

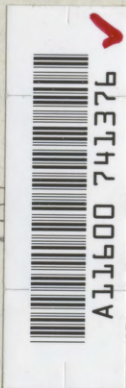
House - Post Office And Civil Service

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Y4 INTEREST EARNINGS BY CIVIL SERVICE RETIREMENT FUND

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HEARING BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS FIRST SESSION

H.R. 5989, H.R. 5974, and S. 739

BILLS TO AMEND THE CIVIL SERVICE RETIREMENT ACT,
AS AMENDED, WITH RESPECT TO THE METHOD OF COM-
PUTING INTEREST EARNINGS OF SPECIAL TREASURY
ISSUES HELD BY THE CIVIL SERVICE RETIREMENT AND
DISABILITY FUND, TO PROVIDE FOR PERMANENT INDEFI-
NITE APPROPRIATION TO SAID FUND, AND FOR OTHER
PURPOSES

JULY 17, 1961

Printed for the use of the
Committee on Post Office and Civil Service



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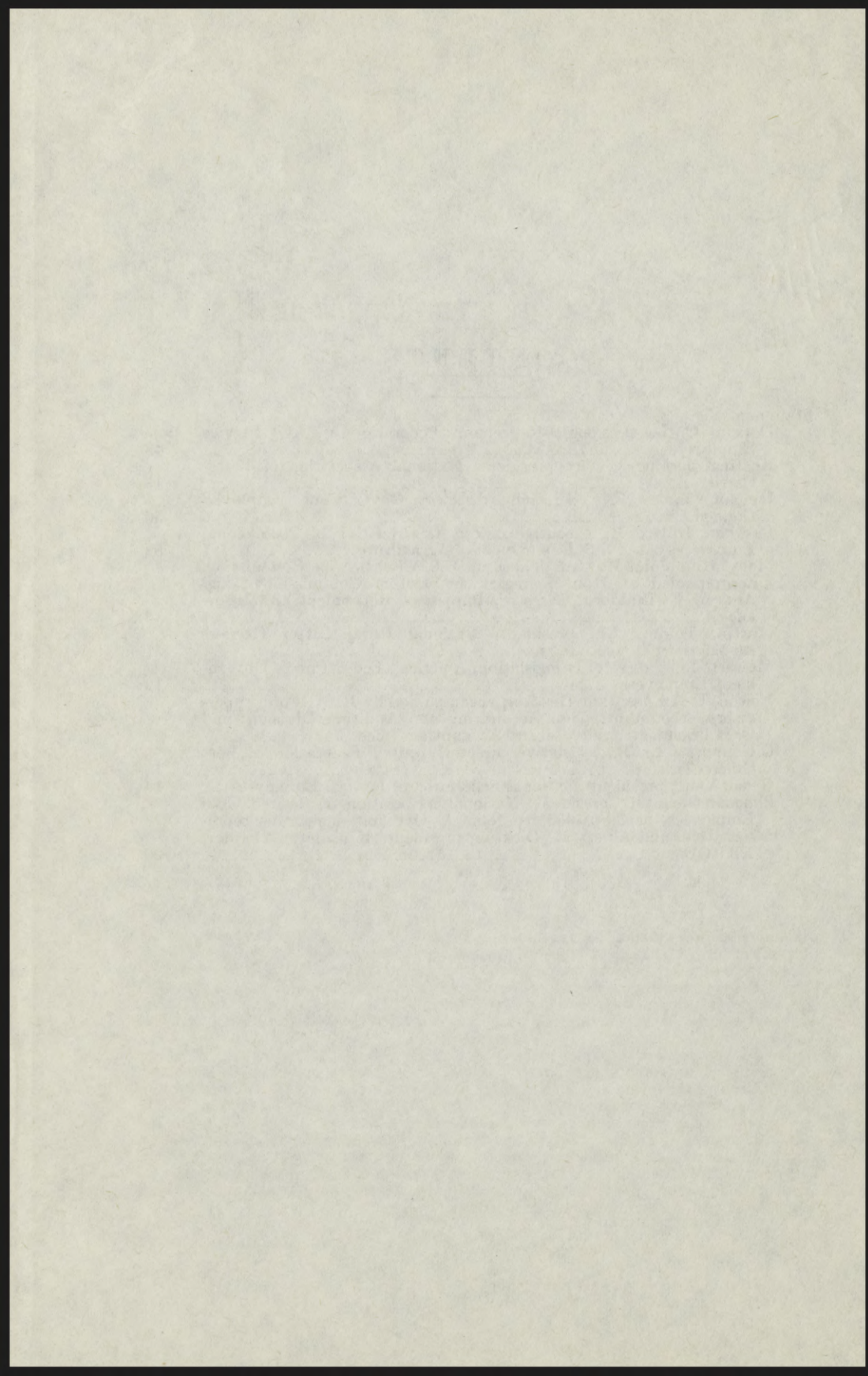
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INTEREST EARNINGS BY CIVIL SERVICE RETIREMENT FUND

MONDAY, JULY 17, 1961

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 215, House Office Building, Hon. Arnold Olsen (subcommittee chairman) presiding.

(H.R. 5989 and S. 739 (as amended by the Senate) follow:)

[H.R. 5989, 87th Cong., 1st sess.]

A BILL To amend the Civil Service Retirement Act, as amended, with respect to the method of computing interest earnings of special Treasury issues held by the civil service retirement and disability fund, to provide for permanent indefinite appropriation to said fund, and for other purposes:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subsection (d) of section 17 of the Civil Service Retirement Act, as amended (70 Stat. 759; 5 U.S.C. 2267), is amended to read as follows:

"(d) The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the fund. Such obligations issued for purchase by the fund shall have maturities fixed with due regard for the needs of the fund and bear interest at a rate equal to the average market yield, computed as of the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of three years from the end of such calendar month, except that, where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest on such obligations shall be the multiple of one-eighth of 1 per centum nearest such average market yield. The Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price only if he determines that such purchases are in the public interest."

(b) Subsection (e) of said section 17 is amended to read as follows:

"(e) There is hereby appropriated to the fund, out of any money in the Treasury not otherwise appropriated, for the fiscal year beginning July 1 next following the date of enactment of this amendatory paragraph, and for each fiscal year thereafter, such amount as may be required to prevent the estimated balance in the fund at the end of any such fiscal year from being less than the estimated total of lump sum credits and voluntary contribution accounts of present and former employees or Members, minus the estimated total of annuity payments made to such employees or Members or to the survivors of such employees or Members, and chargeable to such credits and accounts."

[S. 739, 87th Cong., 1st sess.]

AN ACT To amend the Civil Service Retirement Act, as amended, with respect to the method of computing interest earnings of special Treasury issues held by the civil service retirement and disability fund

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (d) of section 17 of the Civil Service Retirement Act, as amended, 70 Stat. 759 (5 U.S.C. 2267), is amended to read as follows:

"(d) The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the fund. Such obligations issued for purchase by the fund shall have maturities fixed with due regard for the needs of the fund and bear interest at a rate equal to the average market yield computed as of the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of four years from the end of such calendar month, except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest on such obligations shall be the multiple of one-eighth of 1 per centum nearest such average market yield. The Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price only if he determines that such purchases are in the public interest."

Passed the Senate July 7, 1961.

Attest:

FELTON M. JOHNSTON, *Secretary*.

Mr. OLSEN. The subcommittee will come to order.

This subcommittee, composed of Mr. Addabbo, Mr. Hagan, Mr. Udall, Mr. Broyhill, Mr. Rousselot, Mr. Gross, and myself, as chairman, was appointed to consider H.R. 5989, which was introduced by Mr. Murray, chairman of the House Post Office and Civil Service Committee, and H.R. 5974, an identical bill introduced by Mr. Corbett, ranking minority member, as a result of an official recommendation of the Civil Service Commission. An identical Senate bill, S. 739, was amended and passed by the Senate and also is before our subcommittee for consideration.

The general purpose of these proposals is to change the method of computing interest on money borrowed by the U.S. Treasury from the civil service retirement and disability fund.

The present law authorizes the issuance at par of special public debt obligations to the fund. The interest rate on each such issue is the average coupon rate computed at the end of the month next preceding the date of the issue borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of 5 years from the date of original issue.

When the formula first went into effect in 1956, it resulted in a rate of 2½ percent interest. Subsequently, the rate went up to 2¾ percent, and currently is 2¾ percent. The bills would change the basis for determining this interest rate in two respects. First, the market yield, rather than the coupon rate, would be used. Second, the average would be computed on only those outstanding securities having 3 or more years to run from the date of a special issue, rather than from their original issue dates. The market yield formula currently would provide a rate of some 3¾ percent on newly invested funds. This difference in the rates of interest eventually will increase the interest payable to the fund by \$100 million a year.

The bill proposed by the Civil Service Commission also provides for automatic appropriations to the retirement fund whenever necessary to assure that the benefits provided will not reduce the balance in the fund below the total contribution standing to the credit of employees. This provision is intended to provide a clear and definite legislative indication that the benefits promised in the Civil Service Retirement and Disability Act are underwritten by the full faith and credit of the United States.

The Senate bill, S. 739, was passed with two substantive amendments. First, the interest rate computation would be based on the average market yield of obligations not due or callable until after the expiration of 4 years instead of the 3 years specified in the House bills. This would place interest rate computation for the civil service fund on the same basis as now applicable to the Federal old-age and survivors insurance trust fund.

The second Senate amendment deleted section (b) relating to the permanent appropriation on the basis that it was not deemed appropriate for the legislative committee to act on legislation making an appropriation.

In determining the normal cost of employee and survivor benefits and actuarial deficiencies under the civil service retirement and disability fund, one of the most important elements is the rate of interest which the fund will earn on its investments in future years.

Our first witnesses this morning will be representatives of the Civil Service Commission. Gentlemen, it will be helpful to the subcommittee if, in addition to your discussion for the justification of this important change in the method of computing interest and the provision for the permanent indefinite appropriation, you will also discuss your position on the Senate bill, as amended.

This morning we have with us Hon. John W. Macy, Jr., Chairman of the U.S. Civil Service Commission, and Hon. Frederick J. Lawton, Commissioner, and Mr. Andrew E. Ruddock, Director, Bureau of Retirement and Insurance.

You may proceed, gentlemen.

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION, ACCOMPANIED BY HON. FREDERICK J. LAWTON, COMMISSIONER, AND ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE

Mr. MACY. Thank you, Mr. Chairman.

It is a privilege to appear before you this morning in support of this legislation. My colleague, Commissioner Frederick Lawton, will present the Commission's views and the three of us will be available for whatever questions you may have after his statement is completed.

Mr. OLSEN. Thank you very much. You may proceed, Mr. Lawton.

Mr. LAWTON. Mr. Chairman and members of the committee. I appreciate this opportunity to present the Commission's views on H.R. 5989 and H.R. 5974 identical bills introduced by Mr. Murray and Mr. Corbett to amend the Civil Service Retirement Act.

As stated in its title, the bill would accomplish two major purposes:

1. Change the method of determining the interest rate on special Treasury issues to the civil service retirement and disability fund; and

2. Provide for a permanent indefinite appropriation to the fund.

Section 17(d) of the present law authorizes the issuance at par of special public debt obligations to the fund. The interest rate on each such issue is the average coupon rate (rounded to the nearest one-eighth of 1 percent), computed at the end of the month next preceding the date of the issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of 5 years from the date of original issue.

Section 1(a) of the bill would change this formula in two respects. First, market yield rather than coupon rate would be used. Second, the average would include only those outstanding securities not due or callable until after the expiration of 3 years from the end of the calendar month next preceding the date of the special issue, rather than after the expiration of 5 years from the date of original issue.

A brief historical résumé may be helpful in considering the amendment proposed in H.R. 5989. Prior to the enactment of the Civil Service Retirement Act Amendments of 1956 (title IV of Public Law 854-84th Cong., approved July 31, 1956) there was no statutory provision for fixing the interest rate on special obligations issued to the retirement fund. The rate was fixed at the discretion of the Secretary of the Treasury, who was responsible for the investment of the fund. Prior to the fiscal year 1955, the fund was invested at 4 percent, except for relatively small amounts due to voluntary contributions which were invested at 3 percent.

In its fourth report to the Congress, dated June 29, 1954, the Committee on Retirement Policy for Federal Personnel (the Kaplan committee) made the following recommendation concerning the civil service retirement system:

The committee further recommends that the present policy of investing the reserves of the retirement funds in Treasury obligations appears satisfactory.

It has been the policy in the past to issue special bonds with interest at 4 percent. The interest rate may be fixed at the discretion of the Secretary of the Treasury as provided by law. The committee believes that the interest rate should be reduced to 3 percent, which was the interest rate used in the current valuations. The committee further recommends that the interest rate paid on bonds issued in the future should be reviewed periodically and readjusted if necessary to accord with the market rate for loans of comparable maturity.

Following this report, the Secretary of the Treasury on July 20, 1954, authorized the reinvestment of the proceeds of maturing 4-percent issues, and the investment of new moneys, at a rate of 3 percent. This practice continued until the provisions of Public Law 854 became effective.

In advising the Commission of this change in interest rate Secretary Humphrey stated the following in a letter dated July 20, 1954, to Chairman Young:

The 4-percent rate of interest has been in excess of the level of interest rates prevailing for Government securities for a long period and consequently has, in effect, constituted a subsidy from the Federal treasury in favor of the fund.

When Public Law 854 became effective, its provisions resulted in a rate of 2½ percent on special issues. Nearly one-fourth of the fund

is now invested at this rate. Subsequently the rate rose to 2½ percent, and over 60 percent of the fund is now so invested. In the fall of 1960 the rate increased to 2¾ percent, and in March 1961, to 2¾ percent, but less than 9 percent of the fund is invested at these rates. The average yield on all special issues held by the fund on April 30, 1961, amounting to \$10,008,172,000, was 2.61 percent. The fund also held \$631,486,000 of public issues, yielding higher rates, but these constitute less than 6 percent of the total fund investments.

In the period of over 4 years during which the yield on special issues has been determined by the coupon rate formula of Public Law 854, the average annual market yields on all types of Treasury public marketable issues have, with few exceptions, exceeded the yields on special issues to the fund.

The Kaplan committee recommended a reduction from 4 to 3 percent to bring the rate on special issues more in line with then current yield rates. It further recommended a periodic review and readjustment "if necessary to accord with the market rate for loans of comparable maturity." Secretary Humphrey's letter correctly stated that the 4-percent rate "constituted a subsidy from the Federal Treasury in favor of the fund." On the same reasoning, it now appears that the rates paid on special issues constitute a subsidy from the fund in favor of the Treasury.

The prior administration proposed remedial legislation to correct this obviously inequitable situation. In Senate Report No. 1656, 85th Congress, 2d session, the Committee on Appropriations requested the Commission, in conjunction with the Bureau of the Budget and the General Accounting Office, to submit recommendations on financing the civil service retirement system. A joint report by the Commission and the Bureau was submitted to the chairman of the Senate Committee on Appropriations on November 17, 1959, and a copy was sent to the chairman of this committee. The two major recommendations in the report were embodied in an accompanying draft bill which was identical to H.R. 5989.

In his 1961 budget message presented January 18, 1960, President Eisenhower proposed enactment of the joint Commission-Budget Bureau recommendations. The Commission again submitted the proposal to the Speaker of the House on January 17, 1961. The support of the present administration was affirmed in a report of March 27, 1961, to the chairman of this committee and the bills were introduced.

Investments of the Federal old-age and survivors insurance trust fund were formerly on the same basis now applicable to the civil service retirement fund. This situation was corrected in the Social Security Amendments of 1960, placing the interest rate computation on the average market yield of obligations not due or callable until after the expiration of 4 years from the end of the month preceding the date of the special issue. OASI investments made this month will be at 3¾ percent, while civil service funds will be invested at 2¾ percent. The present rate under the formula proposed in H.R. 5989 is 3¾ percent. There is no particular reason why the social security fund should receive a higher yield than the civil service fund.

Interest is the price paid for the use of money, and like other prices, it varies from time to time. The market yield measures this price.

The Commission strongly endorses the principle of a market yield basis for determining the investment rate on special issues to the fund. This would place the fund in the same position as other lenders to the Treasury. It would prevent the repetition of past financial advantages to the fund, and would remove present disadvantages. In addition to the obvious immediate financial strengthening of the fund by an increase in interest income, the actuarial outlook of the civil service retirement system would be affected by an upward revision in the long-term interest rate.

If this market yield standard were established, the Treasury Department would reinvest the fund at the new rate as its present holdings mature. Thus, conversion of the investments to the new basis would take a number of years, producing a gradual increase in the rate of earnings if present money market conditions prevail for a considerable period.

I would now like to discuss the second change proposed by H.R. 5989. Section 1(b) would amend section 17(e) of the Retirement Act, which now requires the Commission to submit estimates of the appropriations necessary to finance the fund on a normal cost-plus interest basis. Since this provision was enacted in 1956, no such appropriations have been made. Government payments have consisted only of agency contributions matching the deductions from the salaries of their employees, as required by section 4(a) of the Retirement Act. While the balance in the fund has increased under this financing method, and will continue to increase for about 10 years, we estimate that it would thereafter decline unless supplementary Government payments are provided.

The Commission firmly believes that employee contributions to the system should be maintained in the fund on a fully funded basis. As to the Government's liability, we also believe it would be desirable to provide a clear and definite legislative indication that the benefits promised in the Civil Service Retirement Act are underwritten by the full faith and credit of the United States. This could be done by making provision for automatic appropriations to the retirement fund to supplement agency contributions when necessary to assure that the benefits provided by the system can be paid without reducing the balance in the fund below the total to the credit of employees.

Section 1(b) of H.R. 5989 would accomplish this objective. Its adoption will assure that the employees' contributions are at all times protected and that financial means will be available when needed to meet the Government's share of benefit payments. This approach would assure that the fund would not decline below the amount to the credit of the employees, which is estimated to level off at around \$10 billion.

In summary, Mr. Chairman and gentlemen, you have before you a proposal which would strengthen the civil service retirement system in two major respects. It would increase, to an appropriate and realistic level, the interest return on investments of the fund. And it would provide assurance that promised benefits will be paid. The Commission most strongly urges enactment of this legislation.

You have asked us also to comment on Senate bill S. 739, which was passed on July 7 and is now pending before your committee. It provides for the computation of interest on a market-yield basis on securities maturing 4 years from the date of issue rather than on the

3-year basis as proposed in this bill. The 4-year basis is the same as the Social Security Act provision for investment.

Currently it would make no difference. At the end of the month of June, the rate on either the 3- or 4-year basis would be 3½ percent. Since social security is on a 4-year basis we see no objection to having this on the same basis as the social security fund.

As to the other point, S. 739 does not include an indefinite appropriation as proposed in the bill before you, H.R. 5989. The reason that the committee struck this provision out of the bill was on advice of the Parliamentarian that there was some question as to the jurisdiction of the Post Office and Civil Service Committee to provide an appropriation. The question of internal jurisdiction between committees or the rules of either body are, of course, a matter for judgment of you gentlemen and I do not think we can comment on it. That really is the business of the Congress and not of the Executive to determine whether your rules would permit it or not. We think if this committee does not do it, certainly the Appropriations Committee should.

Mr. OLSEN. Any questions?

Mr. GROSS. On that subject, we can authorize an appropriation. We cannot make one, but we can authorize an appropriation.

Mr. LAWTON. The bill provides for an appropriation, not for an authorization but for a permanent indefinite appropriation which would be made annually.

Mr. GROSS. I would be opposed to that.

Mr. OLSEN. What would be the basis for including this item in an appropriation?

Mr. LAWTON. It would be the amount required plus the contributions made by the agencies and by the individuals. It would be the additional amount that would be required to make the payments currently out of the retirement fund to annuitants, to survivors of annuitants, and to people leaving the service. It would begin in about 1980 under our calculations. That would be when it would first be necessary to make such an appropriation. Up to that point there will be sufficient in the fund to protect the employee equity, which is estimated at \$9.5 or \$10 billion.

Mr. OLSEN. Would that date arrive sooner if there were increases in benefits?

Mr. LAWTON. If the increases in benefits were not covered by appropriations as is now required by law.

Mr. GROSS. As of now the retirement fund is supported by funds of employees and the money derived from the interest on these obligations. Is that correct?

