born earlier receive "windfalls". Those born later are equitably treated and receive proper amounts (far more than "actuarially purchased"). It would be difficult to decrease benefits for those who receive "windfalls", both from a public-relations viewpoint and from an administrative standpoint. This is so even if the reduction were done "painlessly" and gradually, as, for example, by withholding future cost-of-living adjustments in benefits until the "windfall" is recovered. However, if benefits were to be increased for <u>everybody</u> born after 1916, the program would cost very much more than it now does.

One erroneous view of the "notch" is that those born in 1917-21 are worse off than those born later. This is not true, because the benefits for those two groups are comparable. If anything, those born in 1917-21 have an advantage because of the availability of the special alternative method of computation.

Yet another error made by those who criticize the "notch" situation is when it is stated that <u>all</u> persons born in 1917-21 have much lower benefits than those with comparable earnings records who were born before 1917. This is not true for similarly situated persons who retire at age 62 -- and about half of the beneficiaries do claim benefits at that age.

The fact remains that persons born in 1917 and after do receive benefits which are at a reasonable level -- and at the level in relative terms as against previous earnings that Congress determined desirable for all future retirees over the years. It is unfortunate that some people -- those born before 1917 who worked well beyond age 62 -- get "windfalls". However, the solution is not to pay more "windfalls" to yet other persons, all at the expense of younger tax-paying workers. For further discussion of this subject, may I refer you to an article contained in the Congressional Record for for May 6, 1987 (page H3246) that I wrote jointly with Robert M. Ball.

Finally, I should like to present and discuss the "notch" situation. Table 1 gives illustrative figures for men -- and, in most cases, also for women -- who had maximum creditable earnings in all past years (after 1950) and who retired, alternatively, at age 62 or age 65 at the beginning of the year, for various years of birth (or, in other words, according to year of attainment of the specified retirement age). The line between the 1978 and 1979 row in the age-62 columns and the line between the 1981 and 1982 rows in the age-65 columns separate the "notch" group (and later ones) from the "pre-notch" group.

Considering the benefit payable currently in 1988 for persons retiring at age 62 -- i.e., the initial benefit increased by all of the applicable COLAs -- there is the intended gradual phase-down from the 1916 births to the later ones. In fact, the current benefit is slightly larger for the 1917 births than the "pre-notch" 1916 ones. A low is reached for the 1920 births (year of retirement 1982), and then a gradual rise occurs. This latter trend is explained as being part of the long-run tendency for benefits awarded to be somewhat higher from year to year because wages generally rise more rapidly than prices.

When, in Table 1, we consider persons retiring at age 65, a quite different picture emerges. As was stated earlier in my testimony, the current benefit increases sharply as the year of retirement is later -- the effect of the faulty benefit-computation method -- until peaking for retirement in 1981 (year of birth 1916). Then a sharp drop occurs for retirements in 1982 (year of birth 1917), with further decreases for the next three years of retirement (births in 1918-20), until again a slow rise occurs for each later year -- reflecting the aforementioned long-run trend. Thus, the presence of the "notch" is clearly indicated -- but only for those born after 1916 who worked well beyond age 62. Quite naturally, the "notch" is much larger for persons who retire at ages later than age 65 than for those who retire at that age.

Table 2 focuses more closely on the situation for persons born in early 1917 as against those born in late 1916, both of whom have the same earnings record and are only a few days apart in age. Different retirement dates, as well as two earnings histories, are considered. The difference in the initial benefits is virtually negligible for retirement at age 62, both for the average-wage case and the maximum-wage case. As the date of retirement becomes later, the difference or "notch" increases significantly, mounting to almost \$150 per month for the average-wage case and \$200 for the maximum-wage case (for retirement at ages 68-70). In my view, these differences are not unfair discriminations against the person born in 1917, but rather undue windfalls for the person born in 1916.

Table 3 examines the situation for persons born in late 1921 (the end of the so-called notch-baby period) as against that for persons born shortly afterward -- in early 1922 -- for various dates of retirement and for two earnings levels. The differences in the initial benefits are virtually negligible in all instances. This shows that those born in 1917-21 are not discriminated against when compared with those born after 1921.

In summary, the "notch" situation is most unfortunate. With the wisdom of hindsight, it should have, and could have, been avoided. Those born before 1917 who worked substantially beyond age 62 should have been prevented from receiving the "windfalls" which they now get. No action should be taken now to give any such "windfalls" to those born in 1917 and after. Proposals that would do so have costs over the years of $200 - 300 billion. There is no reason that younger workers should bear such a financial burden. Accordingly, I urge that no legislative action on this matter should be taken.

