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FISCAL SOUNDNESS OF THE CIVIL SERVICE RETIREMENT SYSTEM

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HEARING
BEFORE THE
COMMITTEE ON RETIREMENT
OF THE
COMMITTEE ON
OFFICE AND CIVIL SERVICE
UNITED STATES SENATE
EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 1562

A BILL TO IMPROVE THE FINANCING OF THE CIVIL
SERVICE RETIREMENT SYSTEM

AUGUST 14, 1963

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



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FISCAL SOUNDNESS OF THE CIVIL SERVICE RETIREMENT SYSTEM

WEDNESDAY, AUGUST 14, 1963

U.S. SENATE,
SUBCOMMITTEE ON RETIREMENT OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room 6202 New Senate Office Building, Senator Gale W. McGee (chairman of the subcommittee) presiding.

Present: Senators McGee, Johnston, Brewster, Fong, and Boggs. Senator McGEE. The Retirement Subcommittee of the Post Office and Civil Service Committee of the Senate will now convene to hear testimony on S. 1562.

I will place the bill in the record at this point.
(S. 1562 is as follows:)

[S. 1562, 88th Cong., 1st sess.]

A BILL To improve the financing of the Civil Service Retirement System

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 4(a) of the Civil Service Retirement Act, as amended, is amended by inserting after the second sentence the following:

"A supplemental payment toward past service liability shall also be contributed from such appropriation or fund, in an amount equal to one-half of 1 per centum of the basic salary of each employee or Member from and after the first day of the first pay period which begins after June 30, 1964, with the rate of supplemental contribution increased by one-half of 1 per centum of basic salary on the first day of the first pay period which begins after June 30 of each succeeding year until the continuing supplemental contribution rate is equal to 11 per centum of the basic salary of each employee or Member."

Sec. 2. Section 4(a) of the Civil Service Retirement Act, as amended by section 1 of this Act, supersedes any provision of law inconsistent therewith for purposes of determining the amounts of employer contributions to the civil service retirement and disability fund.

Sec. 3. (a) The provisions of section 101, title I of the Act of August 28, 1958 (Public Law 85-844; 72 Stat. 1064) restricting the use of the civil service retirement and disability fund toward the payment of annuity benefits under the Civil Service Retirement Act and amendments thereto are hereby repealed.

(b) The proviso under the heading "Payment to Civil Service Retirement and Disability Fund" in section 101, title I of the Act of August 17, 1961 (Public Law 87-141; 75 Stat. 345; 5 U.S.C. 2259, Note), is hereby repealed.

Sec. 4. Section 17 of the Civil Service Retirement Act, as amended, is amended by adding at the end thereof the following new subsection:

"(f) Any new benefits or any increase in benefits resulting from a change in the eligibility requirements, the method of computation of benefits, or the crediting of service not previously creditable, authorized by amendment to this Act after June 30, 1963, or by any other enactment after such date which authorizes

such new or increased benefits, shall become effective only after an appropriation has been made to the fund in an amount, as estimated by the Commission, equal to the excess of the total present value of such benefits over the present value of their normal cost. No benefits shall accrue and no payment shall be made with respect to such new or increased benefits for any period prior to the date of enactment of the required appropriation."

Senator McGEE. This is a bill to improve the financing of the civil service retirement system. The record shows that the civil service retirement and disability fund is in an unsound financial condition as a result of a failure on the part of the Government to contribute adequate sums in the past.

I have been advised that the unfunded liability of the retirement system was estimated at \$34 billion as of June 30, 1963. It is apparent that the Congress should look closely into that matter and study carefully the provisions of S. 1562 with a view to remedial action.

I am pleased that the distinguished chairman of our full committee and long a leader on all of these matters would like to express his great interest in this particular question.

Mr. Chairman.

STATEMENT OF HON. OLIN D. JOHNSTON, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator JOHNSTON. Mr. Chairman, I firmly believe that congressional action along the lines proposed by S. 1562 is urgently needed to restore the retirement fund to a condition of fiscal soundness. The omissions of the past have caught up with us. We can no longer put off until tomorrow a clear responsibility which we must face today.

When the fund was established in 1920, the Government agreed to finance the retirement program to the extent required after employees' salary deductions had been made. But the Government has not met this clear obligation. For example, during the first 7 years of the fund's existence, the Government contributed not 1 cent. Significant Government contributions did not even begin until the 1930's under the Roosevelt administrations.

In effect, the Government is indebted to those employees who are covered by the retirement system, and, in my opinion, it's high time this debt were paid.

S. 1562 seems to provide a reasonable solution to the problem of the fund's ever-growing unfunded liability. It establishes an orderly program directed toward sound financing and funding on a normal cost-plus-interest basis.

In connection with this measure, it is my hope that the subcommittee will also explore the matter of the crediting of military service toward civil service retirement. I believe that military service should be credited toward civilian retirement, but the fund does not receive 1 penny from the Armed Forces to defray the cost of crediting this service. I strongly feel that a way must be found for the Armed Forces to reimburse the fund. I know that the Civil Service Commission has looked into this matter and has developed estimates and other data.

For my part, I have drafted an amendment requiring this reimbursement, which I hope the subcommittee will consider.

I'm sure we will all benefit from the testimony we are to hear this morning.

Mr. Chairman, I want to thank you for giving me this privilege of coming here and I will leave with the committee this amendment that I had drafted and I should like to have it put into the record at this time.

Senator MCGEE. Without objection, the proposed amendment will be made a part of the record.

(The exhibit referred to follows:)

PROPOSED AMENDMENTS TO S. 1562¹

On page 2, line 3, strike out "11" and insert in lieu thereof "9".

On page 2, line 23, strike out "subsection" and insert in lieu thereof "subsections".

On page 3, line 11, strike out the quotation marks.

On page 3, after line 11, insert the following:

"(g) After the fiscal year ending June 30, 1965, and after each succeeding fiscal year, the Secretary of Defense is directed to pay to the fund, out of any appropriation or appropriations available for the pay and allowances of members of the armed forces, such amount as may be estimated by the Commission to be required to reimburse the fund for that portion of disbursement for annuity during the fiscal year which is attributable to credit allowed for service in the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States."

Senator JOHNSTON. I also present for the record the percentage of contributions to the retirement fund from 1920 up to the present. You will notice that in 1956 when we passed the bill requiring all departments to make regular contributions each year—which is about the same time we passed an increase in rates from 6 to 6½ percent—you will find that the fund has increased from a little bit over \$6 billion to somewhere in the neighborhood of \$14 billion today. So if this bill should pass it would make the retirement fund for the future much more stable. Thank you.

Senator MCGEE. The percentage figures, presented by Senator Johnston, will be placed in the record at this point.

(The exhibