

# FUTURE DIRECTIONS IN SOCIAL SECURITY

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HEARING  
BEFORE THE  
SPECIAL COMMITTEE ON AGING  
UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

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PART 10—WASHINGTON, D.C.

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MARCH 19, 1975



Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

52-318

WASHINGTON : 1975

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Washington, D.C. 20402 - Price 70 cents

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- Part 3. Washington, D.C., January 23, 1973.
- Part 4. Washington, D.C., July 25, 1973.
- Part 5. Washington, D.C., July 26, 1973.
- Part 6. Twin Falls, Idaho, May 16, 1974.
- Part 7. Washington, D.C., July 15, 1974.
- Part 8. Washington, D.C., July 16, 1974.
- Part 9. Washington, D.C., March 18, 1975.
- Part 10. Washington, D.C., March 19, 1975.
- Part 11. Washington, D.C., March 20, 1975.
- Part 12. Washington, D.C., May 1, 1975.
- Part 13. San Francisco, Calif., May 15, 1975.
- Part 14. Los Angeles, Calif., May 16, 1975.
- Part 15. Des Moines, Iowa, May 19, 1975.
- Part 16. Newark, N. J., June 30, 1975.

(Additional hearings anticipated but not scheduled at time of this printing.)

# CONTENTS

Opening statement by Senator Frank Church, chairman.....	Page 875
<b>CHRONOLOGICAL LIST OF WITNESSES</b>	
Schulz, James H., Ph. D., associate professor of welfare economics, program in the economics and politics of aging, Brandeis University.....	877
Miller, Harriet, National Retired Teachers Association-American Association of Retired Persons; accompanied by Thomas C. Borzilleri, Peter Hughes, and James Hacking.....	901
Jackson, Jacquelyne J., Ph. D., associate professor of medical sociology and member of the Center for the Study of Aging and Human Development, Duke University; and vice chairman, National Caucus on Black Aged, Inc.....	914
<b>APPENDIX</b>	
Item 1. Supplement to statement of Dr. James H. Schulz.....	917
Item 2. Letter from Harriet Miller, associate director, National Retired Teachers Association/American Association of Retired Persons; to Senator Frank Church, dated April 2, 1975.....	921
Item 3. Newspaper article from the New York Times, March 19, 1975....	922

## FUTURE DIRECTIONS IN SOCIAL SECURITY

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WEDNESDAY, MARCH 19, 1975

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

The committee met, pursuant to recess, at 10 a.m., in room 4221, Dirksen Building, Hon. Frank Church, chairman, presiding.

Present: Senators Church, Moss, Fong, and Clark.

Also present: William Oriol, staff director; David Affeldt, chief counsel; Deborah Kilmer, professional staff member; John Guy Miller, minority staff director; Margaret Fayé and Gerald Yee, minority professional staff members; Patricia Oriol, chief clerk; Kathryn Dann, assistant chief clerk; Gerald Strickler, printing assistant; and Dorothy McCamman, consultant.

### OPENING STATEMENT BY SENATOR FRANK CHURCH, CHAIRMAN

Senator CHURCH. The hearing will come to order.

We are fortunate to have very fine witnesses today, and I want to begin the testimony as quickly as possible; but I would like to make a few points about the testimony taken yesterday.

We had three members of the Social Security Advisory Council, who did disagree on several important points, but who were emphatic about one essential point, and that is that the Nation is fortunate to have a social security system built upon payroll contributions, entitling participants to certain benefits, which provide personal security, at least up to a certain point in their retirement years, while helping to protect the entire Nation against the dislocations—which is a very polite word for saying the massive welfare mess—that we would be confronted with in this country if the millions and millions of retired persons over 65 years of age that are today receiving social security benefits were left without its protection.

This morning at least one news account said the major happening at yesterday's hearing was that the Republican and Democratic Senators expressed faith in the social security system, while emphasizing that changes must be made to insure its continuing soundness and responsiveness.

That strikes me as a well-balanced statement. We are satisfied about many of social security's attributes, but we certainly see the need for change to meet today's stagflation problems, and the long-term demographic problem of the next century.

As everyone is learning, these days the baby boom associated with the Second World War is now moving through the population; and at about the turn of the century, we will have a markedly higher proportion of elderly people, as compared to the entire working population that is the case today.

I see social security from many perspectives, including the viewpoint expressed by experts—with projections, actuarial tables, and complex social goals—it is all essential. But there is another viewpoint which I encounter in my own State and elsewhere in this field; it is the fundamental confidence which most older people and/or social security recipients have in the social security system.

That confidence is quite often based on a statement as forthright as "I paid into it, and now I am sharing in its benefits."

It is a feeling that I am entitled, because I contributed to the system, and now as an elderly person, the benefits that I receive come to me as a matter of right.

That confidence is precious, and it must be protected.

### COMPUTER MISHAPS, DELAYS

For that reason, I am disturbed by recent reports that some social security recipients are encountering difficulty in what should be normal operations; for example, a *Washington Post* story recently told of a person—a doctor and his wife, both of whom are due social security checks, are experiencing delays of several months in receiving them.

In a hearing last year in Idaho, I heard directly from a woman who had been declared dead by the social security computer. It took us some months to persuade the computer that it was wrong, since all visual evidence suggested she was very much alive.

She came to the hearing to challenge the computer's finding personally, and after a while, we got that problem straightened out. I realize the proportion of such computer mishaps is probably very low, but I have asked the Social Security Commissioner for a report on such problems, and he promised to send me one at an early date.

I would like to make this final point, before we proceed to our first witness, Dr. Schulz.

It would seem the social security system is undergoing a sufficient number of evaluations and studies. An advisory council has just concluded the report we discussed yesterday.

A white paper has been issued by persons long associated with the social security system, and last summer the Social Security Board of Trustees issued a significant report, and yet our first witness today, Dr. James Schulz, declares in his new book, "Providing Adequate Retirement Income," and I quote from the book, a copy of which I have with me this morning:

It is time that a broad review of our retirement income maintenance system was undertaken, and serious thought given to the requirements of providing adequate retirement incomes for the future aged.

Dr. Schulz has also said if current trends continue, the gap between retirement income and work income is likely to widen, not narrow.

Dr. Schulz, I know you have a prepared statement, and you will probably discuss these points. I would defer to Senator Fong in case he has any statement.

Senator FONG. I have no statement to make this morning.

Senator CHURCH. Senator Moss, do you have a statement you would like to make?

Senator Moss. No, thank you, Mr. Chairman. I am pleased to be here.

Senator CHURCH. Very well. Dr. Schulz, if you have a prepared statement, and would like to read it, or to summarize it for the committee, then we will proceed to ask questions.

Dr. SCHULZ. Senator, there are a lot of areas I would have liked to cover this morning, but to keep my statement within the time limits, as was suggested, I have prepared a supplement to my statement, which covers a lot of material, which I was unable to include in my statement. I ask that the supplement to the statement be included in the record at the appropriate point.\*

Senator CHURCH. Yes, that will be done.

**STATEMENT OF JAMES H. SCHULZ, PH. D., ASSOCIATE PROFESSOR OF WELFARE ECONOMICS, PROGRAM IN THE ECONOMICS AND POLITICS OF AGING, BRANDEIS UNIVERSITY**

Dr. SCHULZ. All across the Nation and especially in Washington there is an effort currently underway to limit or reduce the role of social security and expand private pensions. This is not altogether surprising when one realizes that the private pension industry is a \$200 billion business and that there are millions of dollars of salaries, commissions, and profits at stake in the outcome of these efforts.

I will argue that we should do exactly the opposite. We should be expanding social security and limiting private pensions.

What I am going to say will not be welcomed by the private pension, insurance, and banking industries in this country. Nor will it be welcomed by many who are currently old. And, it probably will not be welcomed by some advocates for the aged—since they must necessarily represent and deal primarily with the problems and concerns of today's aged population.

I wish to emphasize at the very beginning of my remarks that the aged can no longer be characterized as being poor. A variety of statistics and generalizations are currently being used by some to support the case for expanded Government action to help people who are currently old. These inadequately take into account the significant improvements of the past decade which our Nation has made in the economic status of the aged.

While I am strongly in favor of improving the way we, as a Nation, provide and insure adequate economic resources in old age—I am concerned, at the same time, that new policies based, in part, on misinformation will not be the right policies. And, most important, in trying to help older people today, we should not ignore the impact of today's action on those who will become old in the future.

Since the intent of my remarks is likely to be misinterpreted, I wish to emphasize at this point that I am not unaware or unconcerned about the serious economic problems facing large numbers of older people today. I have spent almost all of my research time as an economist in the last 10 years investigating and assessing the economic problems of the aged. I, and some colleagues have just published a book on "Providing Adequate Income in Retirement." The central message of that book is that we need to change the way we view the adequacy of retirement income and that we need to significantly

\* See appendix, item 1, p. 917.

increase, not decrease or just maintain, private and public pension expenditures.

I advocate eliminating economic destitution among the aged and other age groups now. I advocate improved health care for the aged and other age groups now. And, I advocate developing as soon as practical adequate services for the aged to meet a variety of their special needs.

#### SENSITIVITY TO EQUITY AND DIFFERENCES

But we must try to do these things in ways which are equitable and which take into account the widely varying economic situations of different groups of older persons. Sensitivity to these issues is especially important as we look forward to sharply rising social security costs in the years to come. In this regard, I wish to associate myself with the very excellent statement presented to this committee last July by former Representative Martha W. Griffiths.\* While in Congress, Mrs. Griffiths eloquently argued for pension cost effectiveness and for recognition of the economic implications of private and public employee pension trends which permit earlier and earlier retirement at increasingly liberal levels.

It is now clear to me that we are confronted with a new and most serious problem. We have improved public and private pensions significantly. But if present trends continue, the retirement income disparities created by our present dual pension system will grow larger and create serious social tension between the resulting pension elite and those less fortunate.

To understand what is happening, it is important to look at the current economic status of the elderly.

The first point to be made is that while most of the economic data on the aged are highly aggregated data, the most useful type of data—for analysis and evaluation purposes—are disaggregated data.

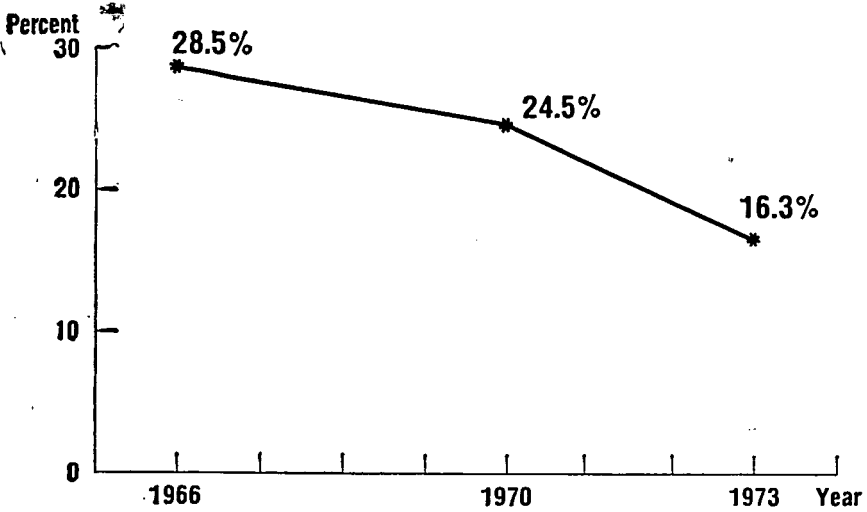
What many writers and analysts tend to do is give means or medians for all or large groups of the aged.

Such statistics tell us very little. By lumping together all the aged population one seriously distorts the reality.

This problem is similar to the one resulting from grouping all the aged together to generalize in terms of their social problems. Most people who work in the field of gerontology are familiar with this problem in the social and psychological areas. There is no such thing as the collectivity of the aged; the aged are a heterogeneous collection of people as diverse as the population itself. We should remember that this point is just as true for the economic issues as it is for others.

Chart I shows the significant decline in poverty among the aged occurring over the last 7 years. With the introduction of SSI and State supplementation in 1974, we can probably anticipate a further drop.

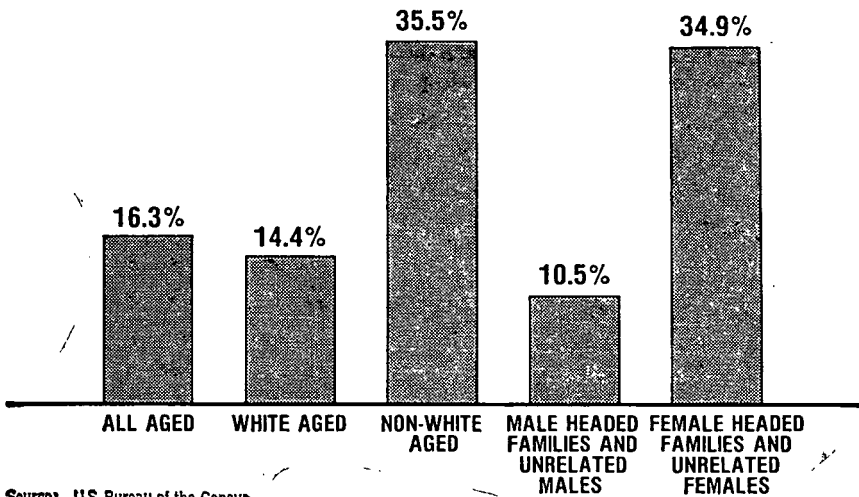
\*"Future Directions in Social Security," pt. 8, Washington, D.C., July 16, 1974, p. 693.

**Chart I PERSONS AGE 65 AND OVER IN POVERTY**

Source: U.S. Bureau of the Census

But as illustrated in chart II, the poverty rate is widely divergent among various groups of the elderly population.

Senator FONG. At what level do you say a man is in a poverty level, and at what level is he not in a poverty level?

**Chart II AGED POVERTY IN 1973, SELECTED CHARACTERISTICS**

Source: U.S. Bureau of the Census



Dr. SCHULZ. For the purposes of these charts, they are based on the Federal Government's poverty index, the one that was initially developed by the Social Security Administration, and adopted by an intergovernmental task force.

For a single individual, the current poverty level is \$2,119; for a couple, it is \$2,662.

Senator FONG. Thank you.

Dr. SCHULZ. I will be arguing very shortly that this index is not a very good measure of income adequacy. But it is the one that is being widely used, and I think we ought to be using another one.

Many of the aged were poor or living close to the poverty level prior to retirement. Thus, it is not very surprising—yet still shocking—to see the high incidence of poverty among nonwhite aged persons.

And then there is an important group of the elderly—widows—for whom destitution is in many cases a relatively new experience.

Senator CHURCH. This first chart which shows the incidence of poverty has gone down from 1966 when it was 28.5 percent to 16.3 percent in 1973, that is based upon the Government's own definition of poverty?

Dr. SCHULZ. That is correct.

Senator CHURCH. And today that is \$2,119 for an individual, \$2,662 annually for a couple?

Dr. SCHULZ. That is correct.

Senator CHURCH. All right. Then you moved from there to the second chart, and you were just in the process of explaining the second chart. I am sorry for the interruption.