Mr. LAWTON. Plus a deduction from the agency appropriation of 6½ percent matching the employee contribution.

Mr. GROSS. What is that?

Mr. LAWTON. A deduction from the agency's appropriation of 6½ percent which matches the employee contribution. The employee contribution is a deduction from his salary, but in total 13 percent of the payroll goes into the fund plus interest on the investment.

Mr. GROSS. And so if the interest rate is increased by the enactment of this legislation, that postpones the day when Congress appropriates to the fund on a direct basis; is that correct?

Mr. LAWTON. It would slightly postpone it; yes.

Mr. GROSS. I think it would postpone it considerably. What you propose here is an increase in interest rate that will increase the amount to the fund by how much?

Mr. LAWTON. When it is fully effective, by \$100 million a year.

Mr. GROSS. It will increase it by \$100 million a year? That is no inconsiderable amount of money.

Mr. LAWTON. No; it is 10 percent of the current annual payments out of the fund, which are also increasing.

Mr. GROSS. Would it be drawing an interest rate comparable to that which other retirement funds are drawing in private industry?

Mr. LAWTON. Those that are invested in Government securities; Government bonds. Under this new proposal it would draw approximately the same yield as they would. If they are invested in non-governmental securities or in stocks they currently probably are drawing a higher rate. This fund can only be invested in Government securities.

Mr. GROSS. None of these funds are now invested in commercial or private stocks?

Mr. LAWTON. This is all invested in Government bonds, either public marketable issues or special issues.

Mr. GROSS. Would you suggest that these funds be invested in private investments?

Mr. LAWTON. No, sir; I would not.

Mr. GROSS. You want to keep the money working for the Government; is that right?

Mr. LAWTON. That is right.

Mr. GROSS. Even though you get less?

Mr. LAWTON. It is the Government's responsibility to make up the difference in any event. If the current yield is lower, the Government will have to make an appropriation at the proper time for the difference.

Mr. GROSS. We are taking pretty good care of some people by way of insurance. Some investors going overseas are insured against loss on plant and investments and so on, insuring them as to convertibility, and in some cases as to war risk. I wonder if some of this money could not be invested at a higher rate in private industry and some of the money sent overseas with all the wonderful guarantees to back it up and the fund thereby would derive even more income. You would not be satisfied with that, Mr. Lawton?

Mr. LAWTON. I am satisfied with the law as it stands as to the type of bonds in which the fund is invested.

Mr. OLSEN. Any further questions?

Mr. GROSS. No further questions.

Mr. OLSEN. I wonder if instead of this appropriation feature it would be more practical to increase the agency contribution provision?

Mr. LAWTON. I think the matching basis is the proper basis for the agency contribution to be made. I think if the Government is to change benefits, provide for past service benefits and so on, that it is the Government's responsibility and should be identified as such. With this interest rate the normal cost of the program—that is, to carry the current entrant into the service through to retirement—would be fully met by the present rate of agency and employee matching. The difference is due to the fact that the Government in the past has not made the appropriations to the fund—for one 8-year

period it made no appropriation at all. The appropriations which the Government would make will make up in part for past appropriations it failed to make and will make up in part for the interest that would have been paid had the appropriations been made currently.

So I think there should be a direct appropriation and not raise the amount the employee pays for costs which are not properly his obligation.

Mr. OLSEN. You think if the agency contribution is increased that might suggest that the employee contribution be increased?

Mr. LAWTON. I am sure some people would get that idea.

Mr. OLSEN. The reason for my inquiry is that I do anticipate considerable objection to an automatic appropriation. I do not object to it myself, but others will and we will not talk them out of that objection. But if we increase the agency contribution it would amount to the same ultimate right answer for the retirement fund and the Appropriations Committee would not have its objection. The Appropriations Committee would not be bypassed, it would be reviewing the Government appropriation through each agency.

Mr. LAWTON. I think I would have the objection any good bureaucrat would have, that if you raised the agency contribution the first answer of the Appropriations Committee would be to absorb it.

Mr. GROSS. What?

Mr. LAWTON. Absorb it. And I do not think we would be able to do that.

Mr. OLSEN. Explain that.

Mr. LAWTON. They would not increase the appropriation, but we have to meet cost. That has been the habit in the past. This would not be a great increase. You would not need it immediately because the employee equity will increase slightly until 1980.

Mr. OLSEN. Have you estimated when the first year will be of this automatic appropriation?

Mr. LAWTON. 1980.

Mr. OLSEN. And how much would that automatic appropriation be?

Mr. LAWTON. \$815 million.

Mr. MACY. I might add, Mr. Chairman, that the Government's contribution of 6½ percent of payroll is an annual appropriation item now and that that has only applied since the 1956 amendments. This was the first time in the financing of the retirement plan that there was a statutory requirement that the Government match the contributions of the employees.

Mr. OLSEN. That is an automatic appropriation now?

Mr. MACY. The law requires that the agency match the 6½ percent of the employees. Each year that is placed in the budget as an item for which appropriations presumably would be authorized and it is directly related to the sum of money appropriated for salaries. It becomes an automatic 6½ percent override on what is appropriated for salaries.

Mr. GROSS. Will the gentleman yield?

Mr. OLSEN. Yes.

Mr. GROSS. Is it not true this fund, from an actuarial standpoint, is now \$31 billion in the red?

Mr. LAWTON. \$32 billion.

Mr. GROSS. \$32 billion in the red?

Mr. LAWTON. That is correct.

Mr. GROSS. I am interested in knowing what happens to that money. The money is not actually appropriated, or is it?

Mr. MACY. The money is actually appropriated each year as the Government's contribution, 6½ percent of the payroll.

Mr. GROSS. Then the Government proceeds to spend the money; is that correct?

Mr. MACY. Then payments are made to annuitants out of the fund.

Mr. GROSS. Then why do we have that \$32 billion deficit?

Mr. MACY. The \$32 billion unfunded liability is computed actuarially on the assumed basis that the total Government would close out as of a certain date. This would be the total liability of the Government over and above the amount in the fund at the present time. This is an unlikely assumption, but this is the way it is computed from an actuarial point of view.

Mr. GROSS. I will agree it is a very unlikely assumption but the fact is the Government does owe to this fund \$32 billion; is that correct.

Mr. MACY. That is correct.

Mr. GROSS. By putting this interest rate on the basis of the market rate it becomes subject to fluctuation according to the market; is that correct?

Mr. MACY. That is correct.

Mr. GROSS. What about a fixed interest rate?

Mr. MACY. A fixed interest rate has been used at times in the past but it creates the condition Commissioner Lawton describes in that at certain periods it represents a Treasury subsidy of the fund and at other periods it works the other way around and the fund is subsidizing the Treasury. The intent of this legislation is to follow the market yield on Treasury securities as of the date, so there will be fluctuations.

Mr. GROSS. As of now what would be the rate?

Mr. LAWTON. 3½ percent.

Mr. GROSS. 3½ percent, which would mean an increase of some \$100 million? Is that correct?

Mr. LAWTON. That is right.

Mr. GROSS. I was trying to read something else and I did not follow your statement too closely, so you may have stated it, but what is the income from interest to the fund now?

Mr. LAWTON. The income from interest is currently \$273 million.

Mr. GROSS. \$273 million?

Mr. LAWTON. Yes.

Mr. GROSS. That is an increase of around one-third?

Mr. MACY. I believe the statement was the present interest rate is 2½ percent.

Mr. LAWTON. This would be a little over one-third increase in the current rate.

Mr. OLSEN. Any further questions?

Mr. UDALL. I stepped out and may have missed this, for which I apologize, but I wanted to inquire on a couple of points.

The first part of the bill here, the part which proposes putting this retirement fund on the market rate, seems to me to be meritorious. The second part bothers me. Is there any precedent for saying that

we in the Congress hereby appropriate for next year and forever for such amount as may be necessary? Is there any such precedent?

Mr. LAWTON. Certainly. The interest on the public debt is whatever amount may be necessary to pay the public debt.

Mr. UDALL. That I can understand, but is there any similar situation where the Congress has made a blank check, open-door annual appropriation for whatever the deficit happens to be in the fund? I do not want to see the meritorious part of this bill lose out, but I do not believe the second part would ever get by Congress and I would hate to see the whole legislation fail.

Mr. GROSS. Will the gentleman yield?

Mr. UDALL. Yes.

Mr. GROSS. We do authorize from year to year the amount to be appropriated for the public debt. The interest payment on the public debt is authorized from year to year.

Mr. LAWTON. It is not. It is in the Second Liberty Loan Act of 1917.

Mr. GROSS. That may be, but it appears every year.

Mr. LAWTON. Not in any appropriation bill. It is not in any appropriation bill. It is in the tables in the report.

Mr. GROSS. It is either in an authorization bill or in an appropriation bill because I see it every year.

Mr. LAWTON. You see it in the committee report or in the budget.

Mr. GROSS. No, not in the committee report but in the bill.

Mr. LAWTON. I have never seen it and I have looked over them a long time.

Mr. GROSS. I am sorry to have interrupted you.

Mr. UDALL. That is all right.

Do you know of another situation where there is a recurring annual automatic appropriation?

Mr. LAWTON. Yes, refunds of customs, refunds of internal revenue taxes.

Mr. UDALL. The fund is not now solvent or actuarially sound in the sense of an insurance company, there is not enough in the fund now to pay people who theoretically would draw funds; the deficit now is \$32 billion?

Mr. LAWTON. That is right.

Mr. UDALL. As I read subparagraph (e) this would appropriate at the end of each year an amount to bring it up to where it would be actuarially sound?

Mr. LAWTON. No. It is simply to preserve the equity resulting from the employee contribution, which would be between \$9.5 and \$10 billion, to maintain it at that rate and never let it diminish.

Mr. UDALL. Would this take a substantial amount starting next year?

Mr. LAWTON. It would start in 1980.

Mr. UDALL. Why is it you do not have this difficulty now?

Mr. LAWTON. Currently the annual income to the fund from agency contributions, employee contributions, and interest, and voluntary contributions as well, is in excess of the amount of money that is paid out for annuities, materially in excess of it.

Mr. UDALL. You are in the position of an insurance company that started out with young insureds?

Mr. LAWTON. That is right. One of the principal reasons is that the large increase in Federal population, number of people in Government, occurred 29 years ago. Those people would not normally reach a retirement age for 10 years.

Mr. UDALL. If this second proviso were put into effect, then by 1980—

Mr. LAWTON. We would need to start off with \$815 million, we would still have \$9.5 billion in the fund and would maintain it at that rate.

Mr. UDALL. The closest analogy I can come to is the social security fund, the retirement fund for social security. Is it not true that Congress has never tried to put this on an actuarially sound basis, but, instead, has taken the position that the payments would be made out of current revenues and in effect no attempt would be made to set it up on an actuarial basis as a private insurance company would set it up?

Mr. LAWTON. That differs in one sense from the civil service fund in that it provides for increasing income over a period of years. The contributions have been by law increasing at a certain rate. Those have been deferred from time to time, but there is a provision in the Social Security Act that provides for increasing income to the fund.

Mr. UDALL. I read somewhere that the social security fund was two or three hundred billion in the red, if you computed it as a private insurance company would compute it.

Mr. LAWTON. Currently, yes, but on that you have to make a different assumption for a Government fund. The Government has to go out of business or it has to at least go out of the retirement business, and then it will pay this money out over a long period of years. If it goes out of business, the retirement fund is not much good anyway.

Mr. OLSEN. We do not have a fair comparison in talking about the insurance companies going out of business or the Government going out of business.

Mr. LAWTON. Hardly.

Mr. OLSEN. Thank you very much.

Mr. LAWTON. Thank you, sir.

Mr. OLSEN. Our next witness is Mr. John McCart. I had better say for you and for all the remaining witnesses that we have used a lot of our time. If the rest of the witnesses could submit statements and summarize orally their statements, I think then we will be able to hear everybody this morning.

STATEMENT OF JOHN MCCART, DIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. MCCART. Mr. Chairman, realizing that sometimes brevity is the better part of wisdom, I will be happy to make my comments brief. We have submitted to the subcommittee our prepared statement on this legislation. We appear today in favor of H.R. 5989 and H.R. 5974.

With respect to the first provision of the bill, increasing the interest rate on the retirement funds invested in Treasury securities, there has been some concern for a period of years about the financial soundness of the civil service retirement fund. Adoption of this first pro-

vision in H.R. 5989 would in some measure provide more money for the fund so as to meet more readily the equity of the employees.

With respect to the second provision of the bill providing for permanent appropriations, we feel this is a matter for the House and Senate respectively to decide as part of their internal organization. Suffice it to say that we favor the objective of this provision of H.R. 5989, the mechanics we leave to the wisdom of the subcommittee and the other interested committees in Congress. That concludes our statement, Mr. Chairman. I want to thank you and the members of the subcommittee for permitting us to testify.

Mr. OLSEN. Thank you, Mr. McCart. Are there any questions from the committee?

Mr. UDALL. I would like to commend him on the brief statement, and I want to assure him I will read his prepared statement word for word.

Mr. OLSEN. I have already read it, and I thank you for your brevity.

(Mr. McCart's prepared statement follows:)

PREPARED STATEMENT OF JOHN MCCART, DIRECTOR OF LEGISLATION, AMERICAN
FEDERATION OF GOVERNMENT EMPLOYEES

Mr. Chairman and members of the subcommittee, the bills H.R. 5989 and H.R. 5974 would fulfill the important function of guaranteeing the sufficiency of the civil service retirement and disability fund. In so doing, it would provide a substantial benefit for retired Federal employees and their survivors, an objective which has the emphatic endorsement of the American Federation of Government Employees.

Chairman Murray of the House committee is to be commended for his introduction of H.R. 5989 and Representative Corbett for sponsoring H.R. 5974.

The advantage of these bills may be underestimated upon casual consideration. Their purpose is not dramatic, and their provisions are somewhat technical. But they are directed toward two objectives which would increase the funds available for the payment of annuitants and their survivors. These objectives are to insure regular payments into the retirement fund by the U.S. Government in the form of regular annual appropriations, and the stabilization of the earning power of the funds which accumulate.

It is common knowledge that the civil service retirement and disability fund derives its income from (1) deductions from employee salaries and (2) money appropriated for that purpose by Congress. The significance of the third source, namely, the interest earned by the salary deductions and appropriations, is often overlooked.

This interest accumulates by reason of the investment of the money in the retirement fund in interest-bearing obligations of the United States. That these earnings constitute an important source of income is evidenced by the fact that it has amounted to \$3 billion during the 40 years since the inception of the retirement system. Furthermore, the return on investments is equal to 43 percent of all disbursements from the fund during that period.

The Murray and Corbett bills would change the method of computing interest earnings of special Treasury bonds held by the civil service retirement and disability fund. At present the money is invested in Government securities on which the interest rate is equal to the average rate of interest borne by all marketable long-term obligations of the United States on the date of original issue. However, only marketable securities which mature after 5 years from the date of original issue are considered to be long-term Treasury bonds on which the average coupon interest rates are lower than the average rates which are based on current sales in the open market.

By authorizing the issuance of public-debt obligations specifically for purchase by the civil service retirement and disability fund, these bills would substantially augment the earning capacity of the investments held by the fund. How this authorization of special issues may increase the income of the retirement and disability fund becomes apparent by comparing the yield of a coupon interest rate

with a rate which is fixed in relation to the average market yield, though both are related to long-term securities.

The balance in the retirement fund available for investment was about \$10 billion at the beginning of the fiscal year 1960. It is estimated that it will increase to approximately \$10.8 billion by June 30, 1961. At the beginning of the current calendar year the average coupon interest rate for all long-term Treasury bonds outstanding was about 2.6 percent. The average market yield rate for the same bonds was slightly more than 3.6 percent. If the computation of the interest yield on the investments of the fund was based on current market yield, it would increase income by about 1 percent, or by approximately \$100 million.

There is one further aspect of this proposed reinvestment policy which should be carefully considered. It is that for the fund to receive the maximum benefit, the revised formula for investment should be put into effect at once. To do otherwise would be to withhold for as long as 15 years the benefit of the increased income assured by applying the more liberal formula now.

Section (b) of the Murray-Corbett bills would tend to stabilize the retirement and disability fund and in large measure add to another important source of income. It would accomplish this result by maintaining the fund on a current basis of sufficiency to meet its outstanding obligations. From 1920, when the retirement system was established, until 1929 no money was appropriated for the fund. Income consisted entirely of deductions from employee salaries.

During the next several years, appropriations were negligible, and it can be stated for the record that the American Federation of Government Employees successfully crusaded for the adoption of a policy of increasing income by means of appropriations. When this means of augmenting the fund's income was required by law beginning with the fiscal year 1958, it was predicated on a normal cost basis, which does not take care of the deficiency which had been accumulating during nearly 40 years.

The objectives of the Murray and Cobett bills are sound and worthy of early enactment into law. We thank you, Mr. Chairman, for receiving our comments on these measures.

Mr. OLSEN. Our next witness is Mr. Vaux Owen, president of the National Federation of Federal Employees.

STATEMENT OF VAUX OWEN, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. OWEN. Mr. Chairman and members of the subcommittee, I am Vaux Owen, the president of the National Federation of Federal Employees. Our headquarters office is located in 1729 G Street NW., Washington, D.C.

I express for the National Federation of Federal Employees our strong support of the legislation proposed by H.R. 5989 and H.R. 5974.

The bills are identical and seek to amend the Civil Service Retirement Act to provide more equitable interest earnings on the public-debt obligations purchased by the civil service retirement and disability fund; to permit the purchase of obligations guaranteed as to principal and interest by the United States when the Secretary of the Treasury determines such purchases are in the public interest; and to provide for appropriations to the fund. It is my understanding that the administration endorses this legislation.

I shall not burden the record with the extensive and detailed statistical data already available and well known to the members of the subcommittee. The reports of the Board of Actuaries and the annual report of the Civil Service Commission contain important information regarding the fiscal position of the fund. In addition to the endorsement of the proposed legislation by the administration, there is a very general understanding and broad awareness of the need for prompt action in this area. The proposed legislation being considered by this subcommittee offers practical and necessary steps for strengthening the fund and increasing its earning power.

As an indication of the interest and concern of our thousands of members, the 1960 national convention of our organization adopted a resolution in favor of increasing the financial stability of the civil service retirement and disability fund. The text of the resolution is as follows:

Whereas the Federal retirement system is based on equal contributions to the retirement fund by the Government and by the employees; and

Whereas in recent years the Government has failed to appropriate funds in sufficient amount to provide its proportionate contribution; and

Whereas the balance in the retirement fund is being gradually reduced through lack of Federal contribution: Therefore be it

Resolved, That the national executive officers exert all possible efforts toward securing annual appropriations to the retirement fund which will assure financial stability to the fund, and provide ample reserves for future payments to retired employees.

In support of H.R. 5989 and H.R. 5974 it should be added, I think, that these bills relate to a matter which has needed action for a long period of years. The facts implicit in the history and statistics of the fund clearly indicate that immediate steps along the lines provided under the terms of these bills are indicated by every principle of prompt and sound fiscal judgment, as well as equity to the employees concerned. While the basic solvency and integrity of the fund are not immediately in danger, the longrun well-being of the fund and of the retirement system as a whole are very deeply involved. It is in the best interest of the Government and the employees that this proposed legislation be enacted.

I thank the chairman and members of the subcommittee for their courtesies and urge a favorable report on this constructive legislative proposal.

Mr. OLSEN. Our next witness is Mr. Jerome Keating, vice president, National Association of Letter Carriers.

STATEMENT OF JEROME J. KEATING, VICE PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS

Mr. KEATING. Mr. Chairman and members of the committee, I think that your statement, Mr. Chairman, has been very explicit and we are in hearty agreement with what the Commission stated.

I think there are a couple of comments we should make with regard to some of the questions in previous testimony. We believe civil service retirement fund figures will prove it is the best financed of any Government retirement fund. We have stronger reserves than any other fund. The military retirement fund, for instance, has no reserves whatsoever. Foreign Service is essentially very close to a pay-as-you-go basis. The civil service retirement fund has over \$10 billion in reserve.

It is rather paradoxical to say they have a deficit of \$32 billion. As of last year, the income of the fund was twice the expenditures. That is, total income from the three sources. We have, however, been shortchanged in interest. The fund assumes that we earn 3 percent, and we are only earning 2.61 percent. That adds to the so-called unfunded liability represented in the \$31 billion.

The passage of this bill, putting interest on a more realistic basis, will reduce this unfunded liability of \$32 billion, or whatever it is, by

approximately \$5 billion. That unfunded liability is a projected estimate by the actuaries.

Mr. GROSS. Over what period of time?

Mr. KEATING. They project far into the future, for the life of the people in the fund. Of course, there are certain assumptions they have to make as to the number of people the Government will employ, what salaries they will earn. They have to look into a crystal ball to come up with their figures. Our fund is financially in the best condition of any fund because of the fact that the employees have contributed an adequate amount and now because of the fact that the agencies are required to contribute.

In the matter of interest, the outside retirement funds, as shown by the Securities Commission, earn 3.64 percent. Insurance companies earn generally well in excess of 4 percent. Some of them that have Canadian business and Canadian investments go well over 5 percent.

Mr. GROSS. In your organization what is your average return?

Mr. KEATING. The average return on our fund, retirement fund for our employees, is 4.35 percent. We are earning that at the present time.

Mr. GROSS. It could be considered to be above any increase we are talking about here today?

Mr. KEATING. It is considerably above. The changes proposed in this legislation would bring the earning of the civil service retirement fund up to 3.5 percent.

Mr. GROSS. This would be paid on what funds? Presently what is it paid on?

Mr. KEATING. It would be paid on the money in the fund.

Mr. GROSS. On the total?

Mr. KEATING. The total of the money in the fund. We are in favor, too, of that changing of the 3-year provision to 4 because that is good, sound policy, I think, to follow the same policy you have with social security. We are heartily in favor of the legislation.

Mr. GROSS. What do you mean by changing 3 to 4 years?

Mr. KEATING. The bill as written provides that the rate computation would be based on the average market yield of obligations not due or callable until after the expiration of 4 years instead of 3 years as specified in the House bill.

Mr. GROSS. Would this legislation be renewable at the end of 4 years?

Mr. KEATING. No; it has to do with establishing the yield on the basis of the callable date. Adding a year to your callable date will give you a better yield.

Mr. UDALL. You indicated—and I think it is true—that a lot of these computations about the size of the insolvency of this fund require some crystal ball gazing. Much of the profit made by private insurance companies comes from the fact that they insure people and set premiums on the basis of life expectancies that are outdated. They charge me a premium expecting me to live for 70 years, and many of us live now to 80 or 90.

Does this principle affect the civil service retirement fund because it is based on years of service?

Mr. KEATING. No. In figuring life expectancy in the fund, they use the average experience of the fund rather than any normal insur-

ance table like the American experience or the Commissioner's table, or anything of that sort.

Mr. UDALL. Thank you.

Mr. OLSEN. Are there any more questions? Thank you very much, Mr. Keating.

Mr. KEATING. Thank you.

(Mr. Keating's prepared statement follows:)

STATEMENT OF JEROME J. KEATING, VICE PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS

Mr. Chairman and members of the committee, my name is Jerome J. Keating. I am vice president of the National Association of Letter Carriers, representing 143,000 letter carriers located in every State of the Union and Puerto Rico. On behalf of the National Association of Letter Carriers, I want to endorse H.R. 5989, introduced by the distinguished chairman of this committee, and H.R. 5974, introduced by Mr. Corbett, also a member of this committee. We want to thank Chairman Murray and Mr. Corbett for their interest in this very vital piece of legislation.

The legislation provides a fair deal for those under the Civil Service Retirement Act in the matter of interest earnings. We have been much concerned with the problems of financing the civil service retirement fund, which are dealt with in this bill, for a long period of time. We have testified previously on this subject, and have suggested that the law be amended so as to provide a greater return for the civil service retirement fund. We have a rather peculiar situation in the retirement fund in that the Retirement Act is funded on the basis of 3 percent, but the interest earnings of the fund are merely 2.61 percent.

The Murray bill amends the Civil Service Retirement Act in two important particulars. First, it establishes the interest rate on the basis of the average market yield rather than at a rate equal to the average rate of interest. It also provides that the rate shall be based on bonds that are not due or callable until after the expiration of 3 years from the end of such calendar month, in place of 5 years from the date of original issue. Both of these changes would permit the Commission to invest the money and to compute the interest rate at a much higher rate.

Section (b) amends section 17 of the Retirement Act to provide for automatic appropriations, so to speak, from the Treasury, the guarantee that employee contributions will always be fully funded. This is a prudent and wise amendment and we are heartily in agreement with it.

The civil service retirement fund has suffered both from the failure of agency heads and administrators to make proper recommendations for appropriations, and from the failure of Congress to make the appropriations requested. From 1921 to 1928, there were no appropriations made to the fund. From 1921 to 1955, while appropriations had been recommended in the amount of \$6,529,337,-252, the appropriations were actually made only in the amount of \$3,396,298,-559.57.

While interest rates have gone up to the point where the average yield according to the Securities and Exchange Commission of some \$2 billion of retirement funds in this country is 3.64 percent, the civil service retirement fund is currently averaging only 2.61 percent. Many well-administered retirement funds have earnings in excess of 4 percent. One large firm which has a retirement plan administered out of this city has earnings of 3.96 percent. In life insurance, the Connecticut Mutual Life Insurance Co. reports earnings of 4.19 percent; the Guardian Life Insurance Co., 4.16 percent; the National Life Insurance Co. of Vermont, 4.24 percent; and the Phoenix Mutual Life Insurance Co., 4.01 percent.

If this bill is enacted into law, it should reduce the unfunded liability of the civil service retirement fund by approximately \$5 billion. It will also bring about a marked reduction in the rate for normal costs of the fund, which is presently set by the Commission at 13.93 percent. That figure would be reduced by close to 3 percent if this bill becomes law.

We think it is certainly in the interest of good procedure to place the fund on a more adequate basis. The civil service retirement system is established on the assumption of 3 percent interest earnings and, by law, the interest earnings are held to a much lower level.

We might further point out that, unlike private funds, the civil service retirement fund has only one place to invest, and that is in Government securities.

Even in the field of Government securities, the Commission in administering the fund does not have the opportunity of making capital gains. The privately administered retirement plans can invest in corporate securities, stocks and real estate and, in addition to their interest and dividend earnings, they have an accrual gain as the capital value of their investment increases.

The actual effect of the passage of this bill probably would be to increase the interest income by approximately \$85 to \$100 million a year. In 1960 the interest income was \$251,124,061. I estimate that, by paying interest on the retirement fund that was considerably below the market yield, the interest return to the retirement fund has suffered somewhere between \$800 million and \$1 billion. The total interest received from the fund since its inception is \$3,043,533,201.

In opinion, the very least that should be done in the situation that confronts us is for the Congress to pass this legislation and we would very much appreciate your prompt and favorable action. We believe that the passage of this legislation is both necessary and just.

Mr. OLSEN. Our next witness is Mr. John F. O'Connor, legislative director, United Federation of Postal Clerks.

STATEMENT OF JOHN F. O'CONNOR, LEGISLATIVE DIRECTOR, UNITED FEDERATION OF POSTAL CLERKS

Mr. O'CONNOR. Mr. Chairman and members of the committee, for the purpose of the record, my name is John F. O'Connor, and I am the legislative director of the United Federation of Postal Clerks. Under an agreement of merger recently approved by three organizations—the former National Federation of Post Office Clerks, the former United National Association of Post Office Craftsmen, and the former National Postal Transport Association—we are now as one organization and are now known as the United Federation of Postal Clerks.

I wish at the outset to express our appreciation to the chairman of the committee on his scheduling of hearings on H.R. 5989 and H.R. 5974. On behalf of the membership of this merged organization, I would also like to compliment Congressman Tom Murray, chairman of the House Post Office and Civil Service Committee, for his introduction of H.R. 5989 and Congressman Robert J. Corbett, ranking minority member of the House Post Office and Civil Service Committee, for his introduction of H.R. 5974. We believe that the enactment of this legislation will correct an inequity presently existing and will result in worthwhile monetary benefit to the civil service retirement fund.

We are completely in support of H.R. 5989 and H.R. 5974, bills which propose to amend the Civil Service Retirement Act in making an adjustment in the method of computing interest on moneys borrowed by the Government from the civil service retirement fund.

The information we presently have is that the moneys borrowed from the fund by the Government are earning approximately 2% percent in interest per year. It is our belief that this rate of interest is entirely unrealistic for these times and is unfair to the welfare of the employees of the Federal Government and the civil service retirement fund.

The legislation embodied in H.R. 5989 and H.R. 5974 provides a method whereby the fund shall earn an interest rate equal to the average market yield, which we believe would be fair both to the civil service retirement fund and to the Government.

For many years, and more so recently, much has been said concerning the actuarial soundness of the U.S. civil service retirement fund. Without a doubt, an important contributing factor to the alleged

unsoundness of the fund is the low interest rate paid by the Government on moneys borrowed from the fund. Another factor is the neglect to make proper appropriation of funds to the retirement fund for a period of years.

In connection with interest rates, it should be noted that an employee who leaves the Federal service and withdraws his contributions to the retirement fund is required by law upon his return to the Federal service and redepositing amounts withdrawn, to pay an interest rate of 4 percent to December 31, 1947, and 3 percent thereafter, compounded annually. We believe that this interest payment is proper and should be made by the employee upon redeposit in the fund. It follows, also, that we believe the Federal Government, in borrowing moneys from the fund, should pay the going rate of interest as well.

It is our belief that this proposed amendment to subsection (e) of section 17, providing for automatic appropriations to the end that funds available will always be at least at the level of the contributions made by the employees, is entirely proper. In the past, necessary appropriations by the Government have not been made. Under the provisions of subsection (e) of section 17, as shown in this legislation, it would in our opinion be carrying out an agreement made by the Government many years ago of making proper appropriations to the civil service retirement fund.

Other comments we would like to make in connection with this legislation pertains to several statements made by Hon. Frederick J. Lawton, Commissioner, U.S. Civil Service Commission, in testifying before the Senate committee on S. 739. One of his comments was to the effect that it now appears that the interest rates paid on moneys borrowed by the Government constitute a subsidy from the fund in favor of the Treasury. He also stated that OASI, or social security funds, during the month of May 1961 was paid interest at a rate of 3½ percent, while borrowed civil service retirement moneys drew interest at 2½ percent. He further states that there is no particular reason why the social security fund should receive a higher yield than the civil service fund.

We would also like to draw the committee's attention to the fact that S. 739, the legislation passed by the Senate, provides that special issues presently held by the fund would be allowed to mature gradually over a 15-year period. In our opinion, this period should be considerably shortened, and we are hopeful that the committee will amend the legislation to provide that this period be cut to not over 2 or 3 years. Fifteen years is a long period to continue an inequity that, it is conceded, does exist. This should be corrected as soon as possible.

We believe that this legislation is equitable, proper, and in the best interest of the civil service retirement fund, and we urge that the committee do report the legislation with the necessary safeguards so that the present existing inequity is not continued for too long a period of time.

I appreciate the opportunity of presenting our viewpoint to the subcommittee.

Mr. OLSEN. Our next witness is Mr. Glenn R. Simcox, president, National Association of Retired Civil Employees.

STATEMENT OF GLENN R. SIMCOX, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES; ACCOMPANIED BY JOHN A. OVERHOLT, LEGISLATIVE REPRESENTATIVE, AND ALBERT M. DICKSON, PRESIDENT, KENSINGTON CHAPTER, NARCE

Mr. SIMCOX. Mr. Chairman, in the interest of time, I also desire to file a brief. I do not believe we need to go into extended discussion of it or anything of that sort.

Naturally, as an organization of Federal retirees, we are interested in the stability of the fund. We want to be sure it will continue for all time or so long as there are Federal retirees. Therefore, we do have a very deep interest in the fund.

I might state, incidentally, that some of our members, who naturally are not as well informed as you gentlemen, become concerned on occasion about the fund. I saw a letter from one of our members a while back. He wanted to know how many more retirement checks he would get before the fund became exhausted. He had been hearing about the \$32 billion actuarial deficiency and was worried.

We desire to file our brief with you, sir, and we appreciate the opportunity of being with you. Thank you very much.

Mr. OLSEN. Thank you. I think sometimes it is too bad that there is so much conversation about the actuarial soundness of these retirement funds of Government, because they are not really to be compared with insurance companies.

On the other hand, it is good for legislative committees to bear in mind that there is a great, long-term liability on the part of the Government because of the fact that they created the retirement system. For us it has to be discussed even though it disturbs and frightens some of the retirees.

Mr. SIMCOX. I do not want to create the impression that we have any feeling of uncertainty about it or anything of that sort. We know Members of the Congress will see to it that the fund continues but, nevertheless, anything that can be done to stabilize we are in favor of.

Mr. GROSS. Mr. Chairman, before the gentleman leaves, may I ask this: It is an obligation that will have to be met some day; is that correct?

Mr. SIMCOX. That is correct.

Mr. GROSS. I believe the chairman will agree to that.

Mr. OLSEN. I should say so. It is a liability we have to meet but not on the assumption that the Government is going out of business, but on the assumption that we will remain in business, we will meet the obligation.

Mr. UDALL. A point of information. A person who works for the Government and then becomes eligible for retirement under this law, he draws retirement, I would assume, on a basis determined by the pay scale and grade he was in. When retirement benefits are changed or altered from time to time, will he continue to draw at that rate or does he get an increase if later on the pay grade he was drawing is increased?

Mr. SIMCOX. In the past where there have been changes, as in 1956, those benefits did not accrue to those who had retired earlier. That basically is the reason why on occasion we need to come back up here and ask for some help because of the inflation, and that sort of thing.

Mr. UDALL. But the ordinary employee's retirement benefits are pegged to the salary he was drawing at the time he was working?

Mr. SIMCOX. That is right.

Mr. UDALL. That particular grade he was in, if it gets a pay increase, he might not get it unless Congress specifically extended it?

Mr. SIMCOX. That is right.

Mr. UDALL. Thank you.

Mr. DICKSON. On the matter of the fund being broke and \$32 billion in the red, I wanted to make one comment. The present method of computing and reporting liabilities does not take into account growth of the civil service system. The report that the Civil Service Commission and the Bureau of the Budget gave to the Senate Appropriations Committee (committee print, October–November 1959) shows that in 1980 we will have \$815 million. In the first two columns of the following table taken from page 17 of that committee print, you will note the income to the fund from employees' deductions is \$730 million and Government contributions \$722 million. That is an absolutely fixed figure from now on until the year 2005.

These figures are calculated by taking a fixed number of Government employees, say 2 million, a payroll of \$11 billion, taking 13 percent of it.

(The table referred to follows:)

TABLE 3.—Assuming Government payments of agency contributions matching employee deductions, plus direct appropriations when needed to maintain fund equal to employees' equities

Fiscal year	Employee deductions ¹	Government payments		Interest at 3 percent	Benefit payments	Balance in fund at end of year	Employees' equities
		Agency contributions	Direct appropriations				
1958.....						\$8,269	\$5,350
1959.....	\$730	\$722		\$258	\$800	9,179	5,750
1960.....	730	722		284	890	10,025	6,130
1961.....	730	722		308	942	10,843	6,490
1962.....	730	722		331	1,059	11,567	6,830
1963.....	730	722		351	1,172	12,198	7,150
1964.....	730	722		368	1,283	12,735	7,450
1965.....	730	722		383	1,390	13,180	7,730
1966.....	730	722		394	1,496	13,530	7,990
1967.....	730	722		403	1,598	13,787	8,230
1968.....	730	722		410	1,696	13,953	8,450
1969.....	730	722		413	1,792	14,026	8,650
1970.....	730	722		414	1,887	14,005	8,830
1971.....	730	722		412	1,976	13,893	8,990
1972.....	730	722		407	2,064	13,688	9,130
1973.....	730	722		400	2,148	13,392	9,250
1974.....	730	722		390	2,231	13,003	9,350
1975.....	730	722		377	2,310	12,522	9,430
1976.....	730	722		361	2,387	11,948	9,490
1977.....	730	722		343	2,461	11,282	9,530
1978.....	730	722		322	2,533	10,523	9,550
1979.....	730	722		298	2,601	9,672	9,550
1980.....	730	722	\$815	278	2,667	9,550	9,550
1981.....	730	722	1,000	278	2,730	9,550	9,550
1982.....	730	722	1,062	278	2,792	9,550	9,550
1983.....	730	722	1,120	278	2,850	9,550	9,550
1984.....	730	722	1,178	278	2,908	9,550	9,550
1985.....	730	722	1,236	278	2,966	9,550	9,550
1986.....	730	722	1,290	278	3,020	9,550	9,550
1987.....	730	722	1,342	278	3,072	9,550	9,550
1988.....	730	722	1,392	278	3,122	9,550	9,550
1989.....	730	722	1,440	278	3,170	9,550	9,550
1990.....	730	722	1,484	278	3,214	9,550	9,550
1995.....	730	722	1,677	278	3,407	9,550	9,550
2000.....	730	722	1,815	278	3,545	9,550	9,550
2005.....	730	722	1,903	278	3,633	9,550	9,550

¹ Includes service credit payments.

Mr. UDALL. It makes two assumptions. One, that you are going to have the same number of employees—which the gentleman from Iowa probably doubts—No. 2, that they will get exactly the same pay.

Mr. DICKSON. Yes; for the next 50 years. The payroll now is \$12.5 billion or \$12.6 billion, and there is another million employees here, that is growing.

Mr. UDALL. The calculations used in determining this \$32 billion deficit are based on those two assumptions; is that right?

Mr. DICKSON. Yes; fixed income, but there is a growth factor, and I think if it is taken into account, it will give a different outlook, not quite as bad as it looks. It would be better. The bill we propose has a correction for that.

Mr. OLSEN. Thank you, Mr. Dickson.

(Mr. Simcox's prepared statement follows:)

PREPARED STATEMENT OF GLENN R. SIMCOX, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES

Mr. Chairman and members of the subcommittee, my name is Glenn R. Simcox. I am president of the National Association of Retired Civil Employees. I am accompanied by John A. Overholt, legislative representative of our association, and Albert M. Dickson, president of our local chapter in Kensington, Md. Our association is more than 40 years old and has more than 103,000 members and almost 800 local chapters. We are interested in promoting the welfare of all retired civilian employees of the Federal Government and of the District of Columbia, and of their dependents and survivors.

We are in favor of the objectives of H.R. 5989 and H.R. 5974, which would amend the Civil Service Retirement Act (1) with respect to the method of computing interest earnings of special Treasury issues held by the civil service retirement and disability fund, and (2) to provide for permanent indefinite appropriations to the fund. S. 739, passed by the Senate on July 7, 1961, also pending before your subcommittee, is similar but omits the provisions for permanent indefinite appropriations to the fund. However, we believe the objectives of this legislation could be achieved better by the language of S. 1828, introduced by Senator Spessard L. Holland on May 9, 1961. S. 1828 would amend the Civil Service Retirement Act to provide: (1) minimum interest earnings of special Treasury issues held by the retirement fund, (2) permanent indefinite appropriations to the fund, the same as H.R. 5989 and H.R. 5974, (3) reports containing more comprehensive data on the status and operation of the fund as recommended by the Civil Service Commission and Bureau of the Budget in their special reports to the Senate Appropriations Committee in 1959, (4) an advisory council to examine periodically the status of the fund and make recommendations for the improvement of the retirement system, and (5) immediate reinvestment at the new rates of all special obligations now held by the fund.

A comprehensive report on civil service retirement financing with analyses of the alternative proposals has been prepared by Albert M. Dickson, president of Kensington Chapter No. 462, based entirely on information from official sources, and compiled with helpful assistance by staff members of the respective agencies. We offer the report for the record and hope that it will prove helpful in the consideration of these bills.

(The report follows this prepared statement at p. 24.)

The civil service retirement and disability fund is one of the essential features of the civil service retirement system. It receives all contributions of Federal employees deducted from their salaries during their period of service. It also receives the contributions of the Government which now approximately match the employees' contributions, although there are many periods in the past when no, or relatively small, Government contributions were made to the fund.

This fund is loaned to the Federal Government as a part of the public debt, usually by the purchase of special obligations. During most of the period from

the establishment of the fund in 1920 to the effective date of the 1956 amendments to the Retirement Act (Public Law 854, 84th Cong., approved July 31, 1956) the Government paid interest at an average rate of 4 percent for the use of this fund.

One of the 1956 amendments changed the method of computing the interest rate on this fund to base such interest rate on the average coupon or issue rate paid on the public debt. The language of the amendment, however, resulted in depressing the rate of interest on such fund below 2.6 percent while interest actually received by other investors in the public debt, with securities of similar maturity periods, ranged to more than 4 percent. The most recent comparisons show an interest rate of less than 2.6 percent paid to the fund while the average received by other investors in similar obligations is more than 3.6 percent.

The facts are rather technical, but the principal explanation is that the civil service retirement and disability fund is restricted to a paper or coupon rate while investors generally have the advantage of discounts which produce a higher yield rate. The effect is that the Government is paying interest at higher rates to private investors than to the trust fund it administers for the benefit of its present and former employees.

This situation presents the somewhat unfortunate appearance of our Federal Government as a trustee, taking advantage of a trust fund administered for persons who depend on this fund as security for their livelihood.

This situation is unfair to the people of the United States. The Federal Government is pledged to the payment of retirement and survivor annuities. If the fund is depleted by lack of sufficient earnings, the cost of the annuities will have to be met by Federal taxes. It is only fair, however, for the Government to pay its fair share of interest each year and thereby help to maintain the integrity of the fund. It is no favor to taxpayers to compile a record of interest savings that is matched by hidden additional obligations.

The unfairness to annuitants is both direct and indirect. There is the inevitable worry that the fund will suffer from lack of earnings, and that there may be hazards in getting appropriations to continue the annuities. The greatest danger to annuitants, however, is in the loss of necessary increases in annuity benefits on the basis that they would dissipate a fund that is now referred to frequently as nearly bankrupt. Recent reports show that the fund is constantly growing in spite of handicaps, and is now approaching \$11 billion. If interest earnings during the past 5 years had been equal to the average received by other similar investors in the public debt, the fund would now be in excess of \$11 billion.

H.R. 5989 and H.R. 5874 would readjust the interest rate to the average yield rates on obligations of the public debt due or callable after 3 years from date of issue. S. 739 was amended to follow a base period of 4 years. We favor a base maturity period of 5 years instead of 3 or 4 years as more consistent with the long-term investment terms which more accurately reflect the character of the fund. Also, we believe there should be a minimum rate of 3½ percent to give the fund greater stability and security as provided in S. 1828.

There is no material difference between the alternative bills in the matter of automatic appropriations.

S. 1828 includes provisions for more effective reporting procedures recommended by the Civil Service Commission and the Bureau of the Budget in reports submitted in 1959 in response to a request of the Senate Committee on Appropriations (S. Rept. No. 1656, 85th Cong., 2d sess.). We believe this is a desirable improvement in the bill.

An advisory board has proven to be extremely valuable for the social security retirement system, and we endorse the similar board proposed in S. 1828 for the civil service retirement system.

Finally, H.R. 5989, H.R. 5974, and S. 739, as passed by the Senate, would defer full correction of the inadequate interest rate on the fund for a period of 15 years, while all obligations currently held are awaiting their maturity. We favor immediate correction of this inequity by the immediate reinvestment of the fund provided in S. 1828.

We appreciate this opportunity to appear and express our views.

CIVIL SERVICE RETIREMENT FINANCING
Analyses of S. 739, 87th Congress and of Proposed Alternative Bill^{1/}

To provide for investment of the Civil Service Retirement and Disability Fund, for appropriation to such fund, and for other purposes.

By Albert M. Dickson
 President, Kensington Chapter No. 462
 National Association of Retired Civil Employees
 4620 Edgefield Road, Bethesda 14, Md.

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3. 739, 87th Congress, 1st Session, Exhibit 1 of this report is a bill introduced January 31, 1961, by the Chairman of the Senate Committee on Post Office and Civil Service by request of the Chairman of the Civil Service Commission in his letter dated January 17, 1961, transmitting "Special Reports"^{2/} to the President of the Senate. The Bill would amend the Civil Service Retirement Act (1) with respect to the method of computing interest earnings of special Treasury issues held by civil service retirement and disability fund, and (2) to provide for permanent indefinite appropriation to the fund.

The proposed alternative bill draft, Exhibit 2 of this report,^{2/} would amend the Civil Service Retirement Act to provide: (1) minimum interest earnings of special Treasury issues held by the retirement fund, (2) permanent indefinite appropriations to the fund, (3) reports containing more comprehensive data on the status and operation of the fund, (4) an advisory council to examine periodically the status of the fund and make recommendations for the improvement of the retirement system, and (5) immediate reinvestment at the new rates required by this bill of all special issues now held by the fund.

The draft of the above bill S. 739, was originally submitted by the Chairman of the Civil Service Commission, November 17, 1959, as a part of "Special Reports" to the Chairman of the Senate Appropriations Committee, in response to a request by that committee contained in Senate Report No. 1656, 85th Congress,

- ^{1/} The information submitted in this report, based on data from official sources, was prepared with helpful assistance from staff members of the respective agencies.
- ^{2/} Special Reports, titled "Civil Service Retirement System," prepared by the United States Civil Service Commission and the Bureau of the Budget and the Comptroller General of the United States, for the Committee on Appropriations of the United States Senate, are available as a Committee Print, October-November 1959.
- ^{3/} The proposed bill revises H.R. 9705, 86th Congress, 2nd Session, and the supporting information continues the proposals for financing civil service retirement, with revisions, made in the publications, (1) "Interest Received on Investment of the Civil Service Retirement Fund," March 1959, and (2) "Civil Service Retirement Financing," December 1959, available at the National Association of Retired Civil Employees, 1625 Connecticut Avenue, N. W., Washington, D. C.

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2nd Session (covering H.R. 11574, Independent Offices Appropriation Bill, 1959), that the Commission, in conjunction with the Bureau of the Budget and the General Accounting Office, and on the basis of the quinquennial valuation of the civil service retirement system by the Board of Actuaries, submit recommendations for keeping the retirement fund current and providing for the government's future liabilities on a sound basis.

The Civil Service Commission and the Bureau of the Budget submitted a joint report, and the Comptroller General submitted his views in a separate report.^{2/} In the report of the Commission and the Bureau of the Budget, hereinafter referred to as "the report," attention was devoted to such important factors as the financial condition of the civil service retirement system, present and prospective; the experience with different methods of funding the system in the past; and the fact that it is a large government-administered system under which a substantial part of the cost must be met with Federal funds and hence has important fiscal effects.

Status of Fund

The latest actuarial valuation of the civil service retirement system, as of June 30, 1958, shows an "actuarial deficiency," or excess of liabilities over assets, estimated at nearly \$27.5 billion. The total cost of benefits under the system computed on a normal-cost-plus-interest basis, is as follows: (Details on pages 12 and 14 of the report.)

<u>Contributions</u>	<u>Normal cost</u>		<u>Interest on prior cost not appropriated</u>		<u>Total cost</u>	
	<u>Percent</u>	<u>Annual amount</u>	<u>Percent</u>	<u>Annual amount</u>	<u>Percent</u>	<u>Annual amount</u>
	<u>payroll</u>	<u>\$ Mil.</u>	<u>payroll</u>	<u>\$ Mil.</u>	<u>payroll</u>	<u>\$ Mil.</u>
Total	13.83	1535.7	7.42	823.5	21.25	2359.2
Employees	6.50	721.8			6.50	721.7
Agencies	6.50	721.8			6.50	721.7
Balance	.83	92.1	7.42	823.5	8.25	915.8

The above "normal cost percentage," 13.83 percent of payroll, is the estimated level percentage of salaries of new employees that will be required each year they will be in service to pay fully for all benefits to them and their survivors. Employees and agencies each now contribute 6-1/2 percent, respectively, or a total of 13 percent of payroll, to the retirement fund, and the current receipts of the fund are approximately in balance with current normal costs.

The above "prior cost percentage," identified by the Board of Actuaries as the deficiency, represents prior cost to the retirement system for which appropriations have not been made. The prior cost percentage shown above, 7.42 percent of the payroll, added to the normal cost percentage, 13.83 percent of payroll, totals 21.25 percent which is the total cost of future benefits under the system computed on a "normal-cost-plus-interest" basis.

^{2/} See footnote 2/ page 1.

The above estimates of "normal cost" and "deficiency" are dependent on many assumptions, one of which relates to the rate of interest which the fund will earn on its investments in future years. The current valuation was based on a 3 percent interest rate which the actuaries assumed would be realized under the present law. The rate of earnings which the fund now receives on its special issues, shown in table 2, is based on the average coupon interest rate on Treasury bonds issued in past years. It is about 2-5/8 percent and does not reflect the prevailing yield rates in the money market which, at the present time as shown in table 3 and figure 1, are much higher.

Among other factors which have operated to increase the deficiency are: (1) increases attributed to higher salaries paid government employees, (2) liberalizing amendments to the retirement act, (3) lower mortality rates, and (4) depletion of the fund by paying retirement benefits for military service for which no contributions or appropriations were ever made.

Prior to July 1957, after which time employee contributions have been matched by agency contributions, total government appropriations to the fund were much less than employee contributions. As shown in table 1, at the end of fiscal year 1960, the employees contributed a total of \$8.4 billion to the fund, the government contributed about \$6.3 billion, and the interest received on the investment of the fund was over \$3.0 billion. The total contributions by the employees thus exceeds by more than \$2.1 billion the total amount of the government contributions.

It is also noted from the 1962 Budget Document released January 16, 1961, that estimates of total receipts for the fund in 1961 and 1962 greatly exceed total receipts for 1960, shown in table 1, as follows:

<u>Fiscal year end June 30</u>	<u>Total receipts</u>	<u>Total disbursements</u>	<u>Balance begin year</u>
1960	1760.8	893.0	9212.8
1961	1938.0	998.0	10080.7
1962	1960.0	1094.0	11010.7
1963			11876.7

The importance of the interest rates on investment of the fund and its relationship to receipts and disbursements, is shown in table 1. From 1921 through 1960, the interest received on investment of the fund has averaged 17.2 percent of total receipts and 43.1 percent of total disbursements. In 1960, the interest received was 14.3 percent of receipts and 28.1 percent of disbursements.

The report further states that if the standard for determining interest rates on special securities issued to the civil service retirement fund were geared to yields on appropriate Treasury securities, as reflected in the prevailing market, the fund would realize much higher earnings. For example, if a long-term interest factor of 3-1/4 percent were assumed, it is estimated that normal cost would be approximately 13 percent and the deficiency would be under \$26 billion. With an interest rate of 4 percent, the normal cost would be below 11 percent and the deficiency in the fund would be further reduced to around \$21 billion.

INTEREST EARNINGS BY CIVIL SERVICE RETIREMENT FUND 27

Table 1. - Civil Service Retirement Fund: Receipts, disbursements, balance, rate of interest on investments, salary deductions, appropriations, and interest as percent of total receipts and total disbursements, 1921-28 and by fiscal years 1929-60.

Fiscal year ending June 30:	Salary deductions 1/	Appropriations 2/	Interest 3/	Total receipts 4/	Total disbursements 5/	Balance beginning of year 6/	Rate of interest 7/	Salary deductions 8/	Appropriations 9/	Interest 10/	Interest as percent of total disbursements 11/
	1	2	3	4	5	6	7	8	9	10	11
	Million dollars							Percent			
1921-28	142.7		13.2	155.9	73.0			91.5		8.5	18.1
1929	28.1	20.0	4.4	52.5	16.0	82.9	4.3	53.5	38.1	8.4	27.5
1930	29.0	20.5	5.9	55.4	18.1	119.4	4.3	52.3	37.0	10.7	32.6
1931	29.9	21.0	7.3	58.2	23.9	156.7	4.2	51.4	36.1	12.5	30.5
1932	31.9	21.0	8.5	61.4	27.4	191.0	4.1	52.0	34.2	13.8	31.0
1933	30.5	21.0	9.7	61.2	34.8	223.5	4.1	49.9	34.3	15.8	27.9
1934	28.7	21.0	10.5	60.2	47.6	249.9	4.1	47.7	34.9	17.4	22.1
1935	30.1	21.0	10.8	61.9	52.7	262.5	4.0	46.6	33.9	17.5	20.5
1936	32.4	40.1	11.7	84.2	56.7	271.7	4.1	38.5	47.6	13.9	20.6
1937	35.0	46.2	13.0	94.2	59.1	299.2	4.1	37.2	49.0	13.8	22.0
1938	37.3	73.2	16.6	127.1	62.4	334.3	4.5	29.3	57.6	13.0	26.6
1939	39.2	75.1	19.2	133.5	63.8	399.0	4.4	29.4	56.2	14.4	30.1
1940	42.9	87.2	21.6	151.7	67.3	468.7	4.2	28.3	57.5	14.2	32.1
1941	55.4	91.6	25.1	172.1	72.3	553.1	4.2	32.2	53.2	14.6	34.7
1942	86.9	101.8	29.7	218.4	76.3	652.8	4.1	39.8	46.6	13.6	38.9
1943	226.1	106.1	37.8	370.0	83.6	794.8	4.0	61.1	28.7	10.2	45.2
1944	269.4	176.0	52.7	498.1	103.1	1,081.3	4.1	54.1	35.3	10.6	51.1
1945	288.1	195.8	68.6	552.5	152.5	1,476.2	4.1	52.2	35.4	12.4	45.0
1946	279.5	246.2	84.4	610.1	285.1	1,876.2	4.1	45.8	40.4	13.8	29.6
1947	255.9	221.3	94.3	571.5	293.8	2,201.2	4.0	44.8	38.7	16.5	32.1
1948	234.8	245.5	107.1	587.4	240.5	2,478.9	4.0	40.0	41.8	18.2	44.5
1949	325.1	226.0	122.8	673.9	217.7	2,825.8	4.0	48.3	33.5	18.2	56.4
1950	355.6	304.5	143.2	803.3	266.4	3,287.5	4.0	44.3	37.9	17.8	53.8
1951	374.9	307.1	164.5	846.5	268.8	3,842.2	3.9	44.3	36.3	19.4	61.2
1952	444.8	312.8	188.1	945.7	298.6	4,449.9	3.9	45.3	34.2	20.5	63.0
1953	420.0	325.3	214.6	959.9	361.2	5,037.0	4.0	43.8	33.9	22.3	59.4
1954	425.0	35.3	225.7	686.0	409.1	5,635.7	3.9	62.0	5.1	32.9	55.2
1955	440.2	33.7	234.4	708.3	427.8	5,912.6	3.9	62.1	4.8	33.1	54.8
1956	570.8	237.3	211.8	1,019.9	504.4	6,193.1	3.3	56.0	23.2	20.8	42.0
1957	640.5	530.6	220.8	1,391.9	588.1	6,708.6	3.1	46.0	38.1	15.9	37.5
1958	675.1	583.9	194.1	1,453.1	696.6	7,512.4	2.5	46.5	40.2	13.4	37.9
1959	761.7	754.1	219.7	1,735.6	791.6	8,268.9	2.6	43.9	43.5	12.6	27.5
1960	760.2	749.5	251.1	1,760.8	893.0	9,212.8	2.6	43.2	42.5	14.3	28.1
1961 1/				1,938.0	998.0	10,080.7	3/				
1962 1/				1,960.0	1,094.0	11,010.7	8/				
1963						11,876.7	5/				
Total	8,393.8	6,251.8	3,043.5	17,693.6	7,634.6			47.5	35.5	17.2	43.1

1/ Includes deductions from employees' salaries, contributions, and service credit payments. Beginning fiscal year 1921, an amount equal to 2½ percent was withheld from employees' salaries and deposited in the fund. In 1926, the deduction was increased to 3½ percent, in 1942 to 5 percent, in 1948 to 6 percent, and in 1956 to 6½ percent.

2/ Beginning July 1, 1957, appropriations are not made directly to the fund; instead the employing agency contributes amounts from agency appropriations equal to 6½ percent deductions from employees' salaries.

3/ The currently available balance in the fund not immediately required for payment of benefits is invested by the Secretary of the Treasury in interest bearing securities of the United States, and the income derived therefrom is added to the fund.

4/ The rate of interest is determined by dividing amount received, column 3, by average balance in the fund at the beginning and end of year, column 6.

5/ Columns 1, 2, and 3, respectively, divided by column 4.

6/ Column 6 divided by column 5.

7/ Estimates are from the 1962 Budget Document released January 16, 1961, including effects of proposed Legislation, Treasury Bulletin, February 1961, page 9, table 2 and page 10, table 3.

8/ Column 4, minus column 5, plus column 6.

Source: Retirement Division, U.S. Civil Service Commission. Data rounded.

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Considerations Leading to Recommendations

The report of the Civil Service Commission and the Bureau of the Budget makes observations as follows:

- (1) Employees have contributed to the retirement system since it started operation in 1920. During this period of over 40 years a number of methods for determining appropriations to meet the government's share of the costs have been used and the attitude of the Congress and its Committees toward these appropriations has differed from time to time. This is illustrated in table 1, columns 1 and 2. In the first 8 years of the system's operation, no appropriations were made; from 1929 through 1949 the appropriations were the same as those recommended by the President, generally on a normal-cost-plus-interest basis; and from 1950 to 1957 appropriations based on several different methods were recommended by the President. Recommended appropriations were reduced 5 times, increased twice, and made in the amount proposed once. Beginning in 1958 the employee's contributions have been matched by the government.
- (2) To provide a broad review of all Federal retirement systems and their financing, a Committee on Retirement Policy, known as the Kaplan Committee, was created. With respect to financing the civil service retirement system, the Kaplan Committee report in 1954 did not recommend the normal-cost-plus-interest method as an inflexible basis for making appropriations; rather it proposed that the fiscal situation of the government be considered in deciding whether full appropriations determined under the normal-cost-plus-interest method should be made for any year.
- (3) The foregoing suggests the primary considerations which the Civil Service Commission and the Bureau of the Budget now believe should guide the establishment of a sound, equitable and practical long-range policy for financing the civil service retirement system. They believe it necessary to recognize, as the Kaplan Committee indicated, that a Federal retirement system is backed by the full faith and credit of the United States Government and need not accumulate reserves on the same basis as private pension plans.
- (4) Unlike individual business firms, the Government of the United States can be expected to carry on indefinitely and can draw upon public taxation to meet its obligations, whereas, private pension plans usually build up reserves to cover past service as well as currently accruing costs in order to pay benefits independently of the fortunes of the company in the future. Private plans also are generally insured through a company other than the employing firm or are managed by a trusteeship.
- (5) Standard actuarial methods are useful in determining the costs of Federal retirement systems, just as they are useful in evaluating the costs of industrial retirement plans. However, when it comes to financing Federal retirement systems, additional considerations enter which reduce the necessity for accumulating reserves based on strictly actuarial concepts.

Recommendations of the Civil Service
Commission and the Bureau of the Budget

The above report, on page 7, states, "As has been indicated in the preceding sections, the benefits provided by the Civil Service Retirement Act are underwritten by the full faith and credit of the Government. Accordingly, the Government's part of the costs of the system can be financed on a sound and practical basis, and its status and operations can be fully disclosed, without the necessity of making billions of dollars of appropriations for past service costs, which would be transferred to the trust fund and invested in Treasury bonds for many years before they would be needed for payment of benefits."

Therefore, specific recommendations were made to keep the fund sound, as follows:

(1) Contribution rates

With respect to financing the retirement system, the Commission and the Bureau of the Budget recommended that contributions be continued at the present rate of 6-1/2 percent by employees and agencies, respectively, as already required by law. For reasons stated, they do not believe it necessary for the system to be funded on a strict actuarial basis.

(2) Funded employee contributions and appropriations therefor

The Commission and the Bureau of the Budget jointly recommended that employee contributions to the system be maintained in the fund on a fully funded basis. As to the Government's liability, it would be desirable to provide a clear and definite legislative indication that the benefits promised in the Civil Service Retirement Act are underwritten by the full faith and credit of the United States. Adoption of this recommendation will assure that the employees' contributions are at all times protected and that financial means will be available when needed to meet the government's share of benefit payments.

This approach would assure that the amount in the fund would not decline below the amount to the credit of the employees which, it is estimated, table 3, page 17 of the report, will level off in 1977 at around \$9.5 billion, and that supplemented appropriations will begin about 1980. This estimate is based on employee contributions remaining level indefinitely at \$730 million annually, and agency contributions remaining level at \$722 million annually, and benefit payments increasing each year. However, if total receipts continue to exceed disbursements in the amounts estimated in the 1962 Budget Document, cited above (table 1) appropriations will not be needed until much later.

While authorization of a permanent-indefinite appropriation would be an exception to the desirable policy of annual appropriations which are reviewed by the appropriation committees, the Commission and the Bureau of the Budget believe this exception is justified as a means of preserving the equity in the fund which employees build up through required or voluntary contributions.

This recommendation for automatic appropriation to the fund is included in the form submitted by the Administration in S.739, paragraph (b), and in Section 2 [Sec. 17 (f)] of the proposed alternative bill.

(3) Interest rate provisionsS. 739 - Exhibit 1

The Commission and the Bureau of the Budget jointly recommend a change in that part of the law prescribing the method for determining the interest rate on investments of the civil service retirement fund. The Retirement Act now provides for investment of the fund in special issues which bear interest based on the average rate borne by all Treasury marketable interest-bearing bonds with maturities of five years or more from date of "original issue."

This formula based on "coupon rates," presently restricts the fund to an interest rate much lower than that paid by the Treasury on current borrowing for equivalent periods from other sources. Such coupon rates on December 31, 1960 are shown in the left column of table 2; the computed rate shown at the bottom of the table was 2.596 percent. Rounded to the nearest 1/8 percent, as required by law, results in an interest rate of 2-5/8 percent on special issues currently held by the fund, shown in tables 4 and 5.^{4/}

In contrast, the rate paid by the Treasury on current borrowing for equivalent periods are the "yield rates" on long-term bonds shown below the line "not due or callable until after 5 years from current date," in the right column of table 2. The issues above the line are, in effect, short-term issues bearing lower interest rates. The average yield rate of long-term bonds, December 31, 1960, shown at the bottom of table 2, was 3.646 percent, or about 1 percent more than the coupon rate currently being paid on special issues purchased by the fund.

To remedy the above situation the Commission and the Bureau of the Budget recommend that Section 17 (d) of the Act be amended, as provided in S. 739, paragraph (d), to authorize payment of interest on special Treasury obligations issued to the fund equal to "Market Yields" of issues not due or callable until after the expiration of "three years."^{5/} Such issues include the average of 3-5 year issues and long-term bonds shown in table 3 and figure 1; the current prices of which are about 1 percent higher than the rate on new special issues currently purchased by the fund with interest based on coupon rates.

The policy of basing interest rates of special issues on government securities maturing after three years instead of five years was originally proposed

^{4/} The rate on new special issues purchased by the fund after November 10, 1960 is 2-3/4 percent. "Daily Statement of the United States Treasury, December 31, 1960, page 8." (Civil Service Retirement Fund 2-3/4 percent 1961 certificates \$283.4 million.)

^{5/} Bonds, notes, and certificates of indebtedness are principally differentiated by their maturities, bonds constituting the long-term (5 years or more)--notes the medium (1-5 Years)--and certificates the short-term (1 year issues). Bills also constitute short-term issues.

Table 2. - Treasury marketable bonds outstanding on the basis of daily Treasury statements, and current market quotations, end of calendar year, December 31, 1960.

Title and coupon rate	Date issued	Maturity period	Redeemable	Payable	Amount Issued	Amount Outstanding	Quotations Bid	Yield
(Maturing)	(Years)	(mo. yr)	(mo. yr)	(Million dollars)				
Due or callable in less than 5 years from current date 2/								
2-1/4%	1959-62	1945	14-17	6-1961	6-1962	5,284	5,262	99.13 2.67%
2-1/4%	1959-62	1945	14-17	6-1961	12-1962	3,470	3,451	99.02 2.75
2-3/4%	1960-65	1938	22-27	6-1961	12-1965	1,485	1,485	
2-3/4%	1961	1953	8		9-1961	2,239	2,239	100.03 2.59
2-1/2%	1961	1954	7		11-1961	11,177	6,963	99.27 3.68
2-1/2%	1962-67	1942	20-25	6-1962	6-1967	2,118	1,465	94.26 3.40
2-1/2%	1963	1954	9		8-1963	6,755	6,755	98.24 3.00
2-1/2%	1963-68	1942	21-26	12-1963	12-1968	2,831	1,820	92.00 3.67
3%	1964	1958	6		2-1964	3,854	3,854	99.23 3.09
2-1/2%	1964-69	1943	21-26	6-1964	6-1969	3,762	2,641	91.04 3.74
2-1/2%	1964-69	1943	21-26	12-1964	12-1969	3,838	2,561	90.28 3.71
2-5/8%	1965	1958	7		2-1965	7,387	6,896	97.11 3.32
2-1/2%	1965-70	1944	21-26	3-1965	3-1970	5,197	4,688	90.20 3.71
Not due or callable until after 5 years from current date								
2-1/2%	1966-71	1944	22-27	3-1966	3-1971	3,481	2,934	89.20 3.02
3%	1966	1958	6		8-1966	1,484	1,484	98.08 3.34
3-3/4%	1966	1960	6		5-1966	1,213	1,213	101.14 3.45
2-1/2%	1967-72	1945	22-27	6-1967	6-1972	7,967	1,793	88.18 3.73
2-1/2%	1967-72	1941	26-31	9-1967	9-1972	2,716	2,716	88.10 3.74
2-1/2%	1967-72	1945	22-27	12-1967	12-1972	11,689	3,601	88.18 3.69
3-7/8%	1968	1960	8		5-1968	1,390	1,390	101.14 3.65
4%	1969	1957	12		10-1969	1,421	1,421	102.30 3.61
3-7/8%	1974	1957	17		11-1974	654	654	101.10 3.75
4-1/4%	1975-85	1960	15-25	5-1975	5-1985	470	470	104.12 3.85
4%	1980	1959	21		2-1980	884	884	102.16 3.81
3-1/2%	1980	1960	20		11-1980	643	643	95.20 3.81
3-1/4%	1978-83	1953	25-30	6-1978	6-1983	1,606	1,594	92.00 3.78
3-1/4%	1985	1958	27		5-1985	1,135	1,134	91.28 3.76
3-1/2%	1990	1958	32		2-1990	2,720	2,719	93.12 3.88
3%	1995	1955	40		2-1995	2,745	2,715	87.30 3.24
3-1/2%	1998	1960	38		11-1998	2,343	2,343	92.16 3.88
Total Treasury bonds - - -						103,960	79,794	
Average market yield, long-term bonds - - -						-	-	3.646%
Average coupon rate, all issues computed 3/ - - -						-	-	2.596
Difference - - -						-	-	1.050%

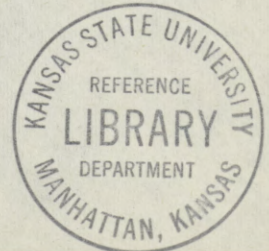
1/ Prices are closing bid quotations in over-the-counter market.

2/ Issues redeemable or payable in less than 5 years from current date are, in effect, short term issues, the quotations of which are excluded from the average interest yields on long term bonds.

3/ Average coupon rates, left hand column above. After December 1958 computed on effective yield for issue, sold at premiums or discounts, which does not materially differ from computations based on coupon rates, previously used. (Daily Treasury Statement, January 31, 1960, page 5.)

Source: State and Summary of the Public Debt, Daily Treasury Statement December 31, 1960; and market quotations on callable issues of Treasury bonds, December 31, 1960, "Treasury Bulletin," February 1961.

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by the Treasury Department Committee on Investment Policy at its meeting January 13, 1960 to consider ~~veterans~~ trust funds in line with the committee's practice of reviewing investment policies of trust funds administered by the Treasury.^{6/}

Previously, the Advisory Council on Social Security Financing in its 1959 report ^{7/} recommended investment of social security funds at current yield rates of long-term government securities; and in 1958, the Senate Appropriations Committee, as stated above, requested Administration recommendations for financing the civil service retirement system. The Treasury Investment Policy Committee also considered interest-rate returns on the railroad retirement account. For all of these funds, the Committee recommended basing interest rates of new special issues on yield rates of government securities maturing after three years; and that the new rates be made effective over a period of 1 to 15 years. The three-year maturity period was selected for reasons of simplicity and ease of administration, to meet both the "short-term" and the "long-term" needs of the funds, even though only a minor portion of the social security funds may be needed for prospective immediate use.

The above proposed change in the law basing the interest rate of new special issues on marketable Treasury securities maturing after three years instead of after five years, under current market conditions, would not offer any present advantage or disadvantage to the fund. Over a period of years, however, based on yields and prices of government securities in past years, shown in table 3 and figure 1, and on the historical series of the Federal Reserve Board, issues not due or callable until after three years would be expected to yield about 1/4 to 1/2 percent less than issues maturing after five years.

^{6/} Minutes of meeting of the Treasury Department Committee on Investment Policy, January 13, 1960 (page 790) and memorandum (page 793); also statement of Julian Beard, Under Secretary, accompanied by William T. Heffelfinger, Fiscal Assistant Secretary, Treasury Department (page 795), concerning "Investments of Insurance Funds," Hearings before the Committee on Veterans Affairs, House of Representatives, on H.R. 9378, 86th Congress, 2nd Session, February 2, 1960.

^{7/} The Advisory Council on Social Security Financing was appointed by the Secretary of Health, Education, and Welfare in accordance with Section 116 of Public Law 880, 84th Congress. The Council consists of the Commissioner of Social Security as Chairman, and twelve persons who represent employers, employees, and the public. The membership of the 1959 Council consisted of some of the country's most distinguished experts on finance. The report is available at the Department of Health, Education, and Welfare and the Government Printing Office.

Table 3. - U. S. Government security yields and prices, average of calendar years 1952-60 and by months for 1959 and 1960.^{1/}

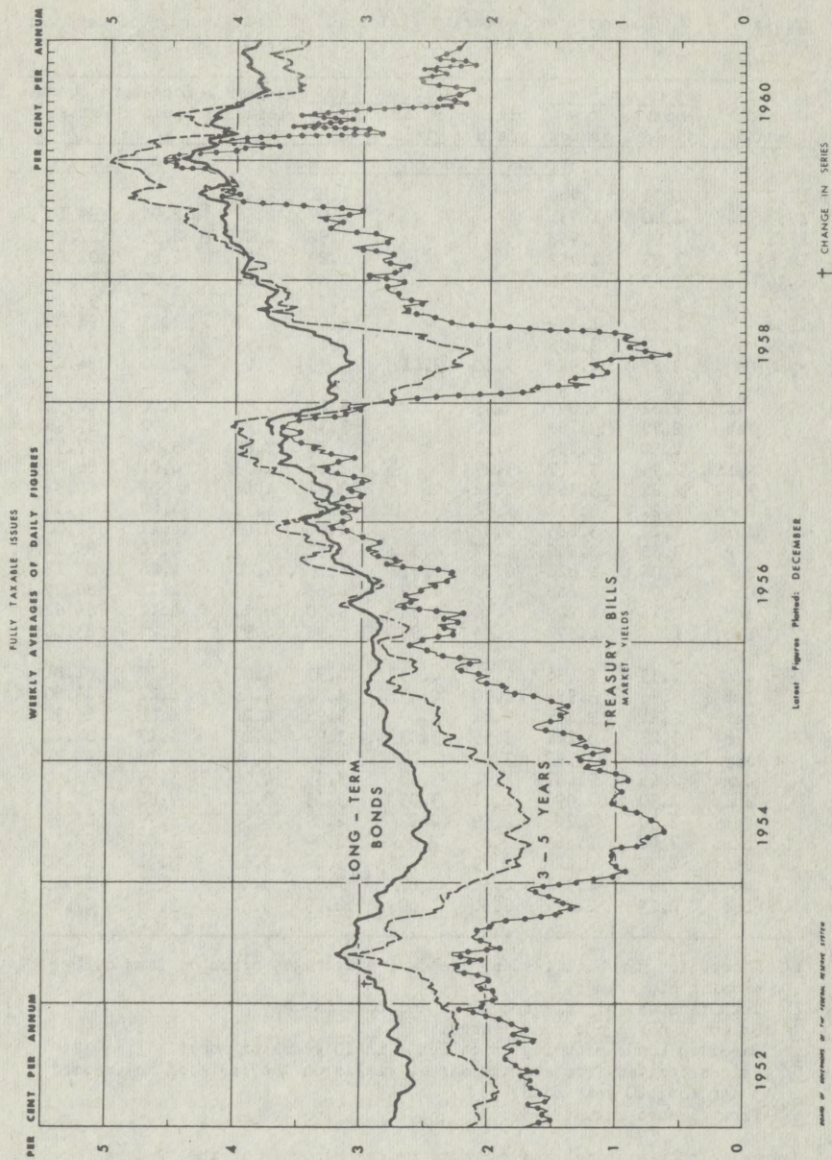
Year	: 3 mo. bills		: 6 mo.		: 9-12 mo.		: issues: 3-5 yr.:		: Long-term bonds	
and	: Market:	New	: bills	: Bills	: Other	: issues	: Yield	: Prices		
month	: yield	: issues	: yield	: yield	: 2/	: 3/	: 4/	: 5/		
	Yields in percent per annum								Dollars	
1952	1.72	1.766			1.81	2.13				
1953	1.90	1.931			2.07	2.56	2.94	99.13		
1954	.94	.953			.92	1.82	2.55	107.03		
1955	1.73	1.753			1.89	2.50	2.84	102.40		
1956	2.62	2.658			2.83	3.12	3.08	98.91		
1957	3.23	3.267			3.53	3.62	3.47	93.24		
1958	1.78	1.839			2.09	2.90	3.43	94.02		
1959	3.37	3.405	3.79		4.11	4.33	4.07	85.49		
1960	2.87	2.928	3.20	3.41	3.55	3.99	4.01	86.22		
1959 Jan	2.82	3.097	3.09		3.26	3.86	3.90	87.54		
Feb	2.70	3.166	3.12		3.38	3.85	3.92	87.38		
Mar	2.80	3.159	3.13		3.56	3.88	3.92	87.37		
April	2.95	3.277	3.27		3.66	4.03	4.01	86.21		
May	2.84	3.368	3.32		3.92	4.16	4.08	85.31		
June	3.21	3.531	3.52		3.97	4.33	4.09	85.16		
July	3.20	3.885	3.82		4.30	4.40	4.11	85.00		
Aug	3.38	3.840	3.87	4.31 ^{6/}	4.32	4.45	4.10	85.11		
Sept	4.04	4.626	4.70	4.83	4.80	4.78	4.26	83.15		
Oct	4.05	4.646	4.53	4.69	4.65	4.69	4.11	84.95		
Nov	4.15	4.209	4.54	4.54	4.70	4.74	4.12	84.82		
Dec	4.49	4.572	4.85	4.99	4.98	4.95	4.27	83.00		
1960 Jan	4.35	4.436	4.74	4.95	4.93	4.87	4.37	81.81		
Feb	3.96	3.954	4.30	4.45	4.58	4.66	4.22	83.60		
Mar	3.31	3.439	3.61	3.68	3.93	4.24	4.08	85.32		
Apr	3.23	3.244	3.55	3.83	3.99	4.23	4.17	84.24		
May	3.29	3.392	3.58	4.01	4.19	4.42	4.16	84.39		
June	2.46	2.641	2.74	3.10	3.35	4.06	3.99	86.50		
July	2.30	2.396	2.71	3.03	3.13	3.71	3.86	88.12		
Aug	2.30	2.286	2.59	2.82	2.89	3.50	3.79	88.93		
Sept	2.48	2.489	2.83	2.86	2.99	3.50	3.82	88.57		
Oct	2.30	2.426	2.73	2.92	3.01	3.61	3.91	87.50		
Nov	2.37	2.384	2.66	2.87	2.99	3.68	3.93	87.23		
Dec	2.25	2.272	2.50	2.64	2.79	3.51	3.88	87.84		

- ^{1/} Except for new bill issues, yields are averages computed from daily closing bid prices.
^{2/} Certificates and selected notes and bond issues.
^{3/} Selected notes and bond issues.
^{4/} Based on bonds maturing or callable in 10 years or more.
^{5/} Prices derived from average market yields on the basis of an assumed 3 percent, 20 year bond.
^{6/} First issued August 1959.

Source: Interest rates and security prices reported in the "Federal Reserve Bulletin," monthly.

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Figure 1. YIELDS ON U.S. GOVERNMENT SECURITIES



The average yield of 3-5 year issues (notes and short-term bonds) and long-term bonds, and the spreads between them, for the years 1953-60 and by months for 1960, shown in table 3 and figure 1, are as follows:

<u>Year</u>	<u>Average yield</u>		<u>Spread</u>	<u>Month</u> 1960	<u>Average yield</u>		<u>Spread</u>
	<u>3-5 yr</u> <u>issues</u> (Percent)	<u>Long</u> <u>term</u> <u>bonds</u>			<u>3-5 yr</u> <u>issues</u> (Percent)	<u>Long</u> <u>term</u> <u>bonds</u>	
1953	2.50	2.94	+ .38	Jan.	4.87	4.37	-.50
1954	1.82	2.55	+ .73	Feb.	4.66	4.22	-.44
1955	2.50	2.84	+ .34	Mar.	4.24	4.08	-.16
1956	3.12	3.08	-.04	April	4.23	4.17	-.06
1957	3.62	3.47	-.15	May	4.42	4.16	-.26
1958	2.90	3.43	+ .53	June	4.06	3.99	-.07
1959	4.33	4.07	-.26	July	3.71	3.86	+ .15
1960	3.99	4.01	+ .02	Aug.	3.50	3.79	+ .29
				Sept.	3.50	3.82	+ .32
				Oct.	3.61	3.91	+ .30
				Nov.	3.68	3.93	+ .25
				Dec.	3.51	3.88	+ .37

From March 1959 through June 1960, as a result of the prevailing high interest rates for all securities and the 4-1/4 percent ceiling on long-term bonds, shown in table 3 and figure 1, 3-5 year issues yielded higher interest rates than long-term bonds. Current monetary policy recently announced by the Treasury, designed to aid the balance of payments situation and stimulate the economy, is expected to lower interest rates on long-term borrowing and raise yields on shorter term securities. Therefore, for the immediate future, there may be some small advantage to the fund in basing the interest rates of special issues for the fund on marketable issues maturing in three years.

The above recommendation of the Treasury Department Committee on Investment Policy that the new rates on special issues be made effective over a period of 1 to 15 years, also is stated by the Chairman of the Civil Service Commission in his letter of January 17, 1961 to the President of the Senate, and in the joint report of the Commission and the Bureau of the Budget as follows:

"If such new standards were established, the Treasury Department would re-invest the fund at the new rate as its present holdings mature. This conversion of the investments to the new basis would take a number of years, producing a gradual increase in the rate of earnings toward an ultimate level of 4 percent or thereabouts, if present money market rates prevail for a considerable period."

The above policy would postpone for several years the time the new rate would become effective. The special issues now held by the fund, shown in tables 4 and 5, are invested in amounts prorated to mature 1/15 each year

36 INTEREST EARNINGS BY CIVIL SERVICE RETIREMENT FUND

Table 4. - Assets of the Civil Service Retirement and Disability Fund held by the .
Treasury Department, end of fiscal years 1954-60.