TABLE 1

ILLUSTRATIVE MONTHLY BENEFITS FOR MEN[a] WHO RETIRED IN VARIOUS YEARS AT AGE 62 OR AGE 65 WITH MAXIMUM CREDITABLE EARNINGS IN ALL PREVIOUS YEARS

Year of Attainment of Age	Man Retiring at Age 62		Man Retiring at Age 65	
	Initial Benefit	Current Benefit	Initial Benefit	Current Benefit
1972	$167.10	$505.10	$216.10	$653.30
1973	207.60	522.70	266.10	670.10
1974	217.00	528.50	274.60	691.20
1975	253.10	574.00	316.30	717.40
1976	285.60	599.30	364.00	763.90
1977	319.40	630.10	412.70	814.20
1978	354.60	660.50	459.80	856.50
1979	388.90	680.00	503.40	880.30
1980	402.80	640.80	572.00	910.10
1981	432.00	601.30	677.00	942.40
1982	474.70	594.10	679.30	850.20
1983	526.40	613.50	709.50	826.90
1984	559.40	629.90	703.60	792.30
1985	591.30	643.40	717.20	780.40
1986	630.50	665.40	760.10	802.20
1987	662.10	689.90	789.20	822.30
1988	686.70	686.70	838.60	838.60

a/ Man attains the specified age at beginning of year and retires then. Figures for attainments of age 62 in 1975 and after, and age 65 in 1978 and after are also applicable to women; for earlier years in the table, the figures for women are somewhat higher.

Table 3

ILLUSTRATIVE MONTHLY BENEFITS FOR PERSONS BORN IN LATE 1921 AND EARLY 1922 WHO HAVE SAME EARNINGS RECORD AND RETIRE ON SAME DATE

Date of Retirement	Average-Wage Earner			Maximum-Wage Earner		
	Born in 1921	Born in 1922	Difference	Born in 1921	Born in 1922	Difference
January 1984	$430	$437	$7	$556	$559	$3
January 1985	484	488	4	632	635	3
January 1986	541	544	3	713	715	2
January 1987	589	593	4	785	789	4

Table 2

ILLUSTRATIVE MONTHLY BENEFITS FOR PERSONS BORN IN LATE 1916 AND EARLY 1917 WHO HAVE SAME EARNINGS RECORD AND RETIRE ON SAME DATE

Date of Retirement	Average-Wage Earner			Maximum-Wage Earner		
	Born in 1916	Born in 1917	Difference	Born in 1916	Born in 1917	Difference
January 1979	$312	$306	$ 6	$ 395	$ 388	$ 7
January 1980	388	365	23	493	463	27
January 1981	500	449	51	635	570	65
January 1982	623	535	88	789	679	110
January 1983	716	592	124	900	755	145
January 1984	773	638	135	990	826	164
January 1985	834	691	143	1,084	904	180
January 1986	894	747	147	1,178	985	193
January 1987	937	794	143	1,255	1,056	199

Note: Figures rounded down to exact dollars (when not already an exact dollar).

Item 5

NEWS

EDWARD R. ROYBAL, Chairman
300 New Jersey Ave., S.E., Room 712
Washington, D.C. 20515
202/226-3375

Select Committee on Aging

U.S. House of Representatives

STATEMENT FOR
CHAIRMAN EDWARD R. ROYBAL, SELECT COMMITTEE ON AGING
BEFORE SENATE SPECIAL COMMITTEE ON AGING
SOCIAL SECURITY NOTCH
FEBRUARY 22, 1988

Mr. Chairman thank you for giving me the opportunity to present my views on the inequity of the Notch in Social Security benefits for those born between 1917 and 1921. I am delighted that the Senate Special Committee on Aging is holding this hearing.

The House Select Committee on Aging has held 8 hearings over the past 4 years on this inequity, and has produced an extensive record on the effect of the Notch on individuals. One such individual who testified at our Iowa hearing in 1984, Darlene Frazeur, had her benefits reduced by $160.00 a month, simply because she was born in February 1917 instead December 1916. Florence Kinkella from Southern California was born in 1919 and her husband was born in 1914. She testified at our California hearing. She receives 22 percent less in benefits than her husband even though she paid Social Security taxes on 23 percent more earnings. In addition, the American Enterprise Institute (AEI) has published a legislative analysis of the Notch and proposals to resolve the issue. For those who believe more study is needed, I urge them to carefully review the AEI report and the hearings of the House Aging Committee.

After many years of urging, the House committee with legislative jursidiction over Social Security has finally agreed to convene a hearing. In August, 1987, I was joined by 60 of my colleagues in a letter to Chairman Andrew Jacobs of the Ways and Means Subcommittee on Social Security. That Subcommittee has legislative jurisdiction over Social Security, including Notch reform in the House. In our letter, we requested that Chairman Jacobs hold hearings on the Notch as soon as the General Accounting Office (GAO) publishes its report on the issue. The report, requested in April, 1986, will include an analysis of the Notch, options to resolve it, and economic and health data on those individuals born between 1917 and 1921. The GAO anticipates that the report will be completed next month. I am pleased to hear that Chairman Jacobs has now agreed to hold a hearing on the Notch subsequent to the publication of the GAO report. I hope that this hearing by the Senate Aging Committee will convince the Senate Committee on Finance to also examine this inequity.

The notch was created when the 1977 amendments were designed to rectify the problems in the over-indexed 1972 benefit formula. The 1977 amendments were formulated to reduce benefit levels for all persons eligible to retire after 1978. Congress wanted to phase-in the reductions over a period of years so as not to hurt those who were already planning on a specific Social Security benefit. Unfortunately this transition did not work because of the unanticipated double-digit inflation of the late 1970's and early 1980's, and more importantly, because the transition ignored the post-age 61 earnings of individuals in calculating benefits. Instead of a transition which was intended to reduce benefits over 5 years by 6-10 percent, benefit reductions for a 65-year old retiree, born in 1917 with average earnings, were 10 percent. In subsequent years, discrepancies of 20 percent or more have been noted. I do not believe that Congress ever intended such a drastic cut in benefits over such a short period of time. The goal of Notch babies, and my legislation, has always been to press for a responsible solution to the Notch which will restore faith in the system and provide maximum protection to current and future beneficiaries without undoing the reforms of 1977.My legislation, H.R. 1917, introduced on April 2, 1987, which currently has 154 bipartisan cosponsors, would not go back to the flawed 1972 formula. The bill would compute benefits under a new transitional formula. Under this formula, beneficiaries would be protected from abrupt reductions in benefits, as envisioned under the 1977 Amendments, and would also receive retroactive benefits. The Social Security actuaries estimate the cost of this bill to be $86 billion over 10 years, which includes about $10 billion in retroactive benefits.

There are some who believe that resolution of the Notch will bust the budget, while others believe that there is a need to cut benefits or raise taxes to pay for Notch reform. Neither of these statements are true. The 1987 Social Security Trustees Report demonstrates that the Trust Funds are in excellent financial shape, with large annual surpluses projected over the next few decades. In fact, under the intermediate economic assumptions, the Social Security Trust Funds will accumulate $544.4 billion between 1987 and 1995. Certainly some of these reserves should be used to correct this inequity without damaging the long-term financial solvency of Social Security.

Over the last decade Americans' confidence in Social Security has been shaken by reports of financing crises and political stalemate. Their fear and frustration concerning Social Security is understandable. Many baby boomers see that their parents, who were born in the Notch years, are losing confidence in the Social Security system. If we really want to restore young people's confidence in Social Security, we should restore some of the benefits to individuals who have helped to make Social Security into a successful and viable insurance program.

Item 6

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

Refer to: SHB1

Baltimore MD 21235

APR 2 2

Honorable John Melcher
Chairman, Special Committee on Aging
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I appreciated the opportunity to appear before the Senate Special Committee on Aging on February 22 and testify about the Social Security "notch" issue. One of Commissioner Hardy's highest priorities is to educate the public about Social Security, including the notch issue.

Enclosed are responses to the followup questions that you sent to me on March 7. I hope that the committee will find this information helpful.

Sincerely,

Michael C. Carozza
Deputy Commissioner
for Policy and External Affairs

Enclosures

1. Please delineate, by State, the present number of Social Security beneficiaries affected by the so-called Social Security "notch" (1917-21). In addition, please specify, by State, the additional number of persons (those born from 1922-29) who would be affected by S. 1830, the Social Security Notch Adjustment Act.