#### POVERTY FIGURES MISLEADING

Dr. SCHULZ. The point I want to emphasize is that we must disaggregate our view of the elderly. It is misleading to look at the aggregate poverty figures shown in chart I which have been moving down and now are relatively low. We should also look at particular groups of the aged population, especially those who have particularly high incidences of poverty.

The first one I mentioned was the nonwhite aged, and then there is another group of the elderly, widows, for whom destitution is in many cases a relatively new experience.

Of the 3.4 million aged poor in 1973, nearly half—1.6 million—were women.

Senator FONG. How many aged poor women are in the other group of nonwhite poor?

You show 35.5 percent nonwhite aged as poor, and then you have the female category with 34.9 percent poor. How much of the 35.5 percent are also found in the female category?

Dr. SCHULZ. I do not have that statistic available to me today. I think that can be obtained. I will be glad to try to provide that for the committee.

I would say that one can expect at least as high a proportion of the nonwhite aged women to be in poverty.

I would like to have the opportunity to check the statistic and provide it to you to make sure I get the accurate one, but the important point is that we have a very large group of women in this country today who are living in poverty, and I would argue that our pension systems are not dealing effectively with this problem.

In fact, we are in many ways exacerbating the problem by ignoring it. These women sort of get hidden in that total statistic of chart I, the aggregate level of poverty in this country.

I wanted to make sure I pointed out to the committee the very high incidence of poverty among certain groups of people.

It is really something we should direct our attention to.

[Subsequently, Dr. Schulz provided the following information:]

Based on the current population survey, the U.S. Bureau of Census reports that in 1973, 63 percent of Negro persons living in poverty were women.

Senator FONG. Among the male headed white families, it is only 10½ percent?

Dr. SCHULZ. That is correct.

Senator CHURCH. Just so we can have some standard for comparison, can you tell us what the poverty level is in this country for the population at large?

Dr. SCHULZ. I have information which is a special tabulation of the 1970 current population survey, information compiled by the Urban Institutes and presented in a welfare reform task force. This information is for 1970, so it is not as up to date as the committee would like, but the estimates provided there show that using the Federal poverty index in 1970, there were 24.5 million people in poverty, and of those the nonaged, nondisabled represented 16.7 of the 24.5 million.

#### AGED PRINCIPAL POVERTY GROUP

Senator CHURCH. The figure that the staff furnishes me is that for the population as a whole, the poverty line for 1973, in 1973, was somewhere between 11 and 12 percent, so we begin with the fact that the poverty level for the elderly is considerably above the poverty level for the population as a whole.

Dr. SCHULZ. Yes; I would say that the aged have been for many years the principal poverty group in the United States, and that has not changed significantly currently. However, I would just call the committee's attention to the fact the situation is changing rather rapidly. And the reason it is changing is really because the Congress has responded to the problem through SSI and increases in social security. Also, improvements in private pensions have helped.

Senator CHURCH. The fact that this level has come down from 28.5 percent in 1966 to 16.3 percent in 1973 does demonstrate considerable progress has been made, does it not?

Dr. SCHULZ. Yes; unfortunately we do not yet have statistics for 1974, which would include the effects of SSI in terms of helping older people.

Now, there is speculation with regard to whether the poverty figure is going to be higher or lower as a result of SSI. I suspect it is going to be much lower.

Senator CHURCH. Now, if we retain the compact that we have made with the elderly in this country, through enactment of the automatic cost of living adjustment, then we can make certain that this progress is at least maintained, can we not?

Dr. SCHULZ. That is correct.

Senator CHURCH. But if we abandon that as the President requests, then the chart would begin to go in the opposite direction?

Dr. SCHULZ. That is quite correct.

Senator CHURCH. The level of poverty among the elderly will start to flow once more?

Dr. SCHULZ. That is correct.

Senator FONG. You have shown in your first chart the dropping of the poverty level from 28.5 in 1966 to 16.3 in 1973.

Could you give us some figures, for the record, of the change since 1966 in the nonwhite aged, and the female-headed households?

Dr. SCHULZ. Yes, certainly, I will be glad to do that. I do not have it here. I may have it in some of the material I brought with me, but it will take me a little time to find it.

Senator CHURCH. In response to your first question, Senator Fong, the staff has furnished me with a very significant figure. You asked what proportion of the nonwhite women were living in poverty?

Senator FONG. Yes.

Senator CHURCH. And the staff furnished me with a figure that shows that 61 percent of nonwhite women living alone are living in poverty today; so it is staggering, it is a staggering figure.

Senator FONG. But my question is to the effect, what has been the change in these groups since 1966?

[Subsequently, Dr. Schulz provided the following information:]

The proportion of all non-white persons with money incomes below poverty has changed as follows: 1966, 53.4 percent; 1970, 48.1 percent; 1973, 35.5 percent.

For non-white, female-headed families, the poverty rate change has been: 1966, 58.5 percent; 53.4 percent; 1973, 51.4 percent.

For non-white, unrelated individuals (male and female), the following change took place: 1966, 53.1 percent; 1970, 46.7 percent; 1973, 37.8 percent.

Senator CHURCH. May I ask you this question—looking at chart II and looking at the last column, which is female-headed families and unrelated families, that shows the 34.9 percent of the women living alone, many of whom are no doubt widows, are today living in poverty; something over a third of the widowed mothers of this country, wives, and unmarried females, are living in poverty.

Why is that figure so much higher than the figure for all retired people?

In the social security system, we have increased the widow's share until today it is 100 percent of the husband's entitlement.

What makes for this large differentiation between the average level of poverty among the retired, and the level of poverty for the females?

Dr. SCHULZ. I addressed a similar question to a researcher in the Social Security Administration when she made a presentation at the Gerontological Society meetings a year or so ago, and her response indicated that this is a very difficult question to answer.

I will try to give you my general reaction. I think in large part the explanation lies with the general discrimination against women in our society over many decades. More specifically, if we look at the treatment of women under pension systems, because this becomes very important when we are talking about retired women or women in old age—we find that up until just recently social security has not done a very good job in terms of reacting to the special situations of women.

I believe many of the system's provisions are discriminatory against women and should be changed. And, in general, I think the 100 percent replacement of a very low and inadequate social security benefit is not going to solve the problem for women.

There are just a lot of people in this country relying solely on social security, and as I will state in my testimony, I think these social security levels are much too low. The 100 percent replacement of an inadequate pension does not give you very high replacement.

But there is another problem which lies primarily in the private sector. If you look at private pensions, the goal of private pensions development in the past has been to first help the worker, and to deal particularly with the problems of older workers approaching retirement.

#### WIDOW BENEFITS OFTEN SMALL

The private employer's position has been that providing private pensions was a very expensive burden to assume. Therefore, priorities had to be assigned; choices were needed. Low on the priorities was providing widows benefits.

Thus, if you look at the working paper which I prepared for the committee when it conducted its hearings on the economics of aging,\* you will find a compilation of widows benefits, survivors benefits, existing in a sampling of private pension plans.

These benefits were very small, sometimes only a lump sum of \$100 or \$200. So we find that for that segment of the population covered by private pensions, the survivors benefits are clearly inadequate. And this too, in part, accounts for the poor economic status of older women.

I think also operating, and I know less about this because I have not studied it personally, is the fact that there has been a difficulty among individuals in providing, through private life insurance, adequate coverage for women. This again has created problems.

A final point that I can think of is the fact that private pension programs and public employee pension programs often provide an option to the worker as to whether he will take his full benefit or a reduced benefit with a widow's option. The evidence is overwhelming that most workers choose a higher benefit without a widow's option.

That is a very long answer to your question, but the question is a very difficult one. And as I have tried to argue, I think this problem of poverty among women should take top priority among the many items requiring the attention of the Social Security Administration and the Congress.

Senator FONG. Given the fact that social security is only less than 40 years old, and many women have not been covered, and that we have gradually brought in other employments, as covered employments, and now that we have given the widow 100 percent entitlement

\*"Economics of Aging: Toward a Full Share in Abundance," pt. 10A, Washington, D.C., Feb. 17, 1970, p. 1499.

to her husband's social security, that will eventually, in a few more years, that will really cut down the poverty level of many of these women, will it not?

Dr. SCHULZ. Yes.

Senator CHURCH. Very well. Why don't you continue with your testimony.

Dr. SCHULZ. The statistics previously cited do not include more than a million hidden aged poor living in other households—most of whom are women. So the problem is even worse than the official statistics would suggest.

Now, the fact remains, however, that the overwhelming bulk of the aged are not poor if we accept the definition of poverty adopted by the Federal Government. In fact, aged poverty as conventionally defined may virtually disappear in the near future with improvements in SSI, social security, and private pensions.

But if we do finally eliminate poverty among almost all the elderly, should this satisfy the Nation's collective commitment to providing adequate income in retirement? I think not.

Robert Myers, former actuary for the Social Security Administration, has labeled advocates of a greater role for social security in aged income maintenance as "expansionists." He designates as moderates those persons who "believe that the present system is reasonably adequate."

Myers characterizes the moderate viewpoint as one which supports a governmental pension program which provides benefits which are "sufficient so that, with assets and real estate normally accumulated, the vast majority of beneficiaries will be able to have at least a reasonable subsistence."

Here then is the issue. Is social security—as Myers, various social security advisory councils, and many others have argued—merely to provide benefits to insure that retirees can merely subsist at a poverty level? Or are the people of the United States ready to establish collectively a much higher standard?

From one perspective it might be argued that the question is already answered. Currently the income levels of many elderly are beyond subsistence—due mainly to the improved coverage and benefit levels of the social security pension program. And, as wages rise along with the social security contribution ceiling, retirees of the future will be eligible for old-age benefits far beyond the subsistence level.

Thus, an important and I think reasonable question for the Congress to ask is: What is an appropriate earnings replacement goal for social security?

In recent years the pension systems of many countries have sought to express their benefit goals in terms of the proportion of preretirement earnings provided by pension benefits. However, in the U.S. Congress, there has not been much attention given to the pension replacement rates implied by the social security benefit formulas.

Chart III shows estimates that I have made of the preretirement earnings replaced by social security for couples in the United States retiring between 1960 and 1979.

**Chart III PROJECTED RATIO AT RETIREMENT OF OASI TO PRERETIREMENT EARNINGS,<sup>a</sup> AGED COUPLES, 1960 - 1979**

RATIO	U.S.	GERMAN-TYPE	SWEDISH-TYPE
<b>TOTAL PERCENTAGE</b>	<b>100</b>	<b>100</b>	<b>100</b>
29 or Less	36	5	6
30 - 49	43	14	29
50 - 69	13	45	42
70 - 89	4	32	16
90 or More	5 <sup>b</sup>	6 <sup>b</sup>	8 <sup>b</sup>

<sup>a</sup>Average of five years prior to retirement

<sup>b</sup>Totals exceed 100% because of rounding

Source: Schulz, et al, *Providing Adequate Retirement Income*

Three distributions are shown. The first column shows replacement rate estimates based on a simulation model which incorporates all major provisions of the current U.S. social security system.

Notice the very low replacement potential of the system; only a third of the couples are estimated to receive greater than 50 percent of their average earnings in the 5 years prior to retirement.

In contrast, the next two columns show the replacement rates for Americans which would result if we had a social security system similar to the ones in West Germany or Sweden. I think such an international comparison is especially instructive because it compares our system, not with some social planner's ideal or dream, but with actually operating alternative systems in other countries—countries subject as we are to the very real cost questions of pension financing.

There is no doubt that our current social security system provides pensions which, in the absence of other economic resources, force many retired persons to live at a much lower standard of living than they had before retirement.

And that is one reason why we should not severely penalize, through the rules of our social security system, individuals who need and want to supplement their pension income by working. I have previously presented to this committee my objections to the current social security retirement test. I indicated then that I am not in favor of totally eliminating the retirement test.

Senator CHURCH. Let's see if I follow that chart correctly. When you look at the Swedish system, retirement system, approximately two-thirds of the people, retired people, of Sweden are earning a retirement income that is 50 percent or more of their working income, correct?

Dr. SCHULZ. Let me try to explain it again. If we do not change our social security system in this country, the retirement system will result in replacement for this group of couples [pointing to the chart] which are above 50 percent.

Senator CHURCH. Now, that is 22 percent, as I add it up, 9 and 13, 22 percent, or only slightly more than 55 of our retirees under our social security system will be receiving 50 percent or more of their working income as retirement?

Dr. SCHULZ. Yes.

Senator CHURCH. Compared to 64 percent in the case of Sweden?

Dr. SCHULZ. Sixty-six percent.

Senator CHURCH. Sixty-six percent in the case of Sweden?

Dr. SCHULZ. Yes; we are talking about Americans, not people in Sweden.

Suppose we abolished our present system and substituted for it a system similar to the one in Sweden. Then if we looked at the Americans who would be retiring between 1960 and 1979, we would find them receiving replacement rates in proportions similar to those shown in chart III.

I am trying to show the effects of a system that is operating in another country. I am not advocating that we adopt it. I am saying that if that system were operating in the United States, it would provide much higher replacement rates than we are getting from our own. And it is not a hypothetical system; it is an actual system in operation.

Senator CHURCH. And had we operated the German type, something over 80 percent, 83 percent?

Dr. SCHULZ. For all practical purposes, almost all couples would be getting more than 50 percent.

Senator CHURCH. Would 83 percent be getting more than 50 percent of their retirement above average salary?

Dr. SCHULZ. Right.

Senator FONG. What kind of pensions do Sweden and Germany have?

#### PRIVATE PENSIONS FLOURISH

Dr. SCHULZ. In Sweden, they have very good public pensions and also a very sizable private pension system.

That is, it is still felt necessary in Sweden to supplement the public social security benefits with private benefits. In neither Germany nor Sweden has the larger replacement rate—larger than the United States—through the public system resulted in the abolishment or elimination of private pensions.

In fact, during my visits to both countries, the people in the industries, the private pension industries, indicated that private pensions are flourishing and providing a very useful function. And as I will argue in my statement, I think there is a place for private pensions. I would not argue for their complete abolition. The question is what should be the mix of public and private pensions? I would argue the present mix should be changed.

Senator FONG. Would you say that in private public pensions in Sweden and Germany, the retiree gets 100 percent, most retirees get 100 percent of their preretirement wages?

Dr. SCHULZ. Often close to 100 percent of after-tax wages.

You have to make a distinction as to whether one is referring to gross wages or wages after the income tax. The goal in both of those countries is to maintain the standard of living of an individual or a

couple in retirement which is the same standard as they had before they retired—not to subject them to a radical, or a sharp drop in their living standard, just because they turned the magic age of 62 or 65.

That is the primary goal of both of those pension systems, and it is the one I think the Congress should be seriously considering for this country.

Senator CHURCH. But our goal through the years has been a very different one.

Dr. SCHULZ. Yes.

Senator CHURCH. Our goal has been to furnish elderly people, through the social security system, with a sufficient income, provide them with subsistence living, and only those whose incomes were at the very highest part of the scale, yet a retirement that is much above the subsistence level.

Dr. SCHULZ. Yes, and you will see when I get to chart V, the rather dramatic implications of that decision and its implication for the growth of private pensions in this country. We have two groups of older people who are moving away from one another in terms of the adequacy of their incomes in retirement.

Senator CHURCH. Very well. Please continue.