Assets	Fiscal years ending June 30, cumulative						
	1954	1955	1956	1957	1958	1959	1960
Maturity date							
Investments:	(Million dollars)						
Special issues 1/							
4% certificates 1955	2,264.2						
3% certificates 1955	4.1						
3% certificates 1956		4,054.6					
3% certificates 1957			6,051.5				
2-1/2% certificates 1958				5,706.9			
2-1/2% certificates 1959					4,248.8		
2-5/8% certificates 1960						297.6	
2-5/8% certificates 1961							185.8
4% notes 1955	1,107.1						
4% notes 1956	1,108.8	1,101.8					
4% notes 1957	1,351.9	988.5	592.5				
3% notes 1955	3.0						
3% notes 1956	3.4	3.4					
3% notes 1957	3.5	3.5	3.5				
2-1/2% notes 1959				185.0	185.0		
2-1/2% notes 1960				185.0	385.0	385.0	
2-1/2% notes 1961-63				370.0	970.0	970.0	970.0
2-5/8% mptes 1961-64						716.8	870.7
2-5/8% notes 1965							51.3
2-1/2% bonds 1963-68				925.0	1,925.0	1,925.0	1,925.0
2-5/8% bonds 1965-69						1,466.0	1,671.1
2-5/8% bonds 1970-75						2,821.0	2,693.3
Total - - - -	5,838.9	6,151.7	6,647.4	7,371.9	7,713.8	8,581.5	9,367.3
Public issues 2/							
3-1/2 & 3-3/4% notes 1960-62				70.0	102.9	73.7	70.0
2-5/8% notes 1963					22.7	47.7	47.7
4% notes 1961-63					93.9	113.9	113.9
4-3/4 & 5% notes 1963-65							83.3
2-1/4 - 2-5/8% bonds 1961-65					17.1	28.6	22.2
3 - 4% bonds 1966-74					80.0	93.2	99.6
3-1/4 - 4-1/4% bonds 1975-85			49.3	55.2	74.9	116.5	139.5
3 - 3-1/2% bonds 1990-95					61.2	67.7	67.7
2-1/2% savings bonds Series E	.7	.6	.4	.4	.2	.1	
Total - - - -	.7	.6	49.7	125.6	452.9	541.5	623.9
Total investments - - - -	5,839.6	6,152.3	6,697.1	7,497.5	8,166.7	9,122.9	9,991.2
Undisbursed balance - - - -	76.9	40.6	11.6	15.1	102.6	93.4	92.8
Total Assets - - - -	5,916.5	6,193.0	6,708.8	7,512.6	8,269.3	9,216.3	10,084.0

- 1/ Special issues are "Civil Service Retirement Fund Series." Such issues represent "trust funds" held in trust by the government for the benefit of certain individuals, which may be expended only for specific purposes in accordance with a trust agreement or statute. They do not enter into the budget surplus or deficit.
- 2/ Public issues are securities offered to the general public such as Treasury notes, bills, and bonds.

Source: "Annual Reports of the Secretary of the Treasury on the State of Finances, fiscal years 1955-60. Data rounded.

Table 5. - Maturities of public debt investments of the Civil Service Retirement and Disability Fund, as of June 30, 1960.

Years to maturity	Year No.	Special issues (percent yield)1/				Public issues2/			
		Certificates:		Notes :		Notes :		(percent yield):	
		2-5/8	2-1/2; 2-5/8	2-1/2; 2-5/8	Bonds :	2-5/8; 2-1/2	Bonds :	2-5/8; 2-1/2-4	Total
		Million dollars		Percent		Million dollars		Percent	
1961	1	185.8	385.0	179.2	750.0	7.6	73.9	823.9	
1962	2		385.0	230.5	615.5	6.6	70.0	685.5	
1963	3		200.0	230.5	185.0	6.6	91.2	701.6	
1964	4			230.5	385.0	6.6	56.1	671.6	
1965	5			51.3	385.0	6.6	3.7	640.7	
1966	6				385.0	6.6		640.0	
1967	7				385.0	6.6		615.5	
1968	8				200.0	6.6		615.5	
1969	9					6.6	6.4	621.4	
1970	10					6.6	38.2	650.7	
1971	11					6.6		615.5	
1972	12				615.5	6.6		615.5	
1973	13				615.5	6.6		615.5	
1974	14				615.5	6.6	30.0	645.5	
1975	15				615.5	6.6		615.0	
1975-85	15-25						64.6	64.6	
1990-95	30-35						142.6	142.6	
Total	- - -	185.8	970.0	931.8	1,825.0	5,364.2	294.9	328.3	10,084.0

^{1/} The retirement act now provides for investment of the fund in special issues which bear interest based on the average rate borne by all Treasury marketable interest bearing bonds with maturities of five years or more from the date of original issue which currently is 2-5/8 percent.

^{2/} Public issues may be purchased by the fund when the Treasury determines that it is in the public interest; interest yields are shown in detail in table 4.

Source: Annual report of the Secretary of the Treasury on the State of Finances, fiscal year 1960. Data rounded.

until 1975. Assuming that the new formula raised the interest rate by 1 per cent on new special issues purchased by the fund, the current over-all rate of 2.596 percent on the old issues would advance only (6.6 percent of 1 per cent) to 2.662 percent the first year, 2.728 percent the second year, 2.794 percent the third year, and so on.^{6/}

The 4 percent interest rate mentioned in the policy statement above was in line with the higher interest rates prevailing from April 1959 to June 1960, shown in table 3. The current average rates of 3-5 year issues and long-term bonds is about 3-3/4 percent.

The above stated interest rate recommendations of the Civil Service Commission and the Bureau of the Budget are included in S. 739, exhibit 1 of this report.

Proposed Bill - Exhibit 2

The proposed alternative bill would amend Section 17 (d) of the Civil Service Retirement Act by directing payment of interest on special obligations issued to the fund at whichever is the higher rate (1) 3-1/2 percent, or (2) 1/2 percent less than the average market yield borne by all marketable interest bearing obligations of the United States that are not due or callable until after five years. In consideration of the 3-1/2 percent minimum guarantee to the fund, the rate based on current market yield is reduced by 1/2 percent. This formula would stabilize the interest return to the fund at the minimum rate or "floor" of 3-1/2 percent, and provide for a higher rate only when the yield on long-term bonds is above 4 percent.

Trust funds administered by Government on which minimum interest rates are now required by law are (1) Government life insurance fund (veterans World War I), 3-1/2 percent; National Service Life insurance fund (veterans World War II), 3 percent; and railroad retirement account, 3 percent.^{8/}

The Treasury Department also voluntarily put into effect on February 2, 1960, the recommendations of its Investment Policy Committee that, when higher than the minimum 3-1/2 percent for government life insurance (3 per cent for National service life insurance), rates equal to 1/2 percent less than the yield rate on government securities maturing after three years

^{6/} See footnote ^{6/} page 9.

^{8/} Railroad retirement account. - Special obligations shall bear interest at 3 percent per annum, and other obligations may be acquired only on such terms as will yield not less than 3 percent. Sec. 15 (c) Railroad Retirement and Unemployment Insurance Act (45 USC 228-8). Veterans Benefits. - The original Act establishing Government Life Insurance provided that premiums would be based on interest yield of 3-1/2 percent on investment of the fund (paragraph 7550; and similarly, payment of 3 percent interest to the National Life insurance trust fund is based on investment of the fund at a 3 percent interest rate (paragraphs 702 and 720), Title 38, United States Code (72 Stat. 1148 - 1149).

would be paid on special obligations issued to such funds. The Secretary of the Treasury is authorized under present law to take such action and, as a result, proposed legislation to raise interest yields on these funds was considered unnecessary and was dropped.^{2/}

With respect to the railroad retirement account, the Treasury Department transmitted an executive communication to Congress (Interstate Commerce Committees), dated May 16, 1960, and a draft of a proposed bill to revise the interest rate formula to require payment of interest on special obligations at the higher of (1) the minimum rate, 3 percent, or (2) 1/2 percent less than the yield rate of securities maturing after 3 years, as recommended by its Investment Policy Committee.

The "Social Security Amendments of 1960," Public Law 86-778, September 13, 1960 [Sec. 701 (d)], also provided that special Treasury obligations purchased by the fund shall bear interest at a rate equal to the average market yield of marketable interest-bearing obligations of the United States that mature after "four" years. This amendment was a compromise between recommendations of the Advisory Council on Social Security Financing ^{1/} that the rate should be based on the rate of return of outstanding bonds that will mature after five years, and the recommendations of the Treasury Committee on Investment Policy, cited above, that the rate should be based on obligations that mature after three years.^{5/}

The old rate applicable to social security funds enacted in 1956 basing such interest rates on "coupon rates," was the same as that enacted about the same time for the civil service retirement fund.

The amount of interest rates on special Treasury issues held by the above trust funds, December 31, 1960, and the change in such interest rates from December 31, 1959, are as follows:

Trust fund	Special issues \$ Mil.	1960	Interest rate	
			1959	Increase
			(Percent)	
Civil service retirement	9,742	2.596	2.584	+.012
Old age and survivors insurance	15,781	2.587	2.568	.019
Disability insurance	2,093	2.735	2.604	.131
Railroad retirement	3,335	3.000	3.000	--
Government life insurance	1,078	3.519	3.500	.019
National service life insurance	5,770	3.065	3.000	.065

Source: Daily Statement of the United States Treasury, December 31, 1960.

^{2/} The proposed Legislation, H.R. 9378, 86th Congress, provided that special obligations issued to the government and national service life insurance funds shall bear interest at whichever is the higher rate (A) 3-1/2 per cent for government life insurance and 3 percent for national service life insurance, or (B) the rate of interest borne by interest bearing obligations of the United States most recently issued --- which had, as of the date of their issue, a comparable maturity. See footnote ^{6/}.

^{1/} See footnote ^{1/} page 9.

^{6/} See footnote ^{6/} page 9.

The terms of the proposed alternative bill providing that special Treasury obligations issued to the civil service retirement fund shall bear interest at (1) 3-1/2 percent, or (2) 1/2 percent less than the yield rate on long-term bonds, whichever is higher, are the same as the terms made effective February 2, 1960 for Government life insurance, except that the yield rate is based on long-term securities maturing after five years.

The policy in the present law which relates the interest rate on special obligations of the civil service retirement fund to interest rates on long-term obligations identifies the special obligations as being primarily long-term investments. The recommendation of the Commission and the Bureau of the Budget, page 7 of the report, for an indefinite appropriation when necessary to assure payment of benefits without reducing the balance in the fund below the amounts to the credit of the employees, estimated to level off at about \$9.5 billion which will be maintained indefinitely and be on continuous loan to the Treasury, further establishes the long-term character of the investments. The fund, therefore, should be invested at the long-term rate, namely, in special obligations that have maturities fixed with due regard to the needs of the fund.

Payment of the proposed minimum interest rate of 3-1/2 percent on special obligations issued to the fund is justified by the recommendation of the Commission and the Bureau of the Budget for an indefinite appropriation estimated to be needed about 1980 and increasing annually thereafter. The added receipts from the immediate payment of higher minimum interest rates on investments of the fund would build up the fund for future needs and postpone the time for making supplemental appropriations.

The added receipts from payment of minimum interest rates on investment of the fund also would help offset payment of benefits from the fund for military service for which no appropriations were ever made. About 54 percent, or 1.2 million active Federal employees have had and will receive credit for military service when they retire. About 40 percent of present male retirees have had military service, mostly in World War I, and the estimated current cost to the retirement fund is about \$16 million annually.^{10/} A larger number of future retirees will have longer military service and larger annuities, and the annual cost to the fund will be greatly increased.

Payment of the minimum interest rates on investments would further help equalize government contributions to the fund with the contributions of employees. Total contributions of employees, as shown in table 1, exceeds by more than \$2.1 billion the total amount of government contributions. The report of the commission and the Bureau of the Budget, page 7, also states that there is no need of "making billions of dollars of appropriations for past service costs which would be transferred to the trust fund and invested in Treasury bonds for many years before they would be needed for payment of benefits." However, maintaining substantial annual interest receipts to the fund would greatly aid in stabilizing the operation of the retirement system.

^{10/} Computed: Assumed 40 percent male retirees have average 1-1/2 years military service and 23 years civil service, with 1960 annuity disbursements \$767 million, estimated costs of military credits = \$16 million.

The proposed alternative bill also would amend Section 17 (d) of the Act with respect to investment of the fund in public issues by adding a new subsection (e) providing that "the Secretary of the Treasury may purchase other interest-bearing obligations of the United States, ... only when such obligations will provide an investment yield equal to or greater than the yield that would be provided by the alternative of investing in special obligations"

In contrast, the present law provides (negatively) that special obligations shall be issued for purchase by the fund only if the Secretary determines that purchase in the market of other obligations is not in the public interest, and S. 739, 87th Congress, provides that the Secretary may purchase other than special obligations only if he determines that such purchases are in the public interest. The amount invested in public issues June 30, 1960, shown in table 4, was \$623.9 million, about 6 percent of the total amount in the fund.

A new Section 5 of the proposed alternative bill would require immediate reinvestment of the entire fund on June 30, 1961 at the higher interest rates required in the bill. As previously stated on page 12, and in tables 4 and 5, the recommendation of the Treasury Department Committee on Investment Policy that the new rates on special issues be made effective over a period of 1 to 15 years, would postpone for several years the time the new rate would become effective. Assuming that the new rate would be about 1 percent higher than the old rate, the interest return on the \$10 billion fund would be increased \$100 million annually, or a total of \$750 million for 7-1/2 years (1/2 of 15) average time required for the new rate to become effective.

(4) Reports

In view of the growing size of the Federal retirement program, the Commission and the Budget Bureau jointly recommended that more data should be developed and more information should be published with greater frequency on the financial status of the civil service retirement fund. This would also be desirable for other retirement programs for Federal, civilian, and military personnel.

The Commission already prepares and publishes considerable information on the cost of the civil service retirement system and its financial status. As required by law, periodic actuarial valuations have been made by the Board of Actuaries which have provided data on costs as a percentage of payroll, on the liability of the system, and on the portion of the liability which is unfunded. This information has been available to the executive branch for use in formulation of the budget and development of personnel retirement policies. It has also been regularly presented to the Congress in connection with the annual budget submissions.

More frequent actuarial valuations based on strengthened statistical and accounting information will provide a better basis for continuing appraisal of the status of the civil service retirement fund. The executive branch will give consideration to the desirability and feasibility of incorporating standardized financial data on the status of the various Federal retirement systems in the Government's financial reports. This will have the objective of making full disclosure of operating results and financial status regardless of how the systems are funded.

The proposed alternative bill would amend Section 16 (f) of the Civil Service Retirement Act to provide a much improved statistical and accounting procedure for a continuing appraisal of the status of the fund by requiring the Commission to make a report to the Congress annually on current and future assets and disbursements from the fund, taking into account employment and payroll levels, and the actuarial status of the fund.

The proposed bill does not require that the executive branch include standardized financial data on the status of the various retirement systems in the government's regular financial reports, because it is expected that this recommendation will be provided in the regular administrative procedure of the government already authorized or that a separate bill be proposed.

Advisory Council

A new Section 18, proposed by the alternative bill to be added to the Civil Service Retirement Act, would establish an Advisory Council on civil service retirement financing every five years to review the status of the fund in relation to the long-term commitments of the civil service retirement program and the adequacy of the contribution rates, and to evaluate plans and make recommendations for improvement of the retirement program.

The functions of the Advisory Council would be similar to those of other advisory groups representing business, research institutions, and government, in helping to solve difficult problems and to recommend policy. Such groups usually are composed of men with outstanding talents in their respective fields, and they furnish valuable information and advice that most likely would not otherwise be available. Some of such advisory groups that are well known are the various working groups of the Committee on Economic Development of the Department of Commerce, the National Research Council, the National Space Agency, the Department of Agriculture, the Social Security Administration, and others.^{7/}

Outline of Proposed Bill

The proposed alternative bill would amend Section 17 of the Civil Service Retirement Act, as recommended by the above cited reports of the Civil Service Commission, the Bureau of the Budget, and the Comptroller General, with certain modifications.

Section 2 of the proposed bill would amend Section 17 of the Civil Service Retirement Act, as follows:

Section 17 (a) Appropriations from fund. This section is the same as in the present law.

(b) Custodian of the fund. The Secretary of the Treasury is the custodian. This section is the same as in the present law.

(c) Investment of the fund. The Secretary of the Treasury shall manage the fund. This section is the same as in the present law.

^{7/} See footnote 7/ page 9.

(d) Interest rates on special issues. Special obligations purchased by the fund shall have maturities fixed with due regard to the needs of the fund, and shall bear interest at whichever is the higher rate (1) 3-1/2 percent per annum, or (2) 1/2 percent less than the average market yield borne by all interest-bearing marketable obligations of the United States that are not due or callable until after five years from the date of such special issue.

(e) Interest rates on public issues. The Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or guaranteed obligations, only when such obligations will provide an investment yield equal to or greater than would be provided by the alternative of investing in special obligations.

(f) Appropriations to the fund. There is appropriated to the fund each fiscal year after enactment such amount as may be required to prevent the estimated balance in the fund at the end of any such fiscal year from being less than the estimated total of lump sum credits and voluntary contribution accounts of present and former employees or Members.

Section 3 of the proposed bill would amend Section 16 (f) of the Civil Service Retirement Act, as follows:

Section 16 (f) Reports. It shall be the duty of the Civil Service Commission to: report to the Congress by March 1 of each year on the operation and status of the fund, and (2) recommend policies and administrative procedures designed to effectuate improvement in the financing of the civil service retirement program. The report provided for in item (1) shall include a statement of the assets of and the disbursements made from the fund during the preceding year and estimates of receipts and disbursements for the next five fiscal years, and a statement of the actuarial status of the fund.

Section 4 of the proposed bill adds a new section to the Civil Service Retirement Act, as follows:

Section 18. Advisory Council on Civil Service Retirement Financing. There is established an advisory council on civil service retirement financing every five years to review the status of the Civil Service Retirement and Disability Fund in relation to the long-term commitments of the Civil Service retirement program and the adequacy of the contribution rates, taking into account the most recent cost estimates, and to evaluate plans and make recommendations for improvements of such program.

Section 5 of the proposed bill adds a new section to the Civil Service Retirement Act, as follows:

"Sec. 5. Reinvestment of Fund. All special issues in which the Civil Service Retirement Fund is invested on June 30, 1961, shall be redeemed and reinvested by the Secretary of the Treasury on such date in accordance with the provisions of this Act."

Exhibit 1

87th Congress
1st Session

S. 739

In the Senate of the United States

January 31, 1961

Mr. Johnston (by request) introduced the following bill; which was read twice and referred to the Committee on Post Office and Civil Service

A BILL

To amend the Civil Service Retirement Act, as amended, with respect to the method of computing interest earnings of special Treasury issues held by the civil service retirement and disability fund, to provide for permanent indefinite appropriation to said fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, (a) subsection (d) of section 17 of the Civil Service Retirement Act, as amended, 70 Stat. 759 (5 U.S.C. 2267), is amended to read as follows:

"(d) The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the fund. Such obligations issued for purchase by the fund shall have maturities fixed with due regard for the needs of the fund and bear interest at a rate equal to the average market yield computed as of the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of three years from the end of such calendar month, except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest on such obligations shall be the multiple of one-eighth of 1 per centum nearest such average market yield. The Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price only if he determines that such purchases are in the public interest."

(b) Subsection (e) of said section 17 is amended to read as follows:

"(e) There is hereby appropriated to the fund, out of any money in the Treasury not otherwise appropriated, for the fiscal year beginning July 1 next following the date of enactment of this amendatory paragraph, and for each fiscal year thereafter, such amount as may be required to prevent the estimated balance in the fund at the end of any such fiscal year from being less than the estimated total of lump sum credits and voluntary contribution accounts of present and former employees or Members, minus the estimated total of annuity payments made to such employees or Members or to the survivors of such employees or Members, and chargeable to such credits and accounts."

Exhibit 2

PROPOSED ALTERNATIVE BILL

To provide for investment of the Civil Service Retirement and Disability Fund, for appropriations to such fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Civil Service Retirement Financing Amendments Act of 1961."

Sec. 2. Section 17 of the Civil Service Retirement Act, as amended, 70 Stat. 759 (5 U.S.C. 2267), is amended to read as follows:

"CIVIL SERVICE RETIREMENT AND DISABILITY FUND

"Sec. 17. (a) the fund is hereby appropriated for payment of benefits as provided in this Act;

"(b) the Secretary of the Treasury is hereby authorized to accept and credit to the fund moneys received in the form of donations, gifts, legacies, or bequests, or otherwise contributed for the benefit of civil service employees generally;

"(c) the Secretary of the Treasury shall immediately invest in interest-bearing securities of the United States, such currently available portions of the fund as are not immediately required for payments from the fund, and the income derived from such investments shall constitute a part of the fund.

"(d) the purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize issuance at par of special obligations for purchase by the fund. Such special obligations shall have maturities fixed with due regard to the needs of the fund and shall bear interest at whichever is the higher rate (1) $3\frac{1}{2}$ percent per annum, or (2) $\frac{1}{2}$ percent less than the average market yield, computed as of the end of the calendar month next preceding the date of such issue, borne by all interest-bearing marketable obligations of the United States then forming part of the public debt that are not due or callable until after the expiration of five years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest on such special obligations shall be the multiple of one-eighth of 1 per centum nearest such average market yield;

"(e) the Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price only when such obligations will provide an investment yield equal to or greater than the yield that would be provided by the alternative of investing in special obligations issued to the fund upon the date of each acquisition, except that such issues may be purchased at a lower price for exchange for new issues bearing a higher price.