It is very difficult to determine the number of people affected by the notch because there is no consensus definition of the notch. Even if there were a consensus on how the notch should be defined, the number of persons affected would still be difficult to estimate because the effects of the 1977 amendments vary from person to person. These effects are dependent on factors such as the year of birth of the worker, the age at which he or she retired, the level of earnings that he or she had, and the way these earnings were distributed throughout the person's working lifetime. Thus, determining whether or not someone was affected by the notch would be time consuming and require individualized data that are not currently available.

Although we cannot say exactly how many people are actually affected by the notch, the total number of insured workers as of January 1, 1987, who were born in the years 1917-21 is estimated to be 7.6 million. (Since the 7.6 million figure is a statistically derived estimate, it cannot be broken down by State.) Of these insured workers, 6.6 million were receiving retired worker benefits. While all of these workers are potentially affected by the notch, due to the definition and data problems described above, we do not know whether they are actually affected nor to what extent the notch affects their benefits. Further, a sizeable number of these workers receive the same benefit that they would have had under the old law, and some workers born in the years 1917-21 receive more than they would have received under the pre-1977 amendment law (because of the effect wage indexing has on certain earnings patterns).

If S. 1830 were enacted, about 9.3 million workers born between 1917 and 1929 would receive increased benefits when they eventually retire. Of these workers, 5.4 million would be born after 1921.

2. Please specify, for each year from 1917-1929, the additional monthly amount an average Social Security beneficiary could expect to receive (discluding (sic) retroactive benefits) were S. 1830 enacted today. Please supply the same information for those receiving the minimum and maximum Social Security benefit.

The requested information is shown in the attached table.

Attachment

SOCIAL SECURITY BENEFITS
UNDER PRESENT LAW AND S. 1830 (1988 Dollars) 1/

Year of Birth	Low S.1830	Low P.L.	Low Diff	Average S.1830	Average P.L.	Average Diff	Maximum S.1830	Maximum P.L.	Maximum Diff
				(Retirement at Age 62)					
1917	$355	$355	$ 0	$536	$536	$ 0	$679	$679	$ 0
1918	337	337	0	503	502	1	641	641	0
1919	333	321	12	505	478	27	649	601	48
1920	332	321	11	508	468	40	658	594	64
1921	333	321	12	514	480	34	663	613	50
1922	332	325	7	520	489	31	665	629	36
1923	329	329	0	527	495	32	665	643	22
1924	338	338	0	528	508	20	665	665	0
1925	347	347	0	525	524	1	690	690	0
1926	342	342	0	520	517	3	686	686	0
1927	340	340	0	517	517	0	689	689	0
1928	340	340	0	518	518	0	695	695	0
1929	342	342	0	523	523	0	704	704	0
				(Retirement at Age 65)					
1917	$445	$444	$ 1	$691	$670	$ 21	$880	$850	$ 30
1918	443	429	14	699	644	55	889	826	63
1919	441	406	35	710	611	99	892	792	100
1920	442	401	41	708	596	112	893	780	113
1921	436	401	35	706	607	99	890	801	89
1922	432	407	25	701	618	83	884	822	62
1923	429	412	17	695	626	69	877	838	39
1924	423	423	0	690	642	48	868	865	3
1925	434	434	0	680	660	20	894	894	0
1926	428	428	0	675	655	20	892	892	0
1927	427	427	0	667	654	13	895	895	0
1928	428	428	0	660	659	1	904	904	0
1929	428	428	0	661	661	0	912	912	0

Earnings Level

1/ The transitional computation provided under S. 1830 guarantees a percentage of the benefit computed under the pre-1977 computation method. Since the age at which a person retires affects the percentage of the pre-1977 benefit which is guaranteed, benefits are shown for retirement at age 62 and at age 65. (Also, the age-62 figures for both present law and S. 1830 have been reduced to take account of early retirement.)

3. <u>In light of your response to question 2 above, who would benefit the most from a change that would "fix" the "notch," upper or lower income Social Security beneficiaries? Please explain.</u>

In general, the higher a worker's earnings, the greater would be the benefit increase under S. 1830 relative to present law Social Security retirement benefits. However, as the table shows, for later cohorts of retirees, the increase can be greater for workers with average earnings than for workers with maximum earnings. The reason for this is that S. 1830 limits the amount of earnings that can be used in the computation to $29,700 for years after 1981. This limitation also results in a more rapid phase out of the S. 1830 transition formula for maximum earners than it does for average earners.