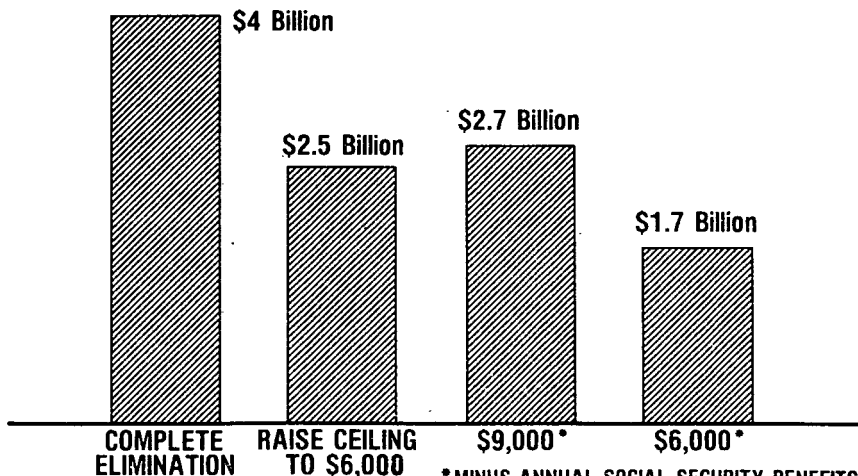
#### COST OF ABOLISHING RETIREMENT TEST

Dr. SCHULZ. As I said, I would not like to see the retirement test abolished. Rather, I think it should be significantly liberalized. That significant liberalization could be legislated at a much lower cost than the very high and more publicized cost of complete elimination.

The figure I have most often heard used is \$4 billion, and above that, I have heard \$4½ billion.

That cost figure is for complete elimination of the social security retirement test, as shown in chart IV.

Chart IV **COSTS OF LIBERALIZING THE 'SOCIAL SECURITY RETIREMENT TEST**



Source: Congressional Research Service, March 2, 1973



I think that we should, when we consider the direction we want to go with regard to the retirement test, look at the options in between, a very severe test, and a complete elimination of the test. What I am trying to show by this chart is that when you abolish the test the cost is still not inconsequential. But the cost drops substantially for other alternatives.

In the current situation, where many older people need and want to supplement their social security pensions with work, I think it is wrong to so severely penalize them.

Senator CHURCH. Does not it follow that if our task has been largely one of providing subsistence income, then in fairness, we ought to permit those who are willing and able to earn supplementary income without penalizing them though a reduction of their retirement?

Dr. SCHULZ. Yes.

Senator CHURCH. And presently—what is the earnings test, about \$2,400? It is now \$2,500. We have been adjusting it upward. It is very close to the poverty level. In other words, our position seems to me that if you earn \$2,400, which is close to our own definition of poverty, anything above that has to be docked from your retirement income.

Now, in your chart, this \$6,000 would be a retirement test that would permit a retiree to earn up to \$6,000 without penalty?

Dr. SCHULZ. That is correct.

Senator CHURCH. Up to \$500 a month without penalty?

Dr. SCHULZ. That is correct, yes.

Senator CHURCH. And you say the cost of that social security system would be \$1.7 billion?

Dr. SCHULZ. That is correct, as estimated by the Congressional Reference Service. I am using data provided by them, and it is much lower than the \$4½ billion.

Senator CHURCH. We are always frightened away from any tampering of this test, and the \$4 billion figure throws us.

Dr. SCHULZ. That is right.

Senator CHURCH. I have a bill in the Senate pending which would increase the retirement earnings test adjusted to \$3,000, which is a very modest increase above the present level.

Have you anything that you could give us showing what the cost of such an adjustment would be to the social security system?

Dr. SCHULZ. I am afraid not.

Senator CHURCH. Can you give us an estimate, would it be less than \$1 billion?

Dr. SCHULZ. From the cost estimates shown in chart IV it would appear that the cost would be almost negligible, that it would not be very high.

Mr. ORIOL. \$200 million the first year.

Senator CHURCH. The cost of the system would be \$200 million if we raise the retirement to \$3,000. You have here a column indicating a cost of \$2.5 billion when you raise the ceiling to \$6,000.

Over here your \$6,000 indicates approximately \$1.7 billion. How do you reconcile the two columns?

Dr. SCHULZ. The asterisk indicates the difference. The first figure is for a test which does not take into account social security benefits. That is, regardless of your benefits, you would be allowed to work and earn up to \$6,000 a year.

Senator CHURCH. I see.

Dr. SCHULZ. If you wanted to introduce an adequacy test into the retirement test, that is to permit those people who get the lowest social security benefits, and, therefore, probably need supplementation the most, to work the most—then by using a device similar to the one illustrated on the far right of the chart, you reduce the cost. In terms of cost effectiveness, you help the lowest income people among the elderly population. That is, you provide the most liberal retirement test for them.

#### ANOTHER ELEMENT OF COMPLEXITY

Senator CHURCH. That would certainly be a fairer way to approach this, but it would add another element of complexity to the system, make it very difficult for people to understand, why one can earn more than another.

We already have that problem in medicare, when people simply cannot understand why their neighbor received more from medicare than they did, and all of this as you know depends upon how much the doctor charges, and how much the medicare covers of the doctor's fee, and it is almost impossible for people to grasp what seems to them to be uneven treatment, and I think that that would be a problem in the kind of proposal that you make.

Dr. SCHULZ. I agree. I think that is a real concern. In fact, my general reaction to the existing complexity of the social security system makes me sympathetic to any argument against introducing still another complexity of this sort. But the main reason I present this as an alternative is really to dramatize the difference between what I see is the present totally irrational way of setting the retirement level—just arbitrarily setting the figure—and an alternative way in which you could rationally justify a much higher retirement test level.

I think that realistically and administratively it would be better to stay with a simple increase and avoid that kind of complexity.

Senator FONG. What would you do for a man who refused to retire at 65, and he works to 72? Is that 1 percent annual increment sufficient?

He is complaining that \$4 billion of his money will take care of the other people, and he is only getting 1 percent more for working, whereas if he retired at 62, you reduce it at another figure from what he would get at 65 for every year, but when he works beyond 65 he should get 12½ percent, something like that.

Dr. SCHULZ. Since we are faced with rising costs of social security, it is very important to encourage people who are able and would like to work to continue working. Therefore, I would be in favor of seeing that kind of a provision liberalized. That is, to provide a stronger incentive, or bonus to people who continue working.

We have to remember, however, that it is necessary to balance off the problems. That incentive costs money, and money may be taken away from the people who are unable to work.

Senator FONG. The 1 percent is no incentive at all?

Dr. SCHULZ. No, I don't think so.

Senator CHURCH. Senator Fong, we have a bill pending that is addressed to this problem.

Senator FONG. Yes, I have introduced a bill to increase it.

Senator CHURCH. I think it would be a definite improvement in the system.

I am sorry. We have a vote on. Why don't you go ahead and then come back. I will stay a few more minutes, and then we will not have as long a recess, if you could continue with your testimony.

Senator Fong will be back after he votes.

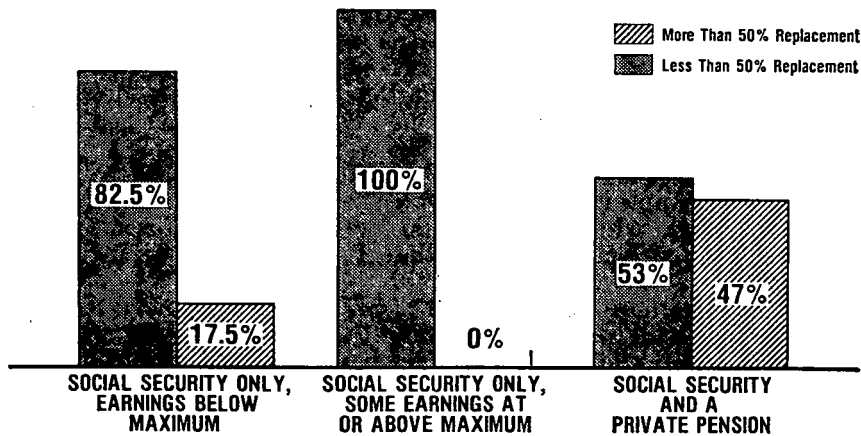
Dr. SCHULZ. I am coming now to what I think is the most important part of my statement.

Another way of dealing with the low income provided by social security has been the development of private pension plans. Many of these plans now provide benefits which together with social security enable recipients to live very comfortably in retirement—often at a level about equal to their preretirement standard of living. But currently only about 45 percent of wage and salary workers in private industry are covered by private pensions.

Thus, we now see an important division occurring in the retired aged population—between those with two pensions and those with only one pension.

Chart V illustrates the pension disparity among men retiring in early 1970. This chart shows the proportion of retirees with less and more than 50 percent replacement of total earnings.

**Chart V PROPORTION OF MALE SOCIAL SECURITY RETIREES WITH LESS AND MORE THAN FIFTY PERCENT EARNINGS REPLACEMENT EARLY 1970**



Source: Social Security Administration

About half of the men retiring during the first half of that year did not receive at retirement any pension other than social security.

On chart V, this group of "social security only" recipients is divided into two groups: those with earnings—in their 3 years of highest earnings during the last 10—below the social security maximum taxable earnings ceiling and those with earnings above the maximum in 1 or all of the 3 highest years. The third group is retirees with both social security and private pension coverage. While a relatively high proportion, 47 percent, of retirees with dual pension coverage received

pensions replacing more than 50 percent of preretirement earnings, most men receiving only social security received less than 50 percent replacement.

How are we to justify the growing economic chasm between these groups?

The current tax exemption incentives to promote retirement savings by those not covered by private pensions will not solve the problem. The experience of Canada, with a similar but even more liberal tax provision, indicates that the option will be used almost exclusively by the very well-to-do.

We could require all employers to provide private pensions for their employees or to allow them to join a government-run supplemental pension program. This is the approach proposed by the current Labor government in Britain and the Conservative government before it.

#### SOCIAL SECURITY SYSTEM SUPERIOR

While this option should certainly be explored, I would argue in favor of another approach. We should rely more heavily on social security for the bulk of pension income. The system has already proven its superiority and popularity in providing major retirement security. Private pensions and personal savings are necessary components to most individuals' retirement programs, but I believe that only a national pension system can deal effectively, first, with the need for universal and equitable economic security in old age. Second, with the need for protection against the problems of retirement preparation and retirement living arising from unemployment and inflation. Third, with the need for sharing the Nation's real economic growth with retired persons who look forward to one to two decades out of the labor force.

The recent somewhat belated discovery by some that the post-World War II baby boom has important implications for the financing of social security has been seized upon by some as a basis for scaring the public and undermining support for an expanded system.

The recently issued white paper, endorsed by former Secretaries of HEW and former Commissioners of Social Security, does a good job of summarizing the reasons why the recent attacks on social security are generally fallacious and irresponsible.

Certainly, Mr. Chairman, we should not ignore the question of the future costs of social security. Neither should we allow ourselves to focus so intently on this one issue that we ignore the most basic issue of all: What is the best mix of private and public pensions to insure ourselves adequate income in retirement?

The present social security system is certainly not perfect. In calling for a significant expansion in social security old-age pensions to provide more adequate retirement income, I am well aware of a number of problems and inequities; for example, the treatment of women and the treatment of persons prematurely forced out of the work force.

But I wish to associate myself with the position articulated in the social security white paper: \*

\*White paper issued on Feb. 10, 1975, endorsed by five former Health, Education, and Welfare Secretaries and three former Social Security Commissioners.

Public discussion addressed to improvement of the system is both necessary and helpful. But discussion of that kind is very different from assertions that the system is basically unsound, that it is bankrupt, or for some other reason doomed to collapse, or that it is a deception foisted on the American public.

There is, however, one current problem connected with the operation of social security which is very relevant to my argument that pension levels should be increased to provide greater replacement of preretirement earnings.

#### INDEXING PROCEDURE NEEDS REVISION

Various professionals in the pension field have raised serious questions regarding the indexing procedures legislated in 1972 to adjust the system for changes in the general level of prices. It is argued that current mechanisms overadjust and introduce a bias toward ever-increasing real benefit levels and higher payroll tax rates. As a consequence of this upward bias, various projections show future cohorts of retirees achieving higher and higher earnings replacement from social security pensions—replacement rates which in some cases could result in pensions which actually exceed preretirement earnings.

The Social Security Advisory Council has considered the indexing problem and recommended that "the benefit structure should be revised to maintain the levels of benefits in relation to preretirement earnings levels that now prevail."

While discussing the indexing problem at length, the Council provides no justification for not improving the real level of benefits. In fact, the whole issue of benefit adequacy has been avoided again—just as was the case with the previous Advisory Council.

I wish to argue strongly against the Advisory Council's recommendation to freeze social security replacement rates at current levels. If such a policy were adopted, it would doom generations of retirees without private pension coverage and those with inadequate private benefits to the same drastic drop in living standards experienced by so many of the current aged population.

As the Congress well knows, the current elderly population continues to appeal to the Nation for more assistance—despite the many improvements of the past. While some of their need arises from special historical circumstances, and is to a certain extent unique—I want to emphasize the element of constancy in their plight. Unless we recognize the need for adequate earnings replacement through pension systems for future generations, they too will suffer from relative deprivation. They too will claim, as many older persons do today, that they have been abandoned and ignored by the society at a time of great economic vulnerability.

The minimum earnings replacement guarantee through social security should be about 55 percent. As I have explained in some detail in my book, this 55 percent replacement guarantee would provide most of the income needed to maintain living standards in retirement but not all that is necessary. Thus, it would allow a measure of choice to individuals as to whether they wish to supplement this income through personal savings or private pensions. And, consequently, it would recognize the existence and continuing role of private pensions in this country.

For the first three decades of its history the social security system was viewed as a floor of protection, but few who had to live on that floor viewed it as adequate. In 1972, the Congress raised that floor and according to former Commissioner of Social Security Robert Ball, established "a new social security program—one that provides a new level of security to working people of all ages and to all families."

Now some would have us freeze real improvements in benefit levels at current levels.

I am sure the Congress will see the shortsightedness of such a policy. I hope, instead, that the Congress in dealing with the over-indexing issue will seize the opportunity to establish a realistic goal for providing adequate income in retirement.

### FINANCING THE PROGRAM

Finally, I would like to briefly make some observations about social security financing. The expansion of social security that I urge would raise the costs of the system. How can we afford higher real benefits when demographic considerations are already creating financial concern? In this regard, I think we should:

(1) Phase-in benefit improvements over a period of years—similar to the way many other countries have introduced major improvements in benefit levels.

(2) Reduce the welfare elements of social security.

(3) Limit the tax subsidies awarded to private pensions.

As I indicated to this committee when it began its earlier hearings on the "Economics of Aging: Toward a Full Share in Abundance":

The major economic issue is not whether—in the face of other expenditure needs such as general poverty, urban blight, pollution, and national defense—we can have better pensions for the aged. Rather, the issue is better posed as whether we want a higher standard of living in our retirement years at the expense of a lower standard in our younger years.