"(f) there is hereby appropriated to the fund, out of any money in the Treasury not otherwise appropriated, for the fiscal year beginning July 1 next following the date of enactment of this amendatory paragraph, and for each fiscal year thereafter, such amount as may be required to prevent the estimated balance in the fund at the end of any such fiscal year from being less than the estimated total of lump-sum credits and voluntary contribution accounts of present and former employees or Members, minus the estimated total of annuity payments made to such employees or Members or to the survivors of such employees or Members, and chargeable to such credits and accounts."

Sec. 3. Section 16 (f) of the Civil Service Retirement Act, as amended, is amended to read as follows:

"REPORTS

"Sec. 16. (f) The Commission shall (1) report to the Congress not later than the 1st day of March of each year on the operation of this Act and the status of the fund during the preceding fiscal year and on its expected operation and status during the next ensuing five fiscal years; and (2) recommend policies and administrative procedures designed to effectuate improvement in the financing of the civil service retirement program. The report provided for in item (1) shall include a statement of the assets of and the disbursements made from the fund during the preceding fiscal year, an estimate of the expected future income to and disbursements to be made from the fund, taking into account employment and payroll levels, during each of the next ensuing five fiscal years, and a statement of the actuarial status of the fund. Such report shall be printed as a House document of the session of the Congress to which the report is made."

Sec. 4. Section 18 of the Civil Service Retirement Act, as amended, is renumbered to be section 19, and the following new section is added:

"ADVISORY COUNCIL ON CIVIL SERVICE RETIREMENT FINANCING

"Sec. 18. (a) There is hereby established an Advisory Council on Civil Service Retirement Financing (hereinafter called the 'Council'). It shall be the purpose and duty of the Council to review the status of the Civil Service Retirement and Disability Fund in relation to the long-term commitments of the civil service retirement program and the adequacy of the contribution rates, taking into account the most recent cost estimates, and to evaluate plans and make recommendations for improvement of such program.

"(b) The Council shall be appointed by the Civil Service Commission before April 1, 1962, without regard to the civil service laws and shall consist of the Chairman of the Civil Service Commission, as Chairman, and of eight other persons of whom one shall represent the Treasury Department, one the active Government employees, one the retired Government employees, and five shall represent the public.

"(c) The Council is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Civil Service Commission shall, in addition, make available to the Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data as it may require to carry out such functions.

Members of the Council other than Government employees while serving on business of the Council (inclusive of travel time) shall receive compensation at rates fixed by the Civil Service Commission, but not exceeding \$50 per day; and shall be entitled to receive actual and necessary traveling expenses and per diem in lieu of subsistence while so serving away from their places of residence.

"(d) The Council shall make a report of its findings and recommendations to the Civil Service Commission not later than January 1, 1963, after which date such Council shall cease to exist. Such findings and recommendations shall be included in the annual report of the Civil Service Commission to be submitted to the Congress not later than March 1, 1963.

"(e) On or before April 1, 1967, and each five years thereafter, the Civil Service Commission shall appoint an Advisory Council on Civil Service Retirement Financing with the same functions, and constituted in the same manner, as prescribed in the preceding subsections of this section. Each such Council shall report its findings and recommendations to the Civil Service Commission, as prescribed in the preceding subsections of this section, on the first day of the succeeding calendar year, after which such Council shall cease to exist, and such report and recommendations shall be included in the annual report of the Civil Service Commission to be submitted to the Congress for that year.

"REINVESTMENT OF FUND

"Sec. 5. All special issues in which the civil service retirement fund is invested on June 30, 1961, shall be redeemed and reinvested by the Secretary of the Treasury on such date in accordance with provisions of this Act."

Mr. OLSEN. Our next witness is Mr. C. L. Dorson, president, Retirement Federation of Civil Service Employees.

STATEMENT OF C. L. DORSON, PRESIDENT, RETIREMENT FEDERATION OF CIVIL SERVICE EMPLOYEES

Mr. DORSON. Mr. Chairman, to cooperate with the expressed desires of the chairman to conserve the time of the committee, with your permission, I will file my prepared statement for the record and summarize it.

Mr. OLSEN. Very well.

Mr. DORSON. Mr. Chairman and members of the subcommittee, for the record, my name is C. L. Dorson, president, Retirement Federation of Civil Service Employees of the U.S. Government, an organization of about 95,000 members, most of whom are presently employed by the Federal Government.

We endorse section 1(a) of H.R. 5974 and H.R. 5989, and the increase in interest rates on the investments of the fund is much needed and desired.

We do not, however, look at section 1(b) in the same light. We have some serious doubt as to its merit. If the proposed amendment to section 17(e) of the act is adopted, it would in the first instance serve to make meaningless any gains in the interest rate because it proposes a reduction in the fund's balance of about \$1 billion in the next 18 years.

In the second instance, it would delay direct annual appropriations until about 1980, when they would start at a little less than \$1 billion annually and increase yearly to about \$2 billion in 25 years. We think a more desirable approach to the funding problem is to be found in the relatively level appropriations provided by the normal cost plus interest method. This method has been endorsed by the Commission in the past and has the endorsement of the Comptroller General of the United States.

We ask that before making your decision with regard to this matter you review the recommendation of the Comptroller General under date of October 27, 1959, to the Senate Committee on Appropriations. Thank you very much, Mr. Chairman.

Mr. OLSEN. Thank you, Mr. Dorson. Are there any questions from the members of the committee?

(Mr. Dorson's prepared statement follows:)

PREPARED STATEMENT OF C. L. DORSON, PRESIDENT, RETIREMENT FEDERATION OF CIVIL SERVICE EMPLOYEES

Mr. Chairman and members of the subcommittee, my name is C. L. Dorson. I am president of the Retirement Federation of Civil Service Employees of the U.S. Government, an organization of about 95,000 members most of whom are presently employed in the Department of Defense.

We are vitally interested in the bills before you today and appreciate the time you are devoting to their consideration.

The bills, H.R. 5974 and H.R. 5989, propose a change in the method of computing interest on investments and a change in the method of providing appropriations for the civil service retirement and disability fund. These proposals are identical to those submitted to this committee, by the Civil Service Commission, under date of November 17, 1959.

Section 1(a) of these bills would, as we understand it, provide an interest rate of about $3\frac{1}{2}$ percent on future investments of the civil service retirement and disability fund. This represents an increase of about five-eighths of 1 percent

over the current rate. We believe the fund to be much in need of the increase in investment earnings proposed and endorse this section wholeheartedly.

Section 1(b) of H.R. 5974 and H.R. 5989 proposes a method of appropriation to the fund. In the sense that it at least provides an appropriation, it is probably an improvement over the past several years but we have some serious doubt as to its merit. On the basis of the Commission's report of November 17, 1959, this method would not produce an appropriation until the year 1980 when about \$815 million would be appropriated. Appropriations would be made each year thereafter, on an increasing scale, and would be about \$1.903 billion in the year 2005. As projected, this method would produce total appropriations of about \$18¾ billion, over the next 44 years, and interest of about \$11 billion during the same period.

On the other hand, the normal cost-plus-interest method of funding, under which the civil service retirement system now operates in theory if not in practice, would produce about \$30 billion in direct appropriations and about \$30 billion in interest earnings, at 3 percent, over the next 44 years. This method would allow the fund to build a balance of about \$45 billion by the year 2005.

The method of appropriation proposed under section 1(b) would serve to reduce the interest earnings of the fund and thereby nullify any temporary gains under section 1(a) because, over the years, the fund would shrink from its present level of about \$10½ billion to about \$9½ billion before leveling off.

The proper method for funding the civil service retirement system has been a highly controversial subject for many years. It was the primary reason for creation of the Committee on Retirement Policy for Federal Personnel, by the 82d Congress, and we had hoped that the matter would finally be resolved. Their recommendation, submitted on June 29, 1954, was that appropriations to the fund should be made in the amounts measured by the normal cost-plus-interest method. This method was endorsed by the Civil Service Commission, the Board of Actuaries, and the Comptroller General. Its principle, at least, was incorporated in section 17(e) of the Civil Service Retirement Act, title IV of Public Law 854, 84th Congress, which section 1(b) would amend.

I am not a fiscal expert. I would, however, recommend to you for consideration the opinion of one whom I believe to be most competent in this field, the Comptroller General of the United States. In a letter to Senator Carl Hayden, chairman of the Senate Committee on Appropriations, under date of October 27, 1959, the Comptroller General said:

"In requesting recommendations 'for keeping the fund current' we assume that the committee, in using the phrase, was referring to the making of annual appropriations, collecting employee contributions, and earning interest on investments for the benefit of the fund, at a level equal to the accruing annual costs of retirement and disability benefits. In requesting recommendations 'for providing on a sound basis for the future liabilities of the Government to the beneficiaries' we assume that the committee had reference to ways and means of providing assurance that the Government's liabilities to its employees for benefits under the Civil Service Retirement Act would be paid.

"In considering the committee's request, we have given considerable thought to the nature of the civil service retirement system and its financial significance. Our general conclusions and recommendations are summarized as follows:

"1. The obligations of the retirement system to its beneficiaries are met by payments of cash which must be obtained from tax or other receipts or borrowings from the public when the payments become due. The ability of the Government to raise funds when required is the test of the system's soundness; the accumulation of U.S. Government securities in the civil service retirement and disability fund does not improve either the soundness of the system or the ability of the Government to fulfill its retirement obligations. The soundness of the system is dependent on the faith and credit of the United States.

"2. As a means of assuring that retirement costs incurred by the Government each year under the system are included in the annual budget and financial reports of the Government, we recommend that appropriations be made to the fund in the amounts measured by the normal cost-plus-interest basis of determining annual retirement costs.

"(a) The present practice of appropriating to the employing Government agencies for a portion of the Government's share of the normal cost of the system is desirable and should be continued. The amount of these appropriations, however, should be increased to cover fully the annual normal cost of the system not met by employee contributions.

"(b) The fund receives periodic credits for interest on the U.S. Government securities held by the fund. Annual appropriations should also be made to the

fund for an amount equal to the interest on the portion of the liability of the system for which appropriations have not been made.

"(c) The normal cost-plus-interest basis for appropriating to the fund would complete, on a systematic basis, the full cycle of congressional action necessary for carrying out the Civil Service Retirement Act, by providing authority to make disbursements when needed.

"(d) Annual appropriations to the fund for an amount equal to normal cost plus interest less employee contributions would result in automatic inclusion of the full annual cost of the system in the annual budget and the financial reports of the Government and its agencies. The formulation and submission of requests for appropriations on the basis of accrued costs would also conform with one of the requirements of Public Law 863, 84th Congress, for improved budgeting. The practice would also have several other worthwhile results.

"(1) The growth of the portion of the liability for which appropriations have not been made would be arrested assuming all present factors affecting that liability do not change materially.

"(2) The balance of the fund attributable to the Government's contributions would increase and eventually exceed by several times the portion of the balance attributable to employees' contributions.

"(3) There would be a more even distribution of annual budgetary expenditures based on the present level of Federal employment and retirement benefits.

"3. Because (1) past service costs are not a current cost of operating the Government, and (2) the normal cost-plus-interest basis of appropriating to the fund will cover all future disbursements indefinitely, appropriations for the purpose of reducing the liability of the system for which appropriations have not been made in past years are unnecessary."

Mr. Chairman, our organization endorses these recommendations of the Comptroller General. We respectfully request that H.R. 5989 be amended accordingly, reported favorably, and enacted by the Congress at an early date.

Mr. Chairman, we appreciate the consideration of these matters and thank the committee for the opportunity to express our views.

Mr. OLSEN. Our next witness is Mr. James K. Langan, operations director, Government Employees' Council.

STATEMENT OF JAMES K. LANGAN, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES' COUNCIL

Mr. LANGAN. Thank you, Mr. Chairman. I am going to cooperate with the spirit and theme of the hearing here and submit a one-page statement and, in response to the chairman's suggestion, comment on two matters. A change from 3 years to 4 years, the maturity date. I want to record our organization as being in favor of the 4 years. It would increase it just a little bit, the yield ought to be just a little higher in 4 years than in 3.

So far as the requiring of the annual appropriation, why we feel that it is important and desirable, we would have no opinion as to whether or not this committee should provide it in a bill or whether it belongs in some other congressional committee.

Mr. OLSEN. Thank you, Mr. Langan. Are there any questions?

Mr. GROSS. Have you given any thought to a minimum interest rate?

Mr. LANGAN. No; we have not given any thought to that, but I think that is important.

Mr. GROSS. Thank you.

(Mr. Langan's prepared statement follows:)

PREPARED STATEMENT OF JAMES K. LANGAN, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES' COUNCIL

Mr. Chairman and members of the subcommittee, my name is James K. Langan, operations director of the Government Employees' Council, AFL-CIO, an organization which is composed of 24 national or international unions whose members are wholly or in part employed in all branches of Government service.

I appear before you, Mr. Chairman and members of this subcommittee, for the purpose of placing endorsement of the Government Employees' Council, AFL-CIO, on H.R. 5989, introduced by Congressman Murray and H.R. 5974 by Congressman Corbett, which provide a method of investing the funds in the U.S. civil service retirement system under a plan of computing interest, which will be predicated on the yield of certain Government securities that are not callable or do not mature after the expiration of 3 years from the end of the calendar month at time of determination.

This method of computing the interest paid to the civil service retirement fund would provide a more just and equitable manner of crediting interest. Many private funds of a retirement nature are not restricted to U.S. Government securities and, therefore, earn a higher yield than a fund which is solely restricted to purchase of Government obligations, which is the case of the civil service retirement fund.

These bills are a progressive step in the administration of the civil service retirement and disability fund and we wish to take this means of commending Congressmen Murray and Corbett for their introduction of these measures and to the members of this subcommittee for scheduling hearings, and we trust that a favorable recommendation will be made to the full committee, the bill passed by the House, and enacted into law.

Mr. OLSEN. Our next witness is Mr. Tommy M. Martin, president, National Rural Letter Carriers' Association.

STATEMENT OF TOMMY M. MARTIN, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Mr. MARTIN. Mr. Chairman and members of the committee, my name is Tommy M. Martin. I am president of the National Rural Letter Carriers' Association, an organization comprised of 38,422 regular, temporary, substitute, and retired rural letter carriers.

This association has long been interested in legislative action which would provide for additional Government contributions to the civil service retirement fund. We have in the past supported action to increase the Government's contributions in order that the fund would be maintained in the soundest possible financial condition on an actuarial basis. On the basis of the reports from the Board of Actuaries, the unfunded liability of the fund continues to grow. We feel that action is needed by the Congress to reverse that trend and the bills under consideration would provide two steps in that direction.

It appears only logical that the U.S. Government should pay to the fund a rate of interest comparable to the prevailing rate paid on borrowings from other sources. We endorse and support enactment of law which would direct such a rate of interest.

The balance in the fund represents, in large measure, a type of time deposits reflecting lump-sum credits and voluntary contribution accounts of employees and Members. The balance should not be permitted to drop below the total of such credits and the second provision of these bills is an appropriate action to prevent this from occurring.

In view of the growing unfunded liability, we feel that Treasury appropriations of even greater amounts are justified and would reflect a more appropriate Government contribution. For that reason

we not only support the appropriation which would be provided by the bill before you, but would recommend that higher contributions by the Government be provided in order to assure maximum possible solvency of the fund.

We feel this legislation merits favorable consideration by the committee, and we trust action may be taken to assure that the civil service retirement fund be maintained in a sound, solvent financial condition in a manner to assure that its liabilities in future years may be fully met.

Mr. OLSEN. We have a communication from Dillard B. Lasseter, executive officer, Organization of Professional Employees of the U.S. Department of Agriculture, which will be made a part of the record at this point.

(The letter from Mr. Lasseter follows:)

ORGANIZATION OF PROFESSIONAL EMPLOYEES
OF THE U.S. DEPARTMENT OF AGRICULTURE,
Washington, D.C., July 14, 1961.

HON. TOM MURRAY,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN MURRAY: The above-named organization, known as OPEDA, with about 5,500 members, favors the objectives of H.R. 5989 now before your subcommittee. This bill would amend the Civil Service Retirement Act (1) with respect to the method of computing interest earnings of special Treasury issues held by the civil service retirement and disability fund and (2) provide for permanent indefinite appropriation to the fund when the balance in the fund becomes smaller than the amount of equities from employee contributions.

However, we believe the objectives of this bill could be achieved better by S. 1828, introduced by Senator Spessard L. Holland on May 9, 1961, which would amend the Civil Service Retirement Act to provide (1) minimum interest earnings of 3½ percent on special Treasury issues held by the retirement fund; (2) permanent indefinite appropriations to the fund, the same as H.R. 5989; (3) reports containing more comprehensive data on the status and operation of the fund as recommended by the Civil Service Commission and Bureau of the Budget in their special reports to the Senate Appropriations Committee in 1959; (4) an advisory council to examine periodically the status of the fund and make recommendations for financing the retirement system in the indefinite future; and (5) immediate reinvestment at the new rates of all special obligations now held by the fund.

The civil service retirement and disability fund is one of the essential features of the civil service retirement system. It receives all contributions of Federal employees deducted from their salaries during their periods of service and the contributions of the Government which now approximately match the employees' contributions, although there are many periods in the past when no, or relatively small, Government contributions were made to the fund. At the end of fiscal year 1960, the total balance of the fund was \$10.080 million, and the 1962 budget document released January 6, 1961, estimates the balance at the end of fiscal year 1961 at about \$11 billion, and at the end of fiscal year 1962 at about \$11.8 billion.

The rates of interest earned on investment of the fund is of greatest importance to the future soundness of the retirement system. From 1921 through 1960, the interest earned on investment of the fund was 17 percent of total contributions of employees and Government, and it was about 43 percent of total annuities paid.

The fund is loaned to the Federal Government as a part of the public debt, usually by the issue of special obligations. During most of the period from the establishment of the fund in 1920 to the effective date of the 1956 amendments to the Retirement Act (Public 854, 84th Cong., approved July 31, 1956), the Government paid interest at an average rate of 4 percent for the use of this fund. One of the 1956 amendments changed the method of computing the interest rate on the fund, which resulted in depressing the rate below 2.6 percent, while interest

actually received by other investors in the public debt with securities of similar maturity periods ranged to more than 4 percent. The most recent comparisons show an interest rate of less than 2.6 percent paid to the fund while the average received by other investors in similar obligations is more than 3.6 percent. This situation presents the somewhat unfortunate appearance of our Federal Government as a trustee, taking advantage of a trust fund administered for persons who depend on this fund as security for their livelihood.

H.R. 5989 would revise the interest rate formulas to pay interest equal to the yield rate on Government securities maturing after 3 years; whereas S. 1828 would revise the formula to provide (1) minimum interest earnings of $3\frac{1}{2}$ percent, or (2) one-half of 1 percent less than the yield rate on long-term bonds maturing after 5 years from date of issue, whichever is higher. It would also require immediate reinvestment of the fund at the new rates.

In the past it has been considered only fair that the Government pay the same rates of interest for the use of moneys in the civil-service retirement fund as it pays other investors. Reducing the yield rate one-half of 1 percent would compensate for the floor of $3\frac{1}{2}$ percent and help to stabilize the interest earnings of the fund.

Other reasons for providing a floor of $3\frac{1}{2}$ percent are as follows: (1) The Civil Service Commission and the Bureau of the Budget in their 1959 report to the Senate Appropriations Committee estimate that the automatic appropriations which they recommend will be needed after 1980 to keep the fund sound; and the added receipts from any higher interest rates will postpone the time when such appropriations will be needed; (2) the added interest earnings will tend to offset the cost to the fund of paying retirement benefits for military service for which no appropriations are ever made; and (3) employees have contributed \$2.1 billion more to the fund than has the Government, and the added interest earnings would help make up some of the deficit.

The reports provided in section 3 of S. 1828 are in accord with the fourth recommendation of the Civil Service Commission and the Bureau of the Budget in their 1959 report to the Senate Appropriations Committee cited above. As stated in section 3 of S. 1828, lines 11-18, the estimates of future income and outgo of the fund would take into account "employment and payroll levels" and thus reflect "growth" of the fund which is obvious in the past operation of the retirement system and is expected to continue in the future.

In contrast, the present method of computing receipts and disbursements shown in the various actuaries' tables assumes a fixed income each year for a period of 40 or 50 years ahead, and an increasing outgo each year. It is apparent from the growth of the fund as reported each year in the annual report of the Civil Service Commission, that it may be much later than 1980 before automatic appropriations will be needed to make up any deficits for employees' equities.

This organization also strongly favors establishing an advisory committee every 5 years as provided in S. 1828 to review the status of the fund and make recommendations for improvement. Any sizable deficits which may develop should be reported by the revised reporting system, provided in section 3 described above, in plenty of time to work out practicable methods of meeting the problems.

We thank you for the opportunity of presenting our views and request that they be made a part of the record.

Sincerely yours,

DILLARD B. LASSETER, *Executive Officer.*

Mr. OLSEN. I understand we have people here from the Comptroller General's Office. They have a report they wish to file as part of the record in the hearings. I wonder if any member of the committee might have questions of them.

Mr. GROSS. Does the report support the bills that have been introduced?

Mr. OLSEN. I can go into the pertinent parts of their report right now in answer to that. Will the representatives from the General Accounting Office please come forward?

STATEMENT OF L. A. NELSON, ASSOCIATE DIRECTOR, CIVIL ACCOUNTING AND AUDITING DIVISION, ACCOMPANIED BY R. W. FORD, SUPERVISORY ACCOUNTANT, CIVIL ACCOUNTING AND AUDITING DIVISION; AND C. P. FRIEND, ATTORNEY, OFFICE OF THE GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE

Mr. OLSEN. Would you summarize the position of the Comptroller General, please?

Mr. NELSON. I am Lloyd A. Nelson, Associate Director, Civil Accounting and Auditing Division. This is Mr. C. P. Friend, attorney, Office of the General Counsel, and this is Mr. Robert Ford, supervisory accountant in the Civil Accounting and Auditing Division.

We do not come with a prepared statement. We did submit a letter to the committee on Friday which indicated our general position on H.R. 5989.

(The letter from GAO follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, July 14, 1961.

B-125322

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: Your letter of June 30, 1961, requests an expression of our views on H.R. 5989 and H.R. 5974, which bills are identical.

The proposed legislation would (1) change the method of computing interest rates on special Treasury issues held by the civil service retirement and disability fund, and (2) provide for a permanent indefinite appropriation to said fund.

The change in the method of computing interest on the special Treasury issues held by the civil service retirement fund would be accomplished by amending section 17 of the Civil Service Retirement Act, as amended (70 Stat. 759; 5 U.S.C. 2267) to provide a market yield formula rather than a coupon rate formula as presently provided. The current coupon rate formula is now about 2½ percent and the current market yield is now about 3½ percent.

The proposed change to a market yield basis of computing interest on the securities held by the civil service and retirement disability fund is consistent with the position taken by our Office in similar situations and accordingly we have no objection thereto. We note that a similar bill S. 739 (S. Rept. 497) was passed by the Senate July 7, 1961, after approval of an amendment which would authorize the interest rate computation on the average market yield of obligations not due or callable until after the expiration of 4 years from the end of the month preceding the date of the special issue, instead of 3 years as originally proposed. We concur in that amendment which would make the market yield rate consistent with the interest rate applicable to similar investments under the social security system.

The appropriation provision of the proposed legislation would provide for an indefinite appropriation to the civil service retirement and disability fund so that the fund would not be reduced below the estimated total of lump sum credits and voluntary contribution accounts of present and former employees or Members, minus the estimated total of annuity payments made to such employees or Members or to the survivors of employees or Members, and chargeable to such credits and accounts. The testimony contained in the Senate hearings on S. 739, indicates that the appropriation proposed in H.R. 5989 and H.R. 5974 would not become operative until about 1980 when the balance in the fund would begin to decline below the amount credited to the employees participating in the system. Such testimony also disclosed that the amount of the appropriation which would be required for the first year (1980) would be about \$815 million and that subsequent annual appropriations would be gradually increased so that by the year 2005 the annual appropriation would increase to about \$2 billion.

In our special report of October 27, 1959, to the Senate Committee on Appropriations, a copy of which was sent to your committee, the benefits attributable to full reporting and disclosure of financial activities of the civil service retirement

and disability fund were discussed and we therein stated our view that the real test of the soundness of the retirement system is the ability of the Government to raise funds when required to meet its current obligations to beneficiaries. The special report stated further that the accumulation of Government securities in the fund does not improve either the soundness of the system or the ability of the Government to fulfill its retirement obligations and that the soundness of the system is dependent on the faith and credit of the United States.

We believe that an indefinite appropriation as proposed in H.R. 5989 and H.R. 5974, or any type of appropriation for that matter, will not add or detract from the soundness of the retirement system and will not affect the capacity of the Government to meet the liability to annuitants or survivors as payments become due. Rather than attempt to legislate for the purpose of improving the capacity of the system to make payments when due (which purpose in reality involves not the fund alone but also the broad question of the capacity or soundness of the entire Federal financial structure), we believe the Congress should provide for full and adequate disclosure in the Federal budget and in published Federal financial reports of the costs of and liability of the civil service retirement system. Appropriate disclosure of retirement and survivor benefits costs and liabilities is not provided for in the legislation here proposed.

As a means to provide adequate financial disclosure under existing fiscal and accounting procedures, we recommended in our special report of October 27, 1959, to the Senate committee that appropriations should be made to the fund in amounts measured by the normal cost-plus-interest basis for determining annual retirement costs. At the same time we suggested continuation of the present practice of appropriating to the employing agencies for transferring to the fund a portion of the Government's share of the normal cost and also recommended action to increase these appropriations to equal the full normal cost not met by deductions from salaries of employees.

In supporting the concept of the normal cost-plus-interest basis for appropriating to the fund, we believe (as was stated in the above-mentioned special report) that this would complete, on a systematic basis, the full cycle of congressional action necessary for carrying out the Civil Service Retirement Act by providing authority, when the costs and liabilities are incurred, to make disbursements in the future to pay the liability created during the years of employment. Further, annual appropriations to the fund for an amount equal to normal cost plus interest, less employee contributions, would result in automatic disclosure in the annual budget and the financial reports of governmental agencies of the full annual cost of the system. The formulation and submission of requests by the agencies for appropriations on the basis of accrued normal retirement system costs would also conform with one of the requirements of Public Law 863, 84th Congress, 70 Stat. 782, for improved budgeting.

We direct the committee's attention to the recently issued report of the Board of Actuaries for the civil service retirement system (H. Doc. 182). The conclusions of the Board, as stated on page 9 of the report and which support the views expressed in our special report to the Senate committee, are quoted below:

"Since July 1, 1957, the employing agencies have made contributions to the retirement fund equal to employees' contributions but there have been no direct appropriations to the fund. The Board has consistently recommended that direct appropriations be made equal to the amount by which the joint contributions of employees and employing agencies fall short of meeting the normal cost, plus the amount of accruing interest on the deficiency. The Board has given in its successive reports the appropriations required on this basis.

"The reports of the Board show an increasing deficiency and increasing annual appropriations as a result of the omission of the direct appropriations recommended. It has been argued that the increase in deficiency is not serious because the obligation to pay the benefits is backed by the faith and credit of the United States. On the other hand, there are many advantages to the Government in recognizing the annual accruing costs of the retirement benefits by making the necessary direct appropriations on the basis recommended. A standard uniform method of measuring retirement costs would result and be reflected in the budget. The retirement fund deficits represent amounts owed by the Government to the retirement fund for prior years, but these amounts are not reflected in the public debt. The operating cost of Government, therefore, is understated. Good business practice would seem to call for the recognition of these costs. As long as the payroll of employees covered by the act remains at or about the present level and benefits continue as at present little change in the annual appropriation would need to be anticipated. All connected with Government finances would know what to expect as the annual accruing cost of retirement benefits. The cost of

any liberalizing amendments to the Retirement Act would be immediately taken into account by an increase in the annual direct appropriations. The necessity for an increase in appropriation would act as a brake on unreasonable demands for liberalization.

"If the present method of simply matching employees' contributions is continued, the time will come when increasing direct appropriations will be required to meet benefit payments. Future generations will then be called upon to make much higher appropriations than would be required of the present generation because future generations will need to assume not only their own share of retirement costs but also the retirement costs which have accrued on account of service rendered in the past but for which no provision has been made. A substantial part of this increased cost should be reflected as interest cost on the public debt because this result would have been obtained under a system of proper accounting for retirement costs.

"The Board again makes the recommendation given in its previous reports that the actuarial valuations of the fund be made more frequently than in the past. If the direct appropriations are to be made on the basis recommended, the valuations will keep the appropriations in line with changes in experience and personnel. If the direct appropriations are not made, the valuations will be doubly valuable in measuring the increasing deficiency and furnishing information as to the probable future requirements of the fund."

In summary, we believe that the normal cost-plus-interest basis for appropriating to the fund is more desirable than the indefinite appropriation basis proposed in the provisions of H.R. 5989 and H.R. 5974. We enclose a copy of the October 27, 1959, report for your ready reference.

We direct your attention to the fact that the Senate Committee on Post Office and Civil Service in its consideration of S. 739, proposed the elimination of the appropriation provision therefrom on jurisdictional grounds, which proposal was adopted by the Senate when the bill was passed.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

Mr. OLSEN. I note in the report, "We concur in that amendment which would make the market yield rate consistent with the interest rate applicable to similar investments under the Social Security System."

Mr. NELSON. Yes, sir; that statement was made in our letter. Therefore, we have no reservations or comments one way or the other on the proposed interest rate change.

Mr. OLSEN. The other point I note in your statement or in this letter, "We believe that an indefinite appropriation, as proposed in H.R. 5989 and H.R. 5974, or any type of appropriation for that matter will not add or detract from the soundness of the retirement system and will not affect the capacity of the Government to meet the liability to annuitants or survivors as payments become due."

Mr. NELSON. That is correct. That is our position, Mr. Chairman. We do not believe that appropriations per se have any significance in terms of the soundness of the civil service retirement system. We do believe, however, that such appropriations do serve a very important purpose, and that is the purpose of disclosure of costs that are being incurred, and the liabilities of the fund.

At the present time the budget of the United States Government does not include all of the costs of the civil service retirement system. It includes about 6½ percent of payroll, which is a segment of the cost of the retirement system. We have allied ourselves with the Board of Actuaries of the civil service system in believing we should be on the normal cost-plus-interest method of appropriating for the cost of the retirement system. At the present time the respective agencies are paying 6½ percent, which is a segment of normal costs, while the employees contribute 6½ percent of their payroll for a

total of 13 percent. The normal cost of the system is just under 14 percent of payroll.

Mr. OLSEN. What are the other costs?

Mr. NELSON. The other cost is the interest on the deficiency of \$32 billion. The interest on that sum results in about 21 percent of payroll as being the overall cost of the retirement system as it is now constituted.

Mr. OLSEN. That is projecting it into the future?

Mr. NELSON. Yes, paying off the existing liability over a term of many, many years, of course, but ultimately the whole liability will have to be met. That is many, many years hence, of course, before it all has to be paid off. It is an installment contract, if you will.

Mr. OLSEN. Then we should be appropriating more money at this time to be meeting our current installment liability?

Mr. NELSON. Yes; we believe that the annual appropriation should be based on the concept of normal cost plus interest on the deficiency. That would mean that the respective agencies would pay a little less than 1 percent more to the retirement system and that Congress would provide a separate and special appropriation to the retirement fund for interest on the deficiency.

We explained our position on that in a report dated October 27, 1959, to the chairman of the Committee on Appropriations, U.S. Senate. We furnished a copy that day to this committee. That was our position growing out of a long study of the problem in cooperation with the Bureau of the Budget and the Civil Service Commission officials.

Mr. GROSS. Mr. Chairman, if I may—what was the date of the publication?

Mr. NELSON. The date of our report was October 27, 1959.

Mr. GROSS. Contained in this? (Referring to a document in his hand.)

Mr. NELSON. Printed in the committee print of the Senate committee.

Mr. OLSEN. Do you know what page of the committee print? Would it be page 23?

Mr. NELSON. I do not have the committee print with me. I have our own report.

Mr. OLSEN. Dated October 27, 1959, addressed to the Honorable Carl Hayden?

Mr. NELSON. Yes; a segment of that material that contains our report, the letter portion really summarizes our position.

Mr. OLSEN. Would your department be agreeable to or would you be recommending that the Government agency contribution be increased?

Mr. NELSON. Yes; that is our recommendation, that the agency transfer to the Civil Service Commission be increased so that the combination of the appropriation transfer to the Commission by all the Federal agencies plus the employee's contribution would equal the normal cost of the system.

Mr. UDALL. Seven and one-half from the employee and six and one-half from the employer?

Mr. NELSON. Roughly six and one-half from the employee and seven and one-half from the Government as the benefits are now written in the law.

Mr. OLSEN. Would that increase in future years?

Mr. NELSON. The question of increases in future years would hinge, I believe, rather fully on the question of any amendments to the Retirement and Survivors Act.

Mr. OLSEN. With the same benefits as now, there would not have to be any increase?

Mr. NELSON. I would not suspect there would have to be an increase unless our mortality experience were to further improve and people were to live even longer than now in their retirement years. If mortality improves, the number of years for which payments are made increases and your costs go up even though you make no change in the law itself.

Mr. OLSEN. That you think should be met as the Government's cost in a case like that?

Mr. NELSON. That is a matter for discussion, and maybe we should take the position that it would be for the Congress to decide how they wish to split the normal costs between employer and employee.

Mr. GROSS. But do you think this ought to be on an annual appropriation basis with Congress running an annual review of the operation of the fund?

Mr. NELSON. Yes; we believe it should be on an annual appropriation basis so that the cost will be disclosed and that those involved in and out of Government are aware of the cost of the retirement system.

Mr. OLSEN. Are you trying to advocate an appropriation to take care of the future \$32 billion liability?

Mr. NELSON. No. Our report indicated that in the opinion of the Comptroller General they need not appropriate the \$32 billion but that we should have an appropriation for the interest on the \$32 billion.

Mr. OLSEN. That is an appropriation for whatever the future liability is calculated to be?

Mr. NELSON. Yes, an appropriation for the interest on that liability. Our theory is that any retirement system is a long-range matter. An employee enters Government service at 20 or 22 and continues through to 60 or better, and then is in retirement for 25 years and probably leaves a surviving spouse who lives several years. It is a long-range matter from age 22 to possibly age 90 for the surviving spouse. Therefore, the retirement fund will grow to a substantial level, and if employment in the Government remains reasonably static at about 2 million plus, the fund likewise will then remain reasonably static, but it will be several years before it reaches that point of full maturity. Therefore, we did not believe it necessary to appropriate for the so-called deficiency.

Mr. GROSS. If I may, Mr. Chairman, have you any comment with respect to the adoption of the market rate as a basis for fixing the interest?

Mr. NELSON. Our position is generally that the yield rate is a suitable rate on most trust funds. The bill you have under consideration then would be appropriate for enactment. We do believe, however, that as a matter of reservation we would not necessarily hold that position on all trust funds such as, for example, where other individuals, who were not a responsibility directly of the Government, might be involved, like the veterans' life insurance where the divi-

dends would grow by reason of increase in interest rate or the Railroad Retirement System, which is a reasonably independent system.

Mr. GROSS. If other members of the committee will bear with me to digress for a minute, I will not pursue this since it is getting late. You spoke of Government insurance, veterans' insurance.

Mr. NELSON. Yes.

Mr. GROSS. I wonder if we could not have a more realistic rate rather than this payment of dividends each year. I have received two checks already this year on my Government insurance by way of dividends totaling \$500 or \$600. I am not averse to taking the money, I am glad to have it.

I do not know whether you have made a study of this thing or not, but I wonder whether we could have a more realistic premium rate rather than this payment of what seems to me to be large dividends. Have you any thought on that?

Mr. NELSON. I would say that to set a premium rate that would be rather permanent and not involve dividends would, of course, in the end result in some surplus accumulations or some deficits. The solution then to your point may be less frequent paying of dividends, let us say payable every 3 years instead of every year. I do believe that ultimately there needs to be some adjustment of the premium by the dividend route.

Mr. GROSS. Obviously, they are collecting far more in premiums than they need to collect. The premium rate is apparently much too high. I did not mean to get into another field.

Mr. UDALL. Mr. Chairman.

Mr. OLSEN. Mr. Udall.

Mr. UDALL. I am curious about the operations of this civil service retirement system. Does the Commission pay for the expenses of administering and operating the fund, overhead, staff, out of the total of the employer and employee contributions, or is this covered by separate appropriation by the Congress?

Mr. NELSON. There is a separate appropriation by the Congress that finances the administrative expenses of the retirement system.

Mr. UDALL. This is in effect a subsidy or some additional contribution?

Mr. NELSON. Some additional cost to the Government represented by salaries and expenses.

Mr. UDALL. In a private insurance company this would be taken off the top as administrative and overhead.

Mr. NELSON. Yes.

Mr. UDALL. What is this amount?

Mr. NELSON. I do not have the figures before me at the moment. They are relatively minor in relation to the total receipts and expenditures of the fund. May we supply that for the record?

Mr. UDALL. I was just curious.

Mr. OLSEN. Please supply that.

Mr. ROUSSELOT. I would be interested not only in the total but having it on a percentage basis.

Mr. NELSON. We will be glad to furnish that.

(The information follows:)

Based on information in the Federal budget, the Civil Service Commission costs of administering the civil service retirement and disability system was about \$2.2 million for fiscal year 1959 and about \$2.6 million for fiscal year 1960. These

costs were equal to about one-eighth of 1 percent of income to the fund and were less than one-third of 1 percent of disbursements from the fund.

Mr. OLSEN. Were you present when Commissioner Lawton was testifying?

Mr. NELSON. Yes; I was present.

Mr. OLSEN. I think perhaps you heard that he kind of depreciated the idea of annual appropriations being requested, saying the Appropriations Committee just does not appropriate the money. Has that been the experience?

Mr. NELSON. Let us say that for a number of years the Appropriations Committee did not provide an appropriation to the civil service retirement fund. With the 1956 amendments, there has been provided an appropriation to the fund through the various appropriations made to all Federal agencies.

Mr. OLSEN. Have they met these?

Mr. NELSON. Yes; these have been paid over to the civil service retirement fund by all the various Federal agencies.

Mr. OLSEN. Is that more than the 6½ percent?

Mr. NELSON. No. They have been paying over the 6½ percent of payroll out of the agency appropriation. At the same time, they moved to the retirement fund the 6½ percent deducted from the employee's pay.

Mr. ADDABBO. Mr. Chairman.

Mr. OLSEN. Mr. Addabbo.

Mr. ADDABBO. Out of this appropriation, all they are paying is 6½ percent, they are not paying toward any deficiency; is that correct?

Mr. NELSON. That is correct. They are paying only the 6½ and paying nothing toward the deficiency.

Mr. ADDABBO. No actual direct appropriation for the deficiency?

Mr. NELSON. I believe—I have to check this for the record—I believe there were some appropriations made a few years ago, some time prior to 1955, probably the early fifties or late forties.

Mr. ADDABBO. They have not actually been meeting the deficiency every year?

Mr. NELSON. No.

Mr. ADDABBO. No further questions.

Mr. OLSEN. Are there figures available which would give us some kind of a table which would disclose how the Appropriations Committee has met this obligation of paying over to the retirement fund liabilities that should have been paid?

Mr. MARTINY. It is already in the record. (See p. 27.)

Mr. OLSEN. Thank you. I am informed that our chairman, Mr. Murray, is continuing to contact Mr. Thomas of the Appropriations Committee concerning jurisdiction on the second portion of this bill. Mr. Murray asked that we do not have an executive session of our subcommittee until such time as he has some response from Mr. Thomas of the Appropriations Committee.

Mr. GROSS. I will not be prepared today anyway.

Mr. OLSEN. Are there any more witnesses on this subject? Is there anything from the committee?

The committee will stand adjourned, subject to the call of the Chair.

(Whereupon, at 11:35 a.m., the subcommittee adjourned, subject to the call of the Chair.)