4. <u>S. 1830 has an estimated 10-year cost of $67.5 billion. What is the estimated total cost to the Social Security trust funds, both including and excluding retroactive benefits? What part of that cost is for the increase in benefits for beneficiaries born from 1917-21, both including and excluding retroactive benefits? What portion goes for those born from 1922-29, both including and excluding retroactive payments?</u>

The $67.5 billion 10-year cost of S. 1830 includes the effects of a proposed reduction in benefits for workers who attain age 62 before 1979 who continue working. The total 10-year estimated cost of the formula in S. 1830 is $71.5 billion. The cost for years of birth 1917-21 and 1922-29 is as follows (in billions):

Period	1917-21	1922-29	Total
Retroactive benefits for 1979-86.................	$ 4.4	$ 1.0	$ 5.4
Current benefits: 1987-96.................	35.2	30.9	66.1
1997-2006...............	31.7	40.4	72.1
2007-16.................	22.8	29.0	51.8
2017-26.................	8.5	10.9	19.4
2027 and later..........	1.3	1.6	2.9

Normally, cost estimates for periods longer than 10 years into the future are defined in terms of a percentage of covered payroll. (This procedure is followed because the value of the dollar changes significantly over time, which complicates the comparison of costs in different years.) The additional benefit payments under S. 1830 would represent about 0.23 percent of covered payroll in 1988, and would increase to a peak of 0.26 percent of covered payroll in 1990-92. The cost would then decrease gradually over about the next 50 years. The average cost of S. 1830 over the full long-range projection period (the next 75 years) would be about 0.07 percent of taxable payroll. About 0.03 percent of this cost is for benefits to persons born in 1917-21, and about 0.04 percent is for persons born in 1922-29.

5. Please provide, broken down by year for those born from 1910-29, the number and percentage of Social Security beneficiaries who receive or may be expected to receive benefits below the average Social Security benefit under current law. How would this change if S. 1830 were enacted today?

The figures in the following table are based on primary insurance amounts (PIAs) for retired worker beneficiaries receiving benefits at the end of 1986. The figures do not include reductions for receipt of benefits before age 65. Virtually all beneficiaries born after 1920 were receiving reduced benefits as of the end of 1986, while beneficiaries born earlier include age 65 retirees. Thus, ignoring the benefit reduction for early retirement makes the percentages shown in the table more comparable.

However, no adjustment has been made for the fact that generally the average PIA for people retiring before age 65 is lower than for those retiring at age 65 or later; ultimately the percentages for those born from 1920-24 with below average PIAs is expected to decrease to the 48-52 percent range.

The table does not show beneficiaries born in 1925-29 since none had reached age 62 as of the end of 1986. However, we expect the percentages for this group to be similar to those for the 1920-24 group.

If S. 1830 were enacted, the percentage of workers born in 1919-23 receiving benefits based on a below-average PIA would be about 2-4 percentage points less than under present law, and the percentage of those born in 1917-18 and 1924-29 would be about 0-2 percentage points less.

Year of birth	Number of retired workers	Number receiving less than $497.50 (Average PIA)	Percent receiving less than $497.50 (Average PIA)
1910	878,800	433,700	49.4%
1911	934,500	444,900	47.6
1912	1,023,300	469,500	45.9
1913	1,074,700	474,800	44.2
1914	1,154,200	492,200	42.6
1915	1,208,800	495,000	40.9
1916	1,233,000	502,200	40.7
1917	1,253,400	542,600	43.3
1918	1,319,800	598,100	45.3
1919	1,277,500	631,000	49.4
1920	1,369,100	695,700	50.8
1921	1,368,500	686,900	50.2
1922	933,200	495,400	53.1
1923	867,800	455,100	52.4
1924	684,500	367,700	53.7

6. The attached chart, supplied by a witness at the February 22 hearing, seems to show that those born from 1919-23 may expect to receive benefits lower than those born before or after them. Please clarify whether or not this is the case and supply your own interpretation of the chart.

No inequity has occurred with regard to people born in 1917 and later. They are receiving appropriate benefit levels that were intended by Congress. I am attaching another chart, which was submitted with my testimony before your committee, which clearly illustrates this point.

Replacement Rates: It is clear from the top graph on the chart I submitted that replacement rates (benefits as a percentage of preretirement earnings) for people born just after 1916 are as high as, or higher than, replacement rates for any other group except for workers born in the period 1910-16--the group which profited from the flaw in the 1972 legislation and received windfall benefits.