In a very meaningful sense we can have what we want. The Congress, for example, is currently considering a \$15 to \$35 billion tax cut. Such a tax reduction could easily finance all the "windfall gain benefits" currently being paid to those retired. Such general revenue financing, which has been advocated by many, would permit a substantial drop in the payroll tax rate and give a truer picture of the costs of adequate social security benefits to individuals. And, in terms of the current recession, it could provide the same economic stimulus. In fact, it might even provide an even greater economic stimulus—given the regressive nature of the payroll tax.

And, if one thinks that we are heavily burdened by social security costs in this country, one should look at other industrialized countries where the payroll tax typically ranges between 15 and 20 percent of payroll.

Yes, the days of cheap bread, gasoline, and social security are gone forever. But we should not panic and react hastily to the new situation. In the case of pensions, now is the time to begin the debate on how best to provide, not subsistence, but truly adequate retirement income—not just to the "pension elite" but to all Americans.

Senator FONG [presiding]. How do you answer young people who say you are spending almost everything that comes in, you are not setting aside a reserve? When we retire, we do not know whether we will get our benefits or not. How do you answer these young people?

## FAITH IN THE FULFILLMENT OF OBLIGATION

Dr. SCHULZ. The simple answer to that question would be to have faith in the Government, to have faith in the fulfillment of obligations which have been taken on by the Congress through legislation. But I think, more fundamentally, they need to look at the history of economic growth in this country and the expansion of economic opportunity in this country. It is this economic growth, and the expansion of opportunities which creates the financial base for our social security system to provide benefits to older people. So one really has to have that kind of outlook to have confidence in the economy and to have confidence in the Congress in not renegeing, in some sense, on a promise made to future generations who are currently contributing vast sums of money to support the current aged population.

Senator FONG. Many of them look at it from the standpoint, where you say this is insurance for the old aged. We take your premiums now, we put it aside, and when you get to a certain age, we will pay you.

Look at it from an insurance company's standpoint. When an insurance company insures your life, you pay so much premium. They take a portion of that premium, put it away as a reserve, that earns income, and when you retire, from that reserve it pays you.

Here we only have probably just a half year reserve to pay what we have obligated ourselves, and how can we keep it more in line with the thought that part of this is really insurance, and if it is an insurance matter, don't we need a bigger reserve? Should not we keep a bigger reserve to take care of some of the obligations that will come about in the future, where as you say, we are on almost a pay-as-you-go basis?

The young man says "I pay now, but actually none of my payment in there is kept for me. I have to wait for my grandson to pay for my social security when I retire."

How do you answer these people who have that kind of thought in their mind?

Dr. SCHULZ. I have tried very often in my own courses to explain this to my students, and I must confess that it is very difficult for them to comprehend the reasonableness of a pay-as-you-go system.

It does conflict with their intuitive understanding of how insurance works, and I think a lot of the concern that has been voiced in the media about the financial viability of the system, in part, reflects again the concern about the question you are raising.

The white paper that has been reprinted by this committee attempted to provide an answer in some detail.

I think it was a very able statement and a good explanation. Beyond such attempts by knowledgeable people to set out in a fairly detailed fashion just how the system works, I am not sure I can provide much other assistance.

I would say, however, that we have to emphasize that insurance has many aspects, and financing is but one of them. Just because social security departs from private insurance with regard to how it is financed, still does not mitigate the fact that in many other ways it is insurance. For example, the survivors insurance provisions of social security in terms of their value exceed the value of all outstanding private life insurance in the United States today.

That kind of insurance protection embodied in the system has got to be explained to people, particularly younger people, who think that social security is only something you get when you get old.

As Congresswoman Griffiths pointed out in her statement\* last summer, there are a great many people receiving social security who are not old or not disabled.

Senator FONG. You have made a very detailed study of the social security system in our country.

What do you think of the ability of the present setup with an Advisory Council that acts once in every 4 years, and a new Council is appointed every 4 years, to really tackle the real problems that are confronting this business of social security?

It is a tremendous business. It is the biggest business we have in America, I think. It affects almost every individual in America, and it is so large and so complex, the questions of financing, the questions of payment, the questions of replacement ratios, and all that. Do you think an Advisory Council, such as we have at the present time, has sufficient time, staff, and knowhow to really tackle all of these problems?

Dr. SCHULZ. I have been very unhappy with the prior reports of the Social Security Advisory Councils. I do not think they have done the kind of in-depth study of the system that we need.

#### ADVISORY COUNCIL STAFFING INADEQUATE

One of the problems, I think, arises from inadequate staffing. I feel very strongly that the Social Security Advisory Councils should have staffing apart from those provided it by the Department of Health, Education, and Welfare.

I think that if they had independent staffing, if they got started sufficiently ahead of the time when they had to make a report to the Congress, they could make a very meaningful contribution to an understanding of these very fundamental problems.

The past Advisory Councils, again, have not done the kind of in-depth analysis that we need.

Senator FONG. They themselves recognized it.

Dr. SCHULZ. The most recent one certainly made that very clear in their report.

Senator FONG. I have introduced Senate Joint Resolution No. 5\*\* under which a National Social Security Commission is to be appointed, four by the Congress, and five by the President, to work as a full-time Commission, to look into every phase of the social security system, and advise us as to what should be done, in place of this Advisory Commission which we have now. What do you think of it?

Dr. SCHULZ. I think it is a very good idea. The problems have grown in complexity. They are not getting any simpler. We are going to need to take more time and make a better effort to investigate them. With certainty, some sort of ongoing deliberating investigative body could make an important contribution.

Senator FONG. I have a few questions here. As you know, the Social Security Advisory Council has recommended reallocating part

\*"Future Directions in Social Security," pt. 8, Washington, D.C., July 16, 1974, p. 693.

\*\*See "Future Directions in Social Security," pt. 9, Washington, D.C., Mar. 18, 1975, p. 859.



of the hospital insurance contribution rate under medicare to the cash benefits program, and then use general revenue financing for medicare.

Two of our witnesses yesterday criticized this proposal as undermining the contributory features of the social security system. They also feared that this measure would eventually lead to a means test of the medicare program.

What is your reaction to this criticism?

Dr. SCHULZ. I would have to say, Senator Fong, that unfortunately I have not had a chance to study in detail the Advisory Council's financial report. It was not available to me until yesterday. But, in general, my reaction to the idea of some sort of general revenue financing is favorable. I think that we should introduce some measure of general revenue financing and, at the same time, retain the payroll tax.

I think if we do the two together, it will not seriously undermine the system—that is, the insurance aspects of the system and political support for the system.

Whether we should do it the way the Advisory Council has recommended, through general financing of medicare, that I am less sure about.

I feel that we need much greater study before we take that step, and as you indicated in your last question, we need an in-depth analysis of these kinds of very basic issues before we make our decisions.

Senator FONG. Our income maintenance programs are essentially a three-tier system; social security, of course, provides the base protection, and then there are private efforts, such as private pensions and savings, to supplement social security.

The third tier is public assistance for persons with incomes below certain determined standards.

In this complicated system, what do you view as the promise of social security and private pensions?

Dr. SCHULZ. I think that social security should provide the bulk of the income needed by people in old age.

By that I mean that we should provide through social security an amount of income which is sufficient so that in the absence of any additional income, people would not be forced to experience a very sharp drop in their preretirement standard of living when they move into retirement. But I also believe that people should have some option, should have some flexibility with regard to just what standard of living they personally would prefer. Therefore, I would allow some measure, some role, for private pensions for people who wanted to be covered by them. Also, I would permit some role for individual savings, but as I tried to indicate in my statement this morning, I feel very strongly that the role of social security in this three-tier type arrangement should be much greater than the traditional view.

Senator FONG. And you feel the social security payment should be the greatest of all?

Dr. SCHULZ. Of all three, it should be the major one by far, I am trying to say.

Senator FONG. Reference has been made to Canada regarding private pensions. How is the Canadian Government role in retirement income handled?

Dr. SCHULZ. In Canada?

Senator FONG. Yes.

Dr. SCHULZ. The decision was made to provide a role for social security that was relatively small, very much like the role currently being played by social security in this country. It was a decision on their part to keep the social security component relatively small.

This contrasts, I might add, with many of the European countries, where the decision has been for the opposite.

Senator FONG. Do you know what percentage is handled by the government there, what percentage of retirement income?

#### CANADIAN SYSTEM SIMILAR TO UNITED STATES

Dr. SCHULZ. In my book, I have estimated the replacement potential of the Canadian social security system. In contrast with the replacement rates characterized in chart IV [see page 887]. I have estimated that the Canadian pension system would provide about 39 percent earnings replacement of final earnings for what I characterize as the average worker—39 percent.

Senator FONG. Are they doing more than the United States, or are we doing more?

Dr. SCHULZ. They are about comparable with the United States.

Senator FONG. Thank you very much.

Mr. Oriol, our staff director, wishes to ask you some questions, and I have to answer a role call again.

Mr. ORIOL. Dr. Schulz, I am sorry that Senator Church was called away. He mentioned to me that he was very much impressed with your presentation and that you have made a major contribution to our hearings.

Now, we also appreciate all the help you have given the committee over the years, including your work on the Economics of Aging Task Force a few years ago.

In fact, in preparing for this hearing, you were even able to work out these charts, the details of them over the telephone, which is no small achievement in itself.

I would like to ask one question, which I think you have touched upon or perhaps upon which you would care to elaborate. Are the Advisory Councils—this is the Social Security Advisory Council which testified yesterday—their recommendations on an average index monthly earnings for AIME—I think you have indicated this in your testimony—but it seems that they are similar to practices now actually in use in other nations, and maybe, you could describe for us how that is done elsewhere.

Dr. SCHULZ. Again, to reiterate, I have not had a chance to study financial aspects of the report. In fact, I do not have a personal copy of the report yet. But as I understand it, one of the major recommendations of the Advisory Council is to deal with the problem which they characterize as the decoupling and which I talk about in my statement as the problem of over-adjustment of social security for price increases.

Now, the way they propose to do that is by changing the benefit formula for calculating social security pensions, in a rather substantial way.

I find two things interesting about what they propose. One is that the way they propose to do it takes account more explicitly of the need to establish some sort of replacement level in social security. In this sense, it is very much like efforts in other countries—Canada, for example, where such efforts have been undertaken. But as I indicated in my statement, once having said that we should establish explicitly a replacement rate, they then go on to make the recommendation that we should freeze that replacement rate at current levels—without providing any justification as to why we should. It is this part of the recommendation that I take very strong exception to.

Mr. ORIOL. I would like to ask for a little more discussion of this comment in your statement.

The Congress is currently considering the \$15 to \$35 billion tax cut. Such a tax reduction could easily finance all of the windfall gain benefits currently paid to those retired.

Will you elaborate on that? I am not sure what you mean by windfall gain benefits.

Dr. SCHULZ. Early in the history of social security the decision was made that we should provide full coverage to many older persons who had not worked a great deal under social security, and, consequently, had not paid much into the system through payroll contributions.

The result of this decision, in part, was to provide benefits to older people which actuarially far exceed their contributions into the system. And it is this difference, this actuarial difference between contributions paid in and benefits paid out, which constitutes what has been called a windfall gain by many people in the Congress.

Mr. ORIOL. Other people call it accrued liability.

Dr. SCHULZ. Yes. You can choose your words, depending on the stress or the emphasis you want to make.

#### FINANCING "WINDFALL" GAIN BENEFITS

I personally prefer to emphasize the welfare character of this decision, because I think it has important implications for the financing of the system. As I indicated in my statement and what I tried to say in the statement—we wanted to finance these windfall gains, or accrued liabilities through general revenue financing—the cost of doing it would be within the range of the tax reduction proposals that are currently being made to the Congress.

Now, I am not suggesting that the Congress change the current tax bills that they are considering.

What I am suggesting is that if we wanted to provide higher real benefit levels, we could do it through the financing mechanisms of the Government.

Mr. ORIOL. Mr. John Guy Miller, the minority staff director, would like to ask you a couple of questions.

Mr. MILLER. I have a couple of questions with reference to your views with regard to replacement as a percentage of preretirement earnings.

Obviously, the number of people who earn quite high incomes during their working years is comparatively small, but in your calculations of these replacement percentages, have you calculated in any ceiling at all, and, if so, or, if not, how would this factor enter in?

Dr. SCHULZ. The projections that are shown in chart IV do—

Mr. MILLER. Chart III.

Dr. SCHULZ. That is correct; chart IV does incorporate a ceiling.

This ceiling is two times average earnings, average earnings for people covered in social security employment.

That assumption is not based upon the current ceiling in the present social security role.

Rather it is the ceiling that is currently used in the West German system.

To make meaningful comparisons of our present system with the German and Swedish systems, it was my feeling it was more appropriate to use that higher ceiling than the much lower ceiling in the present system.

If we used the current ceiling, then the replacement rates for the U.S. system shown in the first column would be much lower. Therefore, these are very liberal projections of the replacement rate from that standpoint.

Mr. MILLER. It is difficult, of course, to compare income levels between different countries for a variety of reasons, I am sure, but how does the base income, before retirement in West Germany and Sweden, compare with that in the United States, and what bearing does this have on the product of these calculations?

Dr. SCHULZ. I think it is reasonable to make comparisons between the three, because the fact is that these are two of the most prosperous, if not the two most prosperous, nations in Europe in terms of the living standards of the workers. Therefore, the bases, in my opinion, are very comparable.

Mr. MILLER. Thank you.

Senator CHURCH [resuming chair]. Just as I left—I am sorry, we are going to have that kind of day. The Senate will be voting frequently throughout the day, which means we will have to abbreviate the hearings, and the questions, if we are to accommodate the witnesses this morning.

I just have one question. As I left the room to vote, you said you were just about to make your most important point. I would like to know what that was before you leave the witness stand.

Dr. SCHULZ. What I tried to explain, Senator Church, is that we are confronted now with a situation where there are increasing numbers of people retiring with both a private pension and social security. And if one looks at chart V (see page 890), we see that the replacement of earnings from pensions, for those people with dual coverage, is much higher than for those people with only social security. The differences are particularly great for people covered only by social security who have some earnings above the taxable earnings ceiling.

Now, the problem that it raises in my mind is how are we going to deal with a developing situation—where one group of people with one pension have their pension incomes growing at one rate, and another group with two pensions have retirement incomes growing at another rate. And the latter group having significantly higher replacement rates and, in some cases, very adequate retirement income. I pose the issue that we either have to decide to mandate private pension coverage—that is one way of going it—or, as I propose, we have to increase the real benefit levels under social security for everyone. Then if there are some segments of the population that do not

have private pension coverage, we can feel more comfortable about the economic implications for them of that fact and feel more comfortable about the equity of this in terms of our national responsibility.

Senator CHURCH. Have you furnished us with figures as to what this would cost?

Dr. SCHULZ. I have provided some statistics on that in my book.

If you will look again at chart III (see page 885) I can give you the relative costs of these alternatives.

Senator CHURCH. Chart IV it must be.

Dr. SCHULZ. No, chart III.

#### SWEDISH PLAN MORE COSTLY

Suppose we shifted to a Swedish type pension system that provides much higher real benefit rates, the cost would be about 50 percent more than current social security costs.

It is important to emphasize that the increase in cost is for the old-age pension portion of the social security system only. Future costs of the disability and health programs are not affected by the proposed changes.

I have also estimated the cost of a German-type program in the United States which used 50 percent as a target replacement rate. The cost of this option is estimated to be 30 percent higher than the current OASI program. A 55 percent replacement goal, as proposed in my testimony, would cost slightly more.

Thus, it would be very much higher, and that is why in my statement I tried to emphasize with regard to financing social security costs the fact that we could do this through a variety of devices.

One of them is general revenue financing, but there is no question that it costs a lot more to provide better benefits.

The issue in my mind is whether we are going to do it through a public system that helps everyone or through a private system which helps only a minority of the people.

Senator CHURCH. Obviously, this can only be done if we really change the priorities in this country, and whether we are prepared to make those changes, is very doubtful.

This morning's paper shows that we spend \$350 million to pay Howard Hughes to raise an 18-year-old obsolete submarine. Obviously the intelligence community is in bad need of a cost-benefit ratio, and with our spending habits, prolific spending habits for such exotic spending enterprises, there will not be room enough for the elderly in this country, for the kind of system you wish.

Dr. SCHULZ. I can appreciate that. We can only do what we want to do, and many of us do not want to do it.

Senator CHURCH. I know, but I am discouraged when I think about our failures to provide adequately for our own elderly, and the prolific way we waste money, it is little wonder that we are broke.

Thank you very much.

Dr. SCHULZ. You are welcome.

Senator CHURCH. Our next witnesses come from the National Retired Teachers Association-American Association of Retired Persons; Harriet Miller, Thomas C. Borzilleri, Peter Hughes, and James Hacking.

Please proceed with your statement Ms. Miller.

**STATEMENT OF HARRIET MILLER, NATIONAL RETIRED TEACHERS ASSOCIATION-AMERICAN ASSOCIATION OF RETIRED PERSONS; ACCOMPANIED BY THOMAS C. BORZILLERI, PETER HUGHES, AND JAMES HACKING**

Ms. MILLER. Mr. Chairman, I am Harriet Miller, associate director for legislation, research and developmental services of the National Retired Teachers Association and the American Association of Retired Persons. These affiliated organizations represent a combined membership of nearly 8 million older persons.

I am accompanied by Thomas C. Borzilleri, our staff economist, and James M. Hacking and Peter W. Hughes, members of the legislative staff.

It must be recognized that the social security system is the captive of an economy which is experiencing its worst economic recession since the late 1930's and, simultaneously, the highest rate of inflation on record.

Let it be understood at the outset: Any extended continuation of high inflation and unemployment, coupled with a zero or negative population replacement rate, would destroy the system as it is presently structured. The system must be desensitized to variable long-term rates of inflation and provided with new sources of revenue.

The Advisory Council has recommended a limited restructuring of the system—changes in the mechanics of benefit computation, changes in the benefits themselves to equalize the treatment of men and women, and an infusion of general revenues into the hospital insurance program.

This use of general revenues would, in turn, release 1 percent of the HI portion of the payroll tax for use in the cash benefit (OASDI) programs to offset recommended cash benefit liberalizations and next June's 8.7 percent cost-of-living adjustment. As additional OASDI revenues are needed in the near future, the remaining HI payroll tax component would be shifted to cash benefits and offset by additional general revenues.

Our associations agree that a restructuring of the mechanics of benefit calculation is needed to stabilize the earnings replacement ratios. We also agree that new sources of revenue are needed immediately to maintain the system through an extended period of high inflation. However, our recommendations are more far-reaching:

If a restructuring of the OASDHI programs are to be undertaken, it should produce a degree of system flexibility sufficient to accommodate, over both the short and long term, economic and demographic trends more pessimistic than those used by the OASDHI trustees and the Council.

Their assumptions may be "reasonable," but they may not be right. Since we are dealing with an institution that provides \$5 billion in cash benefits each month to 30 million retired and disabled workers, their dependents and survivors—plus health care protection—we cannot afford to be overly optimistic in the assumptions on which is predicated that institution's continued financial viability.

The 1974 OASDI trustees' report projected, largely because of lower fertility rates (see table I, page 902), a long-range actuarial imbalance of 2.9 percent of taxable payroll based on present law (see table II, page 903).

Ominously, however, the report indicated that a 1 percent increase in the long-range, annual rate of inflation—from 3 to 4 percent—would increase the average cost by 47 percent (see table III, page 903).

A subsequent report by an independent panel found, on the basis of demographic and economic projections just slightly more pessimistic than those used by the OASDI trustees (see tables IV and V, page 903), a long-term deficit of 6 percent of taxable payroll (see table VI, page 904).

#### FINANCING PROBLEMS

Now that the Advisory Council has completed its deliberations, we find not only a long-range financing problem but one of short range as well. While the long-term OASDI deficit is largely a function of low fertility rates, the short-term deficit is a function of unexpected high inflation rates (see tables VII and VIII, page 904).

The continuing inflation-recession experience has created an immediate financing problem for the system. Since the cost-of-living cash benefit adjustment this year will be almost twice that originally projected, the Advisory Council found that the 2.98 percent long-term deficit would be increased by 0.51 percent and require immediate financing.

With respect to the hospital insurance program, the 1974 trustees' report projected a small surplus by 1995, assuming that removal of the economic stabilization controls would be followed by hospital charge inflation rates close to the precontrol level, but ultimately by more modest rates.

However, the sensitivity test indicates that, if following the removal of controls, the rates of hospital charges increase in the short run to a level consistent with precontrol rates but in the long run, decrease to not less than 9 percent a year, there would be an actuarial imbalance in the hospital insurance trust fund of 0.64 percent (see table IX, page 905).

TABLE I.—CHANGE IN OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE LONG-RANGE ACTUARIAL BALANCE<sup>1</sup>—AS PERCENT OF TAXABLE PAYROLL<sup>2</sup> BY TYPE OF ASSUMPTION

[In percent of taxable payroll]

	Old-age and survivors insurance	Disability insurance	Total
Actuarial balance under previous estimates.....	-0.43	-0.08	-0.51
Retirement rates.....	-.14		-.14
Disability rates.....		-.21	-.21
Population assumptions.....	1.79	-.08	-1.87
Economic assumptions.....	-.18	-.01	-.19
All other factors (net).....	-.04	-.02	-.06
Change in actuarial balance.....	-2.15	-.32	-2.47
New actuarial balance.....	-2.58	-.40	-2.98

<sup>1</sup> Represents the difference over the 75-year period, 1974-2048, between the average tax rate and the average cost.

<sup>2</sup> Payroll is adjusted to take into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

Source: 1974 trustee report on OASDI, H. Doc. No. 313, 93d Cong. 2d sess., 36 (June 3, 1974).

TABLE II.—ESTIMATED ACTUARIAL BALANCE<sup>1</sup> OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL,<sup>2</sup> DYNAMIC ASSUMPTIONS<sup>3</sup>

Item	OASI	DI	Total
Average cost of system.....	11.97	1.92	13.89
Average rate in present tax schedule.....	9.39	1.52	10.91
Actuarial balance.....	-2.58	-.40	-2.98

<sup>1</sup> As measured over the 75-year period, 1974-2048.

<sup>2</sup> Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

<sup>3</sup> See text for a description of the assumptions.

Source: 1974 trustee report on OASDI, H.R. Doc. No. 313, 93d Cong., 2d Sess. 35 (1975).

TABLE III.—PROJECTED "CURRENT COST"<sup>1</sup> OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF PAYROLL,<sup>2</sup> UNDER VARIOUS DYNAMIC ASSUMPTIONS, FOR SELECTED YEARS, 1974-2045

[In percent]

Calendar year	Dynamic economic assumption <sup>3</sup>						
	5-3	5-2	5-4	6-3	4-3	6-4	4-2
1974.....	10.67	10.33	10.35	10.33	10.33	10.35	10.33
1985.....	10.44	9.63	11.64	9.33	10.96	10.49	10.20
1990.....	11.03	9.76	13.00	9.53	12.15	11.25	10.77
1995.....	11.25	9.53	13.98	9.44	12.94	11.69	10.92
2000.....	11.31	9.10	14.71	9.19	13.48	11.92	10.84
2005.....	11.69	8.88	15.74	9.14	14.23	12.39	10.89
2010.....	12.69	9.16	17.71	9.60	15.82	13.55	11.56
2015.....	14.14	9.78	20.55	10.43	18.15	15.27	12.68
2020.....	15.71	10.48	23.80	11.37	20.84	17.24	13.95
2025.....	16.97	11.01	26.86	12.16	23.29	18.99	14.97
2030.....	17.60	11.14	29.05	12.53	24.92	20.12	15.42
2035.....	17.68	10.89	30.15	12.45	25.62	20.50	15.30
2040.....	17.68	10.57	30.97	12.26	26.05	20.66	15.04
2045.....	17.86	10.39	32.08	12.19	26.74	20.98	14.95
Average cost <sup>4</sup> .....	13.89	10.05	20.41	10.66	17.96	15.20	12.60

<sup>1</sup> Represents the cost as percent of payroll of the year's total outgo, including amounts needed to maintain the funds at about 1 year's outgo.

<sup>2</sup> Payroll is adjusted to take into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wage" as compared with the combined employer-employee rate.

<sup>3</sup> The 1st of the 2 figures represents the assumed ultimate annual percent increase in earnings after 1980, while the 2d figure represents the assumed ultimate in CPI.

<sup>4</sup> Represents the arithmetic average of the "current cost" for the 75-year period 1974-2048.

TABLE IV.—FERTILITY RATES FOR RECENT YEARS, AND THE ASSUMPTIONS OF 74 TR AND OF THIS PANEL: ACTUAL AND ASSUMED

	Actual				Assumed					
	1965	1970	1972	1973	1975	1980	1990	2000	2025	2050
74 TR.....	2.9	2.4	2.0	1.9	1.9	2.0	2.1	2.1	2.1	2.1
This panel.....	2.9	2.4	2.0	1.9	1.9	1.6	1.8	1.9	2.1	2.1

TABLE V.—SUMMARY OF THE COMPARATIVE ASSUMPTIONS OF 74 TR AND OF THIS PANEL

[In percent]

	Annual rates of increase, 1975 to 2050 in—		
	Real wages	CPI	Money wages
74 TR.....	2	3	5
This panel.....	2	4	6



TABLE VI.—EXPENDITURES AND EXCESS COSTS, AS PERCENTAGES OF TAXABLE PAYROLL

Calendar year	1974 trustees' report		This panel's assumptions	
	Estimated cost	Excess cost	Estimated cost	Excess cost
1975.....	<sup>1</sup> 10.2	0.3	10.2	0.3
1980.....	<sup>2</sup> 10.3	.4	10.4	.5
1985.....	10.4	.5	11.0	1.1
1990.....	11.0	1.1	11.5	1.6
1995.....	11.3	1.4	11.8	1.9
2000.....	11.3	1.4	12.2	2.3
2005.....	11.7	1.8	13.0	3.1
2010.....	12.7	2.8	14.6	4.7
2015.....	14.1	2.2	16.7	4.8
2020.....	15.7	3.8	19.2	7.3
2025.....	17.0	5.1	21.6	9.7
2030.....	17.6	5.7	23.3	11.4
2035.....	17.7	5.8	24.0	12.1
2040.....	17.7	5.8	24.9	13.0
2045.....	17.9	6.0	24.7	12.8
2050.....	17.2	5.3	23.9	12.0
Average rates.....	13.9	3.0	16.9	6.0

<sup>1</sup> The estimated cost in 1975 only represents benefits and expenses, no contribution to the balance of the trust fund.  
<sup>2</sup> Interpolated from data given.

Note: In 1975 each 1 percent of taxable payroll means \$7,000,000,000.

Because of the uncertainty of future economic developments and because of the very high degree of sensitivity of future levels of benefit expenditures to assumed changes in the CPI, two alternative sets of estimates based on different economic assumptions are presented in this section. The alternatives differ with respect to the assumed future path of the CPI and to assumed future increases in average wages.

TABLE VII

[In percent]

Calendar year:	Alternative I		Alternative II	
	Increase in wages	Increase in CPI	Increase in wages	Increase in CPI
1974.....	7.9	9.1	8.3	9.7
1975.....	8.5	5.7	9.3	7.1
1976.....	8.0	4.5	8.6	5.5
1977.....	7.6	3.2	8.4	4.8
1978.....	5.5	3.0	7.5	4.3
1979.....	5.5	3.0	6.0	4.0
1980.....	5.5	3.0	6.0	4.0

Source: 1974 Trustee Report on OASDI Trust Funds, H.R. Doc. No. 313, 93d Cong., 2d sess. 18 (1974).

TABLE VIII.—ECONOMIC ASSUMPTIONS

[Calendar years, dollar amounts in billions]

Item	1973 actual	1974 actual	Assumed for purposes of budget estimates			
			1975	1976	1977	1978
Gross national product: Current dollars.....	\$1, 295	\$1, 397	\$1, 498	\$1, 686	\$1, 896	\$2, 606
Constant (1958) dollars:						
Amount.....	\$839	\$821	\$794	\$832	\$879	\$1, 061
Percent change.....	5.9	-2.2	-3.3	-4.8	5.6	6.5
Prices (percent change):						
GNP deflator.....	5.6	10.2	10.8	7.5	6.5	4.0
Consumer Price Index.....	6.2	11.0	11.3	7.8	6.6	4.0
Unemployment rate (percent).....	4.9	5.6	8.1	7.9	7.5	5.5

Source: Office of Management and Budget, "The United States Budget In Brief, Fiscal Year 1976," 14 (January 1975).

Table IX compares the cost of the HI program with two alternative projections, based on different assumptions as to the rate of increase in hospital costs. The first alternative shows the current cost ratios that would occur if the rates of hospital cost increase in the short range were to revert to a level consistent with, but lower than, the corresponding rates experienced under medicare prior to cost controls and in the long range were to decrease to the level of 9 percent per year. The second alternative shows corresponding figures that would occur if the rates of increase in the short range were to remain at a level consistent with those experienced under medicare during the period of cost controls and in the long range were to decrease to the level of 7.5 percent per year.

TABLE IX.—SUMMARY OF ALTERNATIVE PROJECTIONS OF THE COST OF THE HI PROGRAM

[In percent]

Year	This report	Alternative 1	Alternative 2
Assumed increase in hospital costs per capita:			
1974.....	9.6	11.4	9.1
1975.....	12.6	14.0	10.5
1980.....	11.0	12.5	10.5
1985.....	8.0	9.0	7.5
1990.....	8.0	9.0	7.5
1995.....	8.0	9.0	7.5
Current cost ratios and resulting actuarial balance:			
1974.....	1.63	1.67	1.59
1975.....	1.69	1.76	1.63
1980.....	2.07	2.32	1.97
1985.....	2.48	3.01	2.37
1990.....	2.94	3.81	2.81
1995.....	3.45	4.70	3.24
Average cost.....	2.63	3.29	2.50
Average tax.....	2.65	2.65	2.65
Actuarial balance.....	+ .02	-.64	+ .15

Source: "1974 Trustee Report of the HI Trust Fund," H. Doc. No. 314, 93d Cong., 2d sess., 28 (June 3, 1974).

Our associations wish to point out that, following the end of controls, the health care inflation rate was 17 percent; that for hospital charges was even higher.

We believe that the Advisory Council should have examined more critically the set of assumptions used in the 1974 OASDHI Trustees' Reports. In developing suggested solutions to the short- and long-term financing needs of the system, the Council should have used a low, medium, and high set of assumptions and produced recommendations for restructuring the system that would have been flexible enough to accommodate even the worst case.

Our associations believe that our three-tiered, income maintenance structure should reasonably assure that the highest standard of living achieved by an aged or disabled family unit prior to retirement, death, or disability will be perpetuated. Since the preservation of that standard after retirement is thought to require a level of income of at least 60 to 65 percent of the preretirement level, the OASDI programs should be augmented to provide a greater overall rate of earnings replacement.

#### SUGGESTIONS TO CONGRESS

Since the function of providing the aged with an adequate floor of income protection has been assumed by the SSI program, and in

view of the necessity for a fundamental change in OASDI benefits and financing, our associations urge the Congress:

- (1) To make the system universal;
- (2) To continue the contributory aspect and preserve the "right" to benefits;
- (3) To establish an adequate earnings replacement ratio;
- (4) To stabilize that replacement ratio by decoupling the indexing of benefits from the indexing of the earnings record;
- (5) To provide new—not simply more of the same—sources of revenue; and
- (6) To introduce additional equity into the financing of the program and into the programs' treatment of men and women and of single- and double-earner family units.

Our associations agree with the Council that the OASDI system should be universal and we suggest, that if it is not feasible to extend the system such that it constitutes a first tier of benefits, supplemented by a second tier, career retirement program—similar to the railroad retirement system—it is feasible to integrate the existing primary retirement systems by providing for an exchange of credits.

We also endorse the Council's recommendation that there be phased in, over a 30-year period, an offset with respect to derivative OASDI benefits in an amount equal to any primary benefit from any non-OASDI retirement systems.

These recommendations would tend to assure the receipt of benefits in relation to total contributions and to eliminate some of the maldistribution of our limited income maintenance resources that results from dual or multiple benefit entitlement.

With respect to the contributory nature of the OASDHI programs, we believe that everyone should be required to contribute some minimum. We do not believe that the hospital insurance program should be financed totally from general revenues as the Advisory Council recommends. The contributory feature is essential to preserving the concept of a "right" whether those benefits are in cash or in-kind.

Our associations will support the Advisory Council's recommended restructuring of OASDI benefit computation only if the SSI program is perfected to the point to where it provides at least a poverty level floor of income protection. SSI must assume the "floor of protection" function.

Senator CHURCH. I very much agree with that position because I believe, unless the SSI can maintain a minimum level of retirement income—that is, above the poverty line—there is really no justification for having established the system.

That was its purpose, after all, and we are, if we are not going to achieve that purpose, we might just as well go back to the old welfare system and that, I think, would be a great step backward.

#### PROGRAMS OVERINDEXED

Ms. MILLER. Thank you, Mr. Chairman. We agree with the Advisory Council's conclusion that the OASDI programs are over-indexed. We agree that, in the future, an individual's earnings record should be indexed and restated in terms of the wage levels prevailing in the year before the year in which he retires, becomes disabled, or

dies. We agree that the level of benefits should not exceed 100 percent of AIME.

We do not, however, agree that the two- or three-tiered benefit formula should provide replacement ratios roughly equivalent to those presently prevailing. The amount of earnings replaced should not be less than 55 percent of AIME, if the preexisting standard of living is to be preserved.

In this connection, I would draw your attention again to Dr. Schulz' chart, upon which you commented, Mr. Chairman.

We agree with the Council that, once a benefit level is determined, it should be adjusted for subsequent increases in living costs. However, since the CPI reflects the expenditure pattern and price experience of urban wage earners and clerical workers rather than the aged and the poor, its use as the indexing standard may understate the benefit increases these groups should receive. Therefore, we continue to urge that a separate aged index be constructed and used to adjust OASDI and SSI benefits [table X, below].

The Consumer Price Index makes no distinction among subgroups, assuming that all consumers, rich and poor, consume the same market basket of goods and services. This is obviously not the case, for the rich by choice spend a higher proportion of their income on luxuries, while the poor have no choice but to spend a higher proportion of their income on such necessities as food and shelter. In order to assess the impact of inflation on such dissimilar groups of consumers, it is necessary to develop price indexes based on the different market baskets that are consumed.

Such market baskets were developed in R. G. Hollister and J. L. Palmer's analysis of "The Impact of Inflation on the Poor." They created market baskets for both rich and poor families from the 1960-61 Survey of Consumer Expenditures, which in turn were used to fashion both a Poor-Person's Price Index (PPI), and a Rich-Person's Price Index (RPI), that approximate the true price indexes for these different groups. These market baskets are split into eight major categories, with the importance of each category to the rich and poor consumers identified in the following table.

TABLE X.—WEIGHTS OF MAJOR CATEGORY EXPENDITURES

Item	Poor person's index	Rich person's index
Food.....	0.349	0.219
Housing.....	.356	.278
Apparel.....	.078	.118
Transportation.....	.051	.160
Medical care <sup>1</sup> .....	.058	.062
Personal care.....	.033	.027
Recreation.....	.034	.077
Other.....	.041	.059

<sup>1</sup> For the aged, the weight for medical care would generally be higher.

Source: Joint Economic Committee, "Inflation and the Consumer in 1973," 93d Cong., 2d sess., 34-35 (1974).

During periods of high inflation, a once-a-year benefit adjustment is inadequate to prevent substantial benefit level purchasing power erosion. We think they should be more frequent and suggest that the Congress consider the trigger method used by the civil service system.

That the cash benefit programs are confronted by both short- and long-term deficits, that result primarily from different causes, is beyond dispute. We agree with the Council that the short-term deficit requires immediate funding, to prevent a depletion of the trust funds, and that general revenues should be used.

We disagree, however, on two issues. First, we oppose the Council's scheme for complete general revenue financing of medicare. We believe that the use of the hospital insurance portion of the payroll and self-employment taxes is necessary to continue the contributory principle and the concept of a right to benefits.

Second, we believe the Council's financing recommendations are inadequate and could not accommodate errors in the long-term population growth and inflation assumptions.

We support the use of general revenues for the medicare program—not to release the hospital insurance component of the payroll tax for use in cash benefits—but to expand and consolidate the medicare and medicaid programs.

Certainly, this committee is familiar with the administration's proposed curtailments in these programs as a means of restraining health-care, inflation-induced increases in Federal spending. What the administration ignores is the increasing cost burden on the program beneficiaries that has resulted from this same inflationary trend. In 1969, medicare covered 46 percent of the aged's annual health care bill; now it covers 37 percent. The aged need more medicare protection—not less.

Inflation-induced increases in expenditures under the medicare and medicaid programs would best be remedied by restraining inflation in the health care market. Our associations continue to urge the immediate reimposition of controls over health care, the abandonment of cost-reimbursement, and the substitution of prospective payment procedures for institutional providers and negotiated fee schedule procedures for licensed professional practitioners.

The Advisory Council's report indicates that the OASDI programs' short-term financing problem is the result of the need to finance cost-of-living adjustments far higher than those originally projected for the system. The administration's response has been to propose the imposition of an arbitrary 5-percent limitation.

To this, our associations are vehemently opposed. Over the past few years, it has been the aged poor and fixed-income who have suffered the greatest loss of purchasing power [see table XI below]. They need their full 8.7 percent increase [see tables XII and XIII, below].

According to the recent staff study of the Joint Economic Committee "Inflation and the Consumer in 1974," [94th Cong., 1st sess., 27-28 (1975)], prices have risen more for the low-income consumer in the last 3 years than for the high-income individual. From October 1971 to October 1974, the poor person's index rose 27.8 percent while the rich person's index increased 24.6 percent—a difference of 3 percentage points.

The following table is reproduced from that recent staff study.

TABLE XI.—COMPARATIVE PRICE INDEXES

[August 1971=100]

	Poor person's index	Rich person's index
1971: October.....	100.13	100.31
1972:		
April.....	102.04	101.76
October.....	103.91	103.62
1973:		
April.....	108.36	106.93
October.....	114.07	111.49
1974:		
April.....	120.52	117.49
October.....	127.94	125.02
Percent changes:		
1972.....	3.8	3.3
1973.....	9.8	7.6
1974.....	12.2	12.1
1971-74.....	27.8	24.6

Source: Consumer Price Index and Prof. Thad Mirer.

TABLE XII.—1973 ANNUAL INCOME BY AGE<sup>1</sup>[Percent of population,<sup>2</sup> by income levels]

Current total money income	Age 65 and over			Age 25 to 64		
	All consumer units	Families	Nonfamily persons	All consumer units	Families	Nonfamily persons
Under \$1,000.....	2.8	0.8	5.3	1.9	1.0	6.2
\$1,000 to \$1,499.....	4.9	1.1	9.7	1.1	.5	4.2
\$1,500 to \$1,999.....	6.9	2.0	13.0	1.5	.8	5.0
\$2,000 to \$2,499.....	8.9	3.1	16.1	1.7	.9	4.9
\$2,500 to \$2,999.....	8.6	4.9	13.2	1.5	1.1	3.4
\$3,000 to \$3,499.....	7.1	5.5	9.0	1.7	1.3	4.0
\$3,500 to \$3,999.....	6.1	5.8	6.5	1.6	1.3	3.5
\$4,000 to \$4,999.....	10.8	12.4	8.9	3.9	2.9	8.5
\$5,000 to \$5,999.....	8.3	10.6	5.3	4.0	3.2	7.7
\$6,000 to \$6,999.....	6.3	8.8	3.2	4.2	3.6	6.7
\$7,000 to \$7,999.....	4.4	6.5	1.8	4.7	4.3	6.9
\$8,000 to \$8,999.....	4.0	5.7	1.8	5.1	4.7	6.8
\$9,000 to \$9,999.....	3.0	4.2	1.4	4.9	4.8	5.5
\$10,000 to \$11,999.....	4.5	6.7	1.8	10.9	11.4	8.8
\$12,000 to \$14,999.....	4.8	7.6	1.2	15.1	16.4	8.8
\$15,000 to \$24,999.....	6.0	9.9	1.3	26.8	30.8	7.4
\$25,000 to \$49,999.....	2.0	3.4	.4	8.4	9.9	1.2
\$50,000 and over.....	.6	1.0	.1	1.0	1.1	.5
Midpoint (median).....	\$4,441	\$6,426	\$2,725	\$12,243	\$13,500	\$7,367
Arithmetic average (mean).....	\$6,696	\$9,029	\$3,772	\$13,681	\$14,965	\$7,533
Percent under \$4,000.....	45.3	23.0	62.2	11.0	6.9	31.2
Percent over \$12,000.....	13.4	21.9	3.0	51.3	58.2	17.9

<sup>1</sup> Tabulation developed from table 25, "Consumer Income Current Population Reports," P-60, No. 97.<sup>2</sup> Age population based on March 1974 current population reports estimate.

TABLE XIII.—5THS OF FAMILIES RANKED BY SIZE OF MONEY INCOME BY AGE, 1952, 1962, AND 1972, FAMILY INCOME

Age of head in years	Total			Lowest 5th			Second 5th			Third 5th			Fourth 5th			Highest 5th			Top 5 percent		
	1952	1962	1972	1952	1962	1972	1952	1962	1972	1952	1962	1972	1952	1962	1972	1952	1962	1972	1952	1962	1972
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
14 to 24.....	5.2	5.5	7.7	7.1	8.4	13.2	8.0	8.5	12.4	6.0	6.0	7.5	3.7	3.4	3.8	1.3	0.9	1.6	0.3	0.2	0.5
25 to 34.....	23.6	19.3	22.0	13.8	13.5	17.1	26.1	21.9	23.7	29.5	26.3	27.7	28.7	22.4	24.5	19.7	12.7	16.8	9.2	7.3	9.4
35 to 44.....	23.8	24.4	19.7	15.7	14.8	11.7	22.2	20.8	16.0	25.2	26.0	21.0	28.4	30.8	24.3	27.7	29.3	25.6	24.8	26.7	24.5
45 to 54.....	19.8	20.8	20.7	16.1	14.1	11.7	17.0	17.3	14.9	18.6	18.9	19.4	21.0	22.8	25.8	26.5	30.9	31.7	29.7	33.1	36.3
55 to 64.....	14.6	15.6	15.9	17.2	14.9	13.5	14.0	14.4	15.3	12.9	14.7	16.4	11.9	14.7	16.0	17.0	19.0	18.4	25.2	22.4	22.6
65 years and over.....	13.0	14.5	14.0	30.1	34.3	32.8	12.7	17.1	17.6	7.8	8.0	7.9	6.4	5.9	5.6	7.9	7.2	5.9	10.9	10.2	6.8

Source: U.S. Bureau of the Census, "Current Population Reports," series P-60, No. 90, "Money Income in 1972 of Families and Persons in the United States," U.S. Government Printing Office, Washington, D.C., 1973, p. 40.

The appropriate way to control increasing expenditures under these programs is not the imposition of an arbitrary ceiling, but the creation and application of an effective micropolicy to restrain exorbitant price increases in noncompetitive markets and to coordinate this with a flexible macropolicy to restrain aggregate demand inflation in the event that it begins to develop.

Since we believe that the Federal Government is ultimately responsible for controlling inflation, we think it fair and reasonable to recommend that cost-of-living adjustments in benefit levels once a person retires, becomes disabled, or dies, should be financed out of general revenues.

This limited use of general revenues for a specific purpose, while it will hopefully motivate the Congress to reform the loophole-ridden Federal income tax, will neither abrogate the contributory principle nor lead to unwarranted demands for benefit increases.

#### PAYROLL AND SELF-EMPLOYMENT TAX REFORM

Should the Congress accept the Advisory Council's recommendation that the benefit formula be revised and that benefit levels never exceed 100 percent of AIME, thereby lessening the existing weighting of benefits in favor of those who contributed less to the system, the overall benefit tax progressivity of the system will be lessened. We urge the Congress to take up the matter of payroll and self-employment tax reform.

Such reform could be accomplished either directly or indirectly. We have suggested the use of general revenues to offset the revenue loss which would result from the direct introduction of a low-income allowance. H.R. 33, sponsored by Congressman Burke, would flatten the tax rates to 3 percent for employer and employee, expand the wage base to \$25,000 and tie in a general revenue contribution.

Other proposals would lessen payroll tax regressivity by integrating it with the income tax by means of a limited, refundable credit against income tax liability for a portion of payroll taxes paid.

The use of general revenues for cost-of-living cash benefit adjustments and modest payroll tax reform is clearly preferable to tax rate and/or taxable wage base increases—especially in view of the proposed lessening of the degree to which benefits are weighted.

Moreover, the Congress should anticipate increasing lower and middle-income taxpayer resistance to additional payroll tax burdens, especially if such a tax is to be used to finance, in part, the cost of a national health plan. In any event, general revenues will have to be used to meet the long-range deficit that results from the demographic trend.

Our associations endorse the Advisory Council's recommendations to change the requirements for entitlement to dependents' and survivors' benefits to provide equitable treatment to fathers and divorced men.

We consider it unfortunate, however, that the Council refused to accept its subcommittee's recommendation that a married working couple, under certain circumstances, be given the option of receiving benefits based on the combined earnings of the couple. Our associations have pointed out before to this committee that the Congress would have to deal with the reality of the working wife. We think the time to do so is now.



Our associations have urged repeatedly that the retirement test be liberalized and ultimately abolished. While we concede that in today's economy increasing numbers of workers are competing for diminishing numbers of jobs, we maintain that this Nation must attempt to solve the problem of unemployment by creating more jobs, not by perpetuating existing barriers to employment. We would hope that the Advisory Council's retirement test recommendation, while not going as far as we suggest, will be accepted so that the aged who want to work to supplement their income will find this barrier to labor market entry less formidable as the economy begins to revive and jobs become more plentiful.

In conclusion, Mr. Chairman, our associations support the Council's recommendation to restructure the mechanics of benefit computation by indexing the workers' earnings record and the benefit table separately. We urge, however, that the benefit formula applied to the AIME provide a replacement ratio of not less than 55 percent.

We support the council's proposal to lessen the degree to which the OASDI benefits are weighted in favor of those who contributed less to the system; concomitantly, however, the SSI program must be augmented to assume fully the burden of the minimum floor of protection function.

#### USE OF GENERAL REVENUES

We support the use of general revenues: First, for an expanded consolidated medicare and medicaid program for the aged; second, to finance cash benefit cost-of-living adjustments; and third, to lessen the regressivity of the payroll/self-employment taxes.

We support the Council's recommendation to treat men and women equally with respect to benefits. We believe, however, that the Congress should provide greater benefit/contribution equity in the treatment of two-earner family units. The working wife cannot be ignored.

Finally, we support further liberalization and ultimate abolition of the retirement test; we believe that, in view of the demographic projections, income from active employment will have to assume greater importance if the future aged are to achieve an adequate degree of income security.

Thank you, Mr. Chairman.

Senator CHURCH. Thank you very much for your testimony. I recall that the NRTA and the AARP were instrumental in the drafting of legislation that I have again introduced in this Congress.

It would establish an independent, nonpolitical Social Security Administration and separate the transactions of the social security trust funds from the unidentified budget.

In view of the recent administration's proposals to put a ceiling on social security cost-of-living increases, and to cut back medicare, do you believe the need for enactment of this proposal is more urgent now?

Ms. MILLER. Yes.

Senator CHURCH. I do too and I hope we can get the bill to the floor of the Senate this year and get a Senate vote on it. Last year we did secure support from more than 50 percent of the Senators so that I think we can get it to a vote, we can get it approved.

How gradually would your proposed abolition of the retirement test come about and how would proposed abolition be financed?

You have seen the charts presented this morning and I am not clear from your testimony just what the position of the NRTA and the AARP may be with respect to the retirement test.

Do you simply endorse the recommendations of the Council or do you have a separate recommendation?

Ms. MILLER. Mr. Hacking will respond.

Mr. HACKING. We have endorsed the recommendations of the Council. We consider the recommendations to be progress in the right direction; however, our associations, for this particular year, believe that the exempt amount of retirement test should be increased to a level of \$4,000, on an annual basis.

Obviously, there are a great many factors involved in determining how quickly we can move toward a goal of ultimate abolishment; there are cost factors involved, and there are also political factors involved.

Certainly, we recognize that the abolishment of the test changes fundamentally the nature of the system from that of an earnings replacement system that insures against certain risks, and that there is tremendous resistance to such a fundamental change.

The other problem, the cost problem, is one that is certainly foremost in our mind, especially at this time, with the financial problems of the system.

Now, when Professor Schulz was using his charts we saw a \$4 billion price tag for eliminating the test.

I believe that this \$4 billion figure is the cost to the system but it does not take into account certain offsets that might occur, offsets, for example, for the amounts contributed to the system by individuals who continue to work after age 65.

The Social Security Office of Research and Statistics and Office of the Actuary have not really been very helpful in providing a truly accurate cost estimate for abolishment and we would hope that the Congress, if it undertakes a thorough review of the social security system, would bring some pressure to bear upon the actuaries to develop statistics that truly reflect the net cost of the abolishment.

Senator CHURCH. Well, I think that would be helpful too. The fact is that when I came to the Senate in 1957, the retirement test at that time, as I recall, was \$1,250 and it is now \$2,500 plus, but we have done nothing more than simply keep the retirement test moving with the inflation that has occurred during that period and so we really have not improved the working opportunities of beneficiaries under social security.

I should think that if the Congress were to increase the retirement test to \$3,000, through the adoption of the bill that I now have introduced, that we would still be pretty much engaged in playing a catchup game.

Well, I think your recommendations are good and we look to your organizations for not only support in our efforts to improve the general conditions of life for the elderly but also for your leadership and we appreciate the contribution that you have made.

Ms. MILLER. Thank you, Mr. Chairman.

Senator CHURCH. Our next witness is Ms. Jacquelyne J. Jackson, Ph. D., associate professor of medical sociology and member of the Center for the Study of Aging and Human Development, Duke

University; and vice chairman, National Caucus on Black Aged, Inc.

I understand, Dr. Jackson, you have no prepared statement this morning, that you would like to speak from notes.

**STATEMENT OF JACQUELYNE J. JACKSON, PH. D., ASSOCIATE PROFESSOR OF MEDICAL SOCIOLOGY AND MEMBER OF THE CENTER FOR THE STUDY OF AGING AND HUMAN DEVELOPMENT, DUKE UNIVERSITY; AND VICE CHAIRMAN, NATIONAL CAUCUS ON BLACK AGED, INC.**

Dr. JACKSON. Yes. Thank you very much, Mr. Chairman. As you have indicated, I am Jacquelyne J. Jackson, vice chairman of the National Caucus on Black Aged.

To digress for a moment, sir, I would like to note that I have with me in attendance Rheba Holmes, Cheryl Rodgers, Victoria Spriggs, Cheryl Temple, N. L. Thakore, and Antoinette Trainer, all of whom are students at Howard University, who are interested in some aspects of human development, as related to aging, and who perhaps might improve their training and be able to provide us with the kinds of data which we continue to have about the black elderly, at least, if we were able to encourage the National Institute on Aging to provide some kind of program which would assist in training of blacks.

We appreciate very much the opportunity to share with you some of our concerns about the impact of inflation upon black elderly, as related to social security, and while I have not had sufficient time to analyze the major finance recommendations of the Social Security Advisory Council, I do want to make the following comments, as related to the recommendations set before you for your consideration here today.

With respect to the recommendations, under cash benefits, No. 2, benefit structure, replacement rates, we believe that for those blacks who are aged, and in poverty, and whose lifetime earnings place them in poverty, that it would be detrimental, in fact highly detrimental, to have a benefit structure which would be based upon preretirement earnings that was on less than that benefit structure that was in some way adjusted to take into account the racial discriminatory factors which kept their incomes at a lower level.

We also believe that there is perhaps one way in which some moneys could be saved by the administration, and which would, therefore, be useful in raising the currently deplorable levels of those black aged, who are now being pushed increasingly into even more poverty under inflation, and that is, we suggest the entire elimination of SSI.

We suggest instead that all persons 65 or more years of age, who are not employed full-time in the labor force, should be given automatic coverage under social security.

We believe further that there should be a minimum amount of monthly receipts, and our current estimate is \$300 per person, and we believe that there should be automatic adjustments, tied in with the CPI as other groups have advocated before you, the CPI should be one developed upon the prices which elderly persons have to pay with this special attention given to health.

We note that you, I think, are very concerned, and are aware of the significant increases which have occurred.

Insofar as we have been able to determine, for example, we know that there have been drastic increases in the cost of health care for many black elderly especially, and we note that the general medical care index in the United States increased from 142.2 to 161 over the year from January 1974 until 1975.

Even more alarming, of course, is the increase in the food index from 135.7 to 170.9 over the same year, so these are critical items, and we suggest once again some consideration being given to them.

Now, I would like to speak to the issue of the fact that the Advisory Council's report continues to make the same kinds of statements which we have heard for at least the last 7 years.

As you recall, it was in 1968 that we suggested that there were critical gaps which showed certain inequities with respect to social security payments under OASDHI, and black males, and we find now in 1975, on pages 53 and 54 of the Social Security Advisory Council report, the statements are in effect, we do not have enough information, we must find out more.

We wonder why we are not able to find out more, and we have requested time after time after time that the Social Security Administration begin to collect and distribute the kinds of data which would answer the types of questions which we feel ought to be raised, and we do have some questions which we have outlined elsewhere which we feel should be considered.

#### SUBCOUNCIL PROPOSED FOR MINORITY ELDERLY

Also in that connection, we would like to point out, in our judgment, we believe that it would be very useful, perhaps in the future, to have such Councils have a special subcouncil devoted to the problems of minority elderly, as well as to the problems of minorities in social security. And now, finally, we believe that an immediate change in certain provisions of social security would be most fruitful for many elderly blacks where at one point in time both parties to the matter came within the labor force, and had benefits deducted from their checks. Specifically, we believe that each spouse, widowed or still married, should be entitled to receive the benefits for which he or she is eligible as primary beneficiary as well as secondary beneficiary.

We further believe that it is in fact discriminatory to permit spouses who have never contributed any moneys at all to social security to be permitted to draw funds when spouses who have contributed moneys cannot draw such funds, and to the extent that we can determine whether or not there is a constitutional question involved, we are in the process of trying to prepare a brief to file for a judicial ruling.

In conclusion, then, I want to also indicate that not only do we support the work of your committee, but we hope that you will be very influential in making certain that the proposed 5 percent ceiling will not take place—that the proposed 5 percent ceiling on cost of adjustment for social security will not take place. Because that would indicate to us that we will probably have within the next few months something like at least 7 to 8 out of every 10 black elderly in poverty, and about 1 out of 2 black males.

We thank you for your attention.

Senator CHURCH. I thank you very much for your testimony, and the recommendations that you make, and I can only conclude on your note of conclusion that it would be a tragedy if we began to attempt to solve the problems of inflation in this country by squeezing the money out of the retired people, who are the least able to bear that burden, and have the least to do, I should think, with the inflationary problem. The fact that there has been strong support for the resolution that I have introduced, which would express our disapproval in the Congress of the President's proposal, I think gives us grounds to hope that the law will not be changed, and the cost of living benefit of 8.7 percent, which will be due in July, will in fact be paid. Your other recommendations will certainly be taken into serious consideration by the committee as it looks for ways to improve the social security system. I think our hearings today demonstrate the special needs of the black elderly who have to be separated out of the general figures if we are to get any kind of idea of the problem that faces them. To blend them into the general figures is just to confuse the picture. I am glad the charts, and the other testimony we received today, do separate out the blacks, and demonstrate their problems are much more serious than the problems for the population as a whole, and we must be mindful of that in any proposals we make for modifying social security in the future. Thank you very much.

Dr. JACKSON. Thank you.

Senator CHURCH. The hearings on the future directions of social security will continue tomorrow and the committee will meet in this room at 2:30 tomorrow afternoon.

[Whereupon, the hearing was recessed at 12:15 p.m.]

## APPENDIX

### ITEM 1. SUPPLEMENT TO STATEMENT OF DR. JAMES H. SCHULZ\*

#### SOCIETY'S UNCERTAIN COMMITMENT TO THE ELDERLY

Not too many years ago it was relatively easy to talk about the economic situation of the elderly population. All one needed to do was cite the statistics which confirmed what everyone knew from either personal experience or by looking around. For years now everyone has known that most of the elderly suffered from serious economic deprivation—that their income were inadequate, that inflation exacerbated the situation by reducing real incomes and eroding savings, and that the aged were one of the largest poverty groups in the country.

Today it seems to me that the situation is in fact much more complex. This is due in large part to the very positive response by our Nation to the economic plight of the elderly. During the past decade (just 10 years) dramatic developments have occurred in developing private and public programs to deal with the economic problems of old-age:

(1) Private pension programs have spread throughout industry; they have grown rapidly; and large increases in their benefit levels have been instituted.

(2) Two large public health insurance programs have been legislated and currently provide over \$13 billion a year in benefits.

(3) Property tax relief laws for the aged have been legislated in over 80 percent of our states.

(4) Social security old-age benefits have been increased by over 75 percent.

(5) Old-age assistance has been abolished, and a new Supplemental Security Income Program (SSI) has taken its place.

(6) Federal regulation of private pensions has become a reality—together with an exemption from federal taxation of savings for retirement by self-employed professionals and employees not covered by private pension plans.

These new programs have resulted in a gigantic shift of income from the working population to the retired population and a significant drop in poverty among the aged. A comprehensive study of the Federal budget by the Brookings Institution, for example, recently concluded that "although it is not possible to say exactly how shifts in federal activity have affected particular groups, clearly the aged and the disabled have received an increasing proportion of federal benefits."

Thus, for the first time the question is being seriously posed: "Have we done enough for the aged?" Last year, writing in the *Washington Post*, columnist David S. Broder, for example, concluded that "the significant, semi-hidden story in the . . . federal budget is that America's public resources are increasingly being mortgaged for the use of a single group within our country: the elderly. The benefits being paid to them are rising faster than any other major category of federal spending, and the taxes being levied—mainly on their children—to finance those benefits are also going up faster than any others."

Writing in *Challenge* magazine, economist Carolyn Shaw Bell's article on social security is headed: "Social Security is not insurance. It is a monster tax: not only enormous but rising rapidly, not only regressive but discriminatory."

And last summer the *Wall Street Journal* observed in an editorial: "It is . . . now being perceived, by labor economists especially, that real wages can fall even as the nation's real income rises: the [social security] system is simply transferring purchasing power from worker to non-worker. Inflation accelerates this condition because social security recipients have their incomes tied to the CPI and the vast majority of the work force does not."

This issue of the old versus the young with regard to each group's rightful or equitable economic share is being raised with greater frequency.

What are the facts? Have we done enough?

\*See statement, p. 877.

While a meaningful answer to this question would require a discussion much longer than the time available to me today, I would like to make a number of, what I consider to be, important observations.

First, despite all the improvements of recent years, large numbers of the elderly still remain in poverty. The most recent data available from the Bureau of the Census show that in 1973 there were about 3½ million persons aged 65 and over with poverty level incomes.<sup>1</sup>

This large number of aged poor represents, in fact, an improvement over prior years—down from almost 30 percent of the aged in 1966 to about 16 percent in 1973. In fact, aged poverty, as currently defined by the Social Security Administration's poverty index, may virtually disappear in the near future with improvements in SSI, social security, and private pensions. For example, fourteen states now provide supplemented SSI benefits which are above the poverty level. And in these fourteen states reside about 40 percent of the total aged population.

Thus, in recent years there has been less talk about eliminating poverty among the elderly (since this goal seems close to achievement for the bulk of the aged). Now many people have begun to argue that benefits should be related to some kind of retirement budget based on observed needs and desired life styles of the elderly. For example, the 1971 White House Conference on Aging recommended that adequate income be defined by the Bureau of Labor Statistics' "budget for an elderly couple."

The Bureau of Labor Statistics' budget is for retired, aged couples who are "self-supporting, living independently in their own home, in reasonably good health, and able to take care of themselves." The generalized conception of the living standard is translated into a list of commodities and services which can be priced. The "intermediate level" budget is currently around \$6,000 per year for an elderly couple.

The establishment of such a budget standard (or even a variety of budgets) for various groups or categories of the aged can never (and are not intended to) adequately reflect the even greater variety of economic circumstances of these aged families prior to retirement. The budgets do "not show how an 'average' retired couple actually spends its money, nor does it show how a couple should spend its money . . . In general, however, the representative list of goods and services comprising the standard reflects the collective judgment of families as to what is necessary and desirable . . ."

#### ADMINISTRATION RESPONSE

Thus, the Nixon Administration responded to the adequacy of income recommendation of the 1971 White House Conference as follows:

The Administration does not concur in the recommendations of the delegates to the Conference that the "intermediate" budget developed by the Bureau of Labor Statistics become the national goal in this area . . . While these [budget] studies are interesting and useful in their own right, they provide no basis for knowing whether any particular level of income is "adequate" under varying sets of circumstances.

Also, while it is easy to adjust these budgets for price changes, it is much more difficult to adjust them so that they reflect the changing levels of living in the economy; such adjustments contain a high degree of arbitrariness.

An alternative way (other than poverty indexes or budget levels) of specifying for policy purposes the operational income maintenance goals of various pension programs is to specify the proportion of prior earnings which are to be guaranteed to the worker upon retirement through pension programs. In recent years the public pension systems of many countries have sought to express pensions benefits as a proportion of earnings.

But in the United States, aside from general recommendations calling for the improvement of pensions by increasing benefit levels, there has been almost no discussion of just what the appropriate replacement of earnings should be. And if one looks, for example, at actual and projected social security pension replacement rates for social security recipients, one finds the pension replacement rates to be very low. For example, if pension amounts are compared with a worker's average earnings five years prior to retirement, one finds that a majority of the aged in the United States receive a pension which is less than 50 percent of their prior earnings.

<sup>1</sup> U.S. Bureau of Census, "Characteristics of the Low-Income Population, 1973," Advance Report Series P-60, No. 94 (Washington, D.C.: GPO, July 1974).

For example, only 6 percent (6 percent) of aged couples with average preretirement earnings between \$8,000 and \$9,000 receive a pension replacing 50 percent of earnings.

It makes little sense to base public or private pensions on a lifetime earnings average. By the very nature of the averaging process, this lifetime average is reflective of a living standard experienced decades before retirement. But one would expect retiring families to have become accustomed to the higher living standard typically associated with the later years just before retirement. One would not expect the act of retirement or reaching the age of 62 or 65 to magically change a family's standard of living expectation.

In fact, the "golden years" of retirement are often glamorized as those years when an individual is finally free of work constraints and able to enjoy life more. But we know that this is currently wishful thinking for many retired persons in the United States and other countries. Thus, it seems clear to me that it is not unreasonable to base pension plans on a goal of preventing a major decline in lifestyle as a result of retirement.

In a book just released by New England Press, I report on a study of innovative pension reform in four countries.<sup>2</sup> In Germany, Sweden, and Belgium the objective of "maintaining living standards during retirement" was an important consideration in designing the current pension program. In Canada the major emphasis was on developing a tiered income maintenance system where the programs in each tier were more adequate and equitable than the programs existing before the reform.

#### NEW POLICIES NEEDED

It is my belief that these pension programs illustrate the general direction which the United States should take in the further development of its old-age pension system. By making such a statement I do not mean that the United States mix of private and public pensions should be similar to, say, West Germany—where there is almost total reliance on public pensions. Rather, I believe this country should formulate new policies to improve both private and public pensions in the United States—starting not with a poverty standard of adequacy but rather using a standard which recognizes the desirability and reasonableness of maintaining living standards in retirement. To start with, I propose the adoption of an adequacy of income standard for social security old-age benefits which would provide inflation protected benefits equal to at least 55 percent of the individual's or family's preretirement average earnings during the best ten of the last fifteen years prior to retirement.

The current social security old-age pension program in the United States could easily be modified along the lines suggested above. The old-age pension program in the United States was designed as an insurance program for the replacement of earnings loss due to retirement, has always related benefits to prior earnings, and implicitly specifies a rate of earnings replacement by specification of the benefit calculation formula. In general, all that is required to implement the new adequacy standard is (a) a more widespread recognition of the earnings replacement implications of the program, (b) a more detailed study of the replacement rates achieved by the present regulations of the program, (c) and—most importantly—a collective decision regarding changes required to improve the earnings replacement potential of the program for all or various categories of beneficiaries.

The establishment of more adequate collective public pensions based upon this adequacy standard need not discourage individual initiative nor eliminate private pensions. Instead, it would give individuals a more secure base upon which to base their personal saving decisions and encourage private pensions to expand and more adequately deal with the "special problems," unique needs, or varying retirement preferences of different groups of workers. To maintain living standards in retirement, individuals with 55 percent social security replacement would have to have income equal to another 10 to 20 percent of preretirement earnings.

I would like to emphasize another major point, given the improving economic situation of the elderly. We can no longer generalize about the economic situation of all the aged as one group. We must distinguish, for example, between the working aged and the retired aged, between the very old and those just retiring, between widowed and married women, between the white and the non-white aged, and between those retired elderly with private pensions and those with only a public pension.

<sup>2</sup> James H. Schulz, et al., "Providing Adequate Retirement Income—Pension Reform in the United States and Abroad" (Hanover, New Hampshire: The University Press of New England, 1974).



For example, with the growth of private pensions there is developing a gap between the economic situation of those with and those without private pensions. Increasing numbers of Americans are scheduled to receive combined public and private pensions equal to 60, 70, or even 80 percent of their preretirement earnings. But more than half of the labor force is still not even covered by private pensions. The rapid growth of coverage which characterized the past two decades appears to have ended. Prospects of coverage for large segments of the work force do not appear to be good. Thus, we see an important division occurring in the retired aged population, between the two-pension aged (the pension elite) and the one-pension family. How are we to justify the equity of the growing economic chasm between these two groups?

But even the growing and fortunate group of retirees with two pensions must still face the major threat of inflation eroding the real level of their private pension benefits. Very, very few private pension plans today provide benefits which are adjusted during retirement for increases in the cost-of-living. Given current rates of inflation, for example, the purchasing power of a private pension benefit will be cut in half over the retirement period. This lack of inflation protection is a most serious deficiency of private pensions and threatens the adequacy of retirement income, for even the "pension elite."

#### VESTING REQUIREMENT DISCRIMINATORY

In addition to lack of inflation protection, private pensions are very weak in two other major areas: vesting and widow benefits. Both of these weaknesses operate disproportionately against women. Vesting provisions clearly favor the immobile or "steady" worker. For example, women who must follow their husbands as they move from plant to plant in a company or women who interrupt their paid employment to fulfill family obligations face the prospect of lost pension rights due to 10-15 year vesting requirements.

Private pension benefits are often cancelled or are drastically reduced if the worker dies (before or after retirement). Moreover, workers often face the option of electing either a small, inadequate pension benefit without a widow's benefit or an even smaller and less adequate pension with some provision for the widow.

And while pension plans vary considerably—with some significantly better than others—the worst plans tend to be concentrated in the trade and service industries where women are disproportionately represented.

Social security is also sexist. In the favor of women, it ignores the greater life expectancy of females and pays them actuarially greater social security benefits than men. On the other hand, working women often contribute to social security without the family receiving commensurately higher benefits. And, most importantly, the inadequate benefit levels of the social security system generate an especially high incidence of poverty among women. Half of the aged who are living in poverty today, for example, are widowed women.

Still another area of major concern is the "early retirement" trend in the United States. Many people today think that most workers are forced to retire as a result of mandatory retirement provisions. This is just not true. About half the labor force is not subject to mandatory retirement rules. Most of the workers who are subject to such rules retire voluntarily before reaching the mandatory age. In fact, statistics indicate that less than 10 percent of older workers want (and are able) to continue working beyond the mandatory retirement age but are unable to do so.<sup>3</sup> The crisis facing us is not so much a flood of forced retirements; rather it is the flood of early retirees and the rising economic burden of supporting them. Instead of encouraging people to retire early, we need to be expanding the options open to older people in dividing their time between leisure and work.

The economic problems of old-age are not behind us. Historically, the great bulk of older people in most countries have enjoyed very low living standards—often sharply reduced from their pre-retirement years. It seems clear that this situation resulted not so much from an explicit decision of these people to live in poverty. Rather it resulted—

First, from frequent national economic fluctuations with recurring depressions and inflations;

Second, from individual difficulties in retirement preparation arising from this economic instability and the generally low levels of income available during the working years;

And finally, from the lack of national retirement planning.

<sup>3</sup> See James H. Schulz, "The Economics of Mandatory Retirement," *Industrial Gerontology*, (winter 1974), 1-10.

With the development of collective means of retirement security through pension systems, the economic situation of the retired has changed significantly. Still it is generally agreed that in almost all countries improvements must be made.

As I have tried to emphasize, we can no longer base any government policy affecting the elderly on the assumption that the elderly are poor. Not many years ago, when most of the elderly were in fact poor, we tended to respond to the problem with band-aid solutions—old-age assistance, a few special housing projects, and modest social services. Major reform of social security, private pensions, and health care have provided splints, casts, and bandages to replace the band-aids. The patients are still sick, but they suffer from a variety of ills. There is no one program or policy which can deal with the variety of economic problems confronting our heterogeneous elderly population.

Moreover, a new problem now confronts us. With the recent decline in birth rates, we now realize that our ability to improve the economic situation of the elderly may be limited by the changing demographic profile of our population. Specification of any level of retirement income and service adequacy can be translated into its cost to the working population. And, as the population ages with declining birth rates, this cost per worker will rise.

The "aging" of our population—coinciding with a rise in retirement income expectation—indicates a clear need for long-run planning to distribute these rising costs equitably over succeeding generations. But more importantly, there is a need to rethink the allocation of leisure over the lifespan since the relative number of workers versus retired persons is determined not only by birth and death rates but also by the age at which people retire.

While the federal government must be the primary one to grapple with financial constraints imposed by demographic shifts, particularly as this change affects the financing of social security—it is my belief that private industry must take the leadership in developing programs to respond to the very real and special needs of our heterogeneous aged population.

To me the question is not, "Have we done enough for the elderly?" For it is clear to me that the young and old alike must work together. Together we must be prepared to meet the current and future economic challenges of old-age—an old-age, thanks to the advances in public health and medical knowledge, which we all must face.

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**ITEM 2. LETTER FROM HARRIET MILLER,\* ASSOCIATE DIRECTOR, NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS; TO SENATOR FRANK CHURCH, DATED APRIL 2, 1975**

DEAR SENATOR CHURCH: The remarks in my March 19th testimony, presented on behalf of NRTA-AARP, favoring the use of a "trigger" mechanism for OASDI cost-of-living adjustments similar to that used by the civil service system was intended to relate only to the timing and frequency of such adjustments. I did not intend my remarks to suggest that the Associations were advocating the "1 percent add on" which relates to the degree to which civil service benefit levels are adjusted upwards.

Our Associations fully appreciate that benefit increases (whether "real" or cost-of-living) are costly and must be financed. We tend to think that real OASDI benefit increases should be the result of deliberate and debated policy choices by the Congress and not merely an incident to otherwise automatic cost-of-living increments that are designed merely to maintain the purchasing power of existing benefit levels.

I would point out, however, that the Associations do not believe that current earnings replacement ratios in the OASDI program are adequate and are not willing to accept the Advisory Council's recommendation that, in restructuring the computation of future OASDI benefits, the formula used should be designed to continue replacement ratios at current levels. Current replacement ratios are inadequate to assure that preretirement standards of living will be continued during retirement and periods of disability. When the Congress undertakes to consider legislation to restructure the computation of OASDI benefits for future disabled or retired workers and their dependents, the formula contained in that legislation should be designed to provide an earnings replacement ratio of at least 55 percent of preretirement earnings. The Associations are therefore advocates of real benefit increases but those increases would be the result of a deliberate policy

\*See statement, p. 901.

choice by the Congress in favor of higher replacement ratios. We believe that general revenues should be used to finance much of the attendant cost of these ratios.

When I said in my testimony that the Social Security and Medicare programs "should provide a degree of system flexibility sufficient to accommodate, over both the short and long term, economic and demographic trends more pessimistic than those used by the OASDI trustees and the Council", I was not implying that the system should accumulate substantially larger trust funds than those presently available. Certainly, the trust funds should be of sufficient size to assure that benefits will continue to be paid even during "hard times" such as those we are presently experiencing. My remarks were really directed at what our Associations perceive to be an increasing need to make available to the system "new" sources of revenue in addition to those generated by the payroll and self-employment taxes.

Our Associations have recommended that the cost-of-living adjustments be financed out of general revenues. We have recommended that general revenues be used to introduce greater tax equity in the payroll and self-employment taxes by lessening the degree to which those tax systems are regressive. Such tax reform would become even more imperative if the Congress were to accept the Advisory Council's recommendation that, with respect to benefits for future retired and disabled workers, benefit levels never exceed 100 percent of AIME. A lessening of the degree to which benefits are weighted in favor of those who worked at low wages and contributed less to the system would only be acceptable if the burden of the payroll/self-employment taxes on this group were also lessened.

Finally, we believe that the general revenues will have to be used to provide the additional financing that will be necessary if the OASDI programs are to provide an earnings replacement ratio as high as that we recommend. The introduction of general revenues into the OASDI programs would provide the system with the flexibility the Associations believe to be necessary.

Sincerely,

HARRIET MILLER,  
*Associate Director.*

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### ITEM 3. NEWSPAPER ARTICLE FROM THE NEW YORK TIMES, MARCH 19, 1975

#### SENATORS THINK SOCIAL SECURITY CAN OVERCOME ECONOMIC WOES

WASHINGTON, March 18 (UPI)—Republican and Democratic Senators expressed faith in the Social Security system today but said that changes must be made to ensure its financial future.

They spoke out at a hearing by the Senate Special Committee on Aging following reports of grave money problems faced by the system, which provides retirement benefits to 35 million aged and disabled citizens.

The committee's chairman, Frank Church, Democrat of Idaho, opened three days of hearings by saying, "I don't think there can be any doubt about the fact that a re-examination of the immediate and long-range future of Social Security is in order. But from my own analysis of the situation, we do have the time to make those adjustments."

"I have been aghast at the verbal battle waged during the last few months over the financial soundness of the Social Security system," added Senator Charles H. Percy, Republican of Illinois. "It is as fiscally irresponsible and cruel to the elderly to ignore reality and leave these problems to future generations as it is to declare that the system will soon collapse—and do nothing to prevent it," Mr. Percy said.

One of a number of recent Social Security reports to Congress predicted that the system's trust funds held for emergencies will be depleted by 1981 if current trends continue.

Mr. Church earlier released a number of letters from senior citizens complaining that Social Security payments were not keeping up with the cost of living.

"My rent (I live in a mobile home park) was raised \$20 more a month last month," wrote a Sarasota, Fla., retiree. "We buy day-old bread. Milk is 50 cents a quart. A 6 percent increase in our Social Security would come to \$16 a month. The rent increases takes more than that."

An 8.7 percent increase in Social Security benefits is scheduled to take effect in July. But President Ford wants to hold the increase to 5 percent to fight inflation.