Benefit Amounts: People born in the time period 1919-23 do not receive lower benefits than all people born before them. This fact is clearly illustrated on the lower graph which shows benefits in constant 1988 dollars. As the graph shows, people born before 1910 (whose benefits were not affected by the unintended windfall caused by the flaw in the 1972 computation method) get lower benefits than those born in the 1919-23 period.

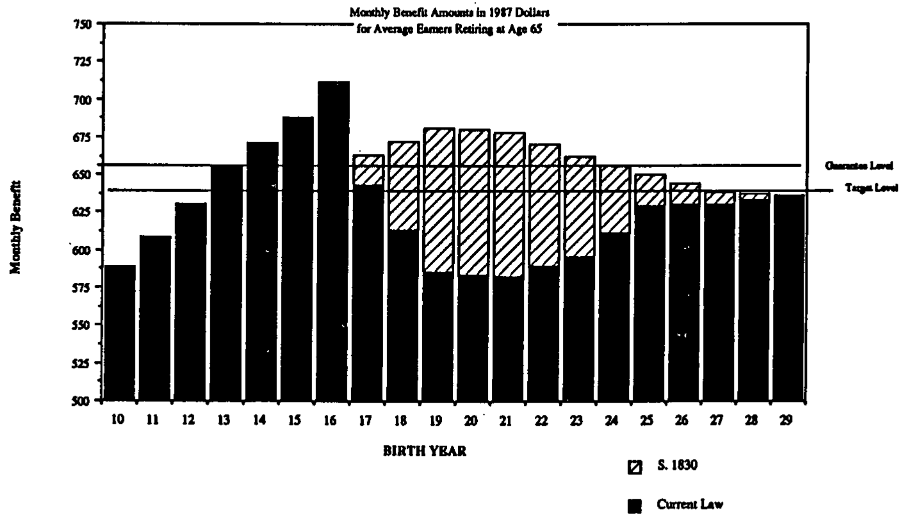
However, it is true that people born after 1923 are expected to get higher benefits than those born in 1919-23. This is an expected result and does not indicate that people born in 1919-23 are treated inequitably compared to those born later. If earnings levels rise over time and rise at a faster rate than prices (which is the usual assumption), then real benefit levels (benefits in constant dollars disregarding the effects of inflation) will increase to match the increasing real earnings even though replacement rates will remain the same.

Comments on Chart From Witness at February Hearing: The legislative history does not support the "guarantee level" and "target level" lines shown on the chart. The detailed discussion of the intended reduction under the 1977 amendments that is contained in the reports of the House Ways and Means Committee and the Senate Finance Committee is in terms of replacement rates. There is no discussion of the percentage reduction that the changes would cause in the dollar amounts of benefits. Further, there is no discussion of the amount of the reduction that would occur under the conference bill for people who retire after age 62. Also, the "guarantee" is discussed in terms of age-62 retirees. The discussions of the transition guarantee clearly state that earnings after age 61 would not be considered in determining the benefit amount.

Attachments

ATTACHMENT E

BENEFITS UNDER CURRENT LAW AND PROJECTED UNDER S. 1830/H.R. 3788 VERSUS BENEFITS EXPECTED UNDER THE 1977 AMENDMENTS

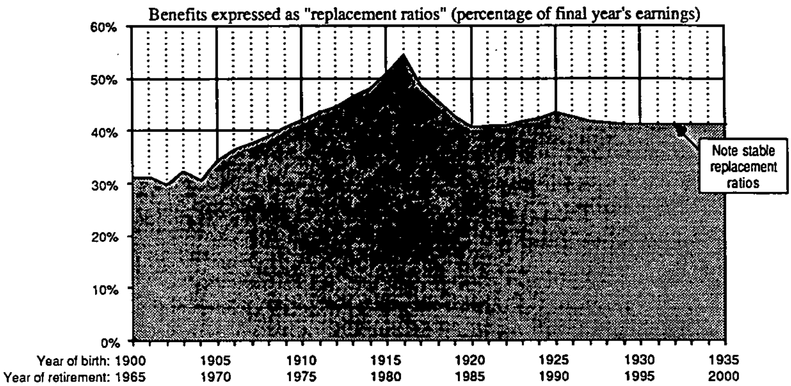


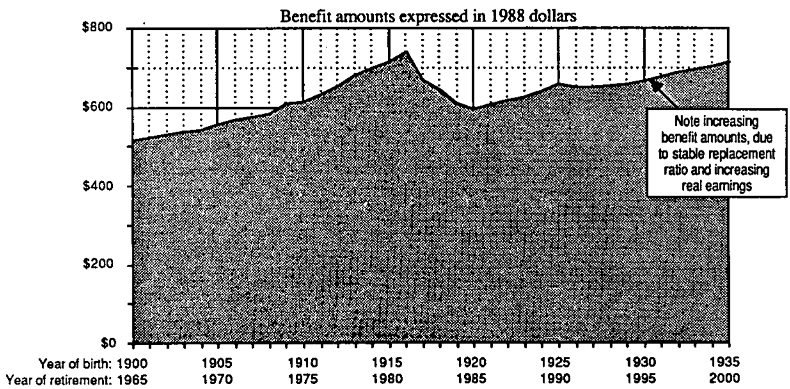
• "Guarantee level" is defined as the benefit level equivalent to that paid to retirees in December 1978--e.g. for 65-year-old retirees born in 1913. This is the amount "guaranteed" to persons born 1917-21 under the 1977 Amendments.
• "Target level" is defined as the benefit level five percent below the 1979 benefit levels--e.g. five percent less than paid to 65-yeear-old retirees born in 1914. This was the benefit level expected to be paid to retirees born after 1921 under the 1977 Amendments.

The guarantee and target levels are so defined based on Congressional intent in 1977. On April 3, 1978, the Ways and Means issued a Committee print (#95-72) which explains that, under the law (PL 95-216) enacted the previous December, "the benefit level adopted for the longterm is five percent below the estimated 1979 levels. Included in the legislation is a 5-year guarantee of December 1978 levels to provide a gradual transition to the new system for workers who will reach age 62 in 1979 through 1983."

Source: SSA for Current Law and S. 1830/H.R. 3788; estimates from Ways and Means Committee Print 95-72 for Target and Guarantee Levels under '77 Amendments

Illustrative Social Security benefits payable to workers retiring in various years at age 65, having had average earnings during their careers





Social Security Administration
Office of the Actuary
January 27, 1988

7. According to the testimony of one witness at the hearing, ". . . Even if the inflation assumptions made in 1977 had turned out to be accurate, however, the notch would have existed, and in percentage terms the benefit differences it created would not have been much smaller than those that arose. The fact is that the notch arose directly from the provisions enacted in 1977, not from the unexpected economic conditions that followed." Please respond to this statement.

The new computation method established by the 1977 amendments was intended to result in replacement rates that were about 5 percent lower than the levels that were expected to prevail for age 62 retirees in January 1979, when the revised benefit structure went into effect. However, inflation after enactment of the 1977 amendments was higher than had been expected, causing replacement rates under the old computation method to rise faster than anticipated. As a result, the reduction in replacement rates under the new computation method was about 7 percent for age 62 retirees in January 1979.

The reason that the reduction in replacement rates was more than had been expected was not because people subject to the new computation method got less than had been intended. Rather, it was because people who had their benefits computed under the old method were getting much more than anyone had anticipated.

8. According to one witness at the hearing, "...I was told that I would not get credit on my benefits for the last four years of my earnings. (After the Age 61)...Yet my employer deducted (F.I.C.A. Taxes) from my paycheck every week...the last four years that I worked...To me [it was] not fair that...they continued to collect (F.I.C.A. taxes) from this group of people (beyond the age of 61) and gave them no credit for it." Please respond to these allegations and describe how the 1977 amendments treated those who continued working beyond age 61, as well as those who continued working beyond age 65. In addition, please describe the reasons for this treatment, and whether or not you believe it is fair.

All workers, including those born in 1917-21, get credit for their post-age-61 earnings and these earnings are considered in computing their benefits. Workers born in 1917-21 have their benefits computed under the 1977 wage-indexed computation method which includes earnings after age 61. However, such workers also have their benefits computed under the transitional computation method which does not include post-age-61 earnings. They are paid the higher of these two benefits.

In 1977, Congress made a conscious decision not to use post-age-61 earnings in the transitional computation. The exclusion of such earnings reflects congressional intent to phase out the use of the transitional computation while at the same time not perpetuating the overgenerous treatment of post-age-61 earnings afforded under the old, flawed computation method. We believe the transitional computational method is fair.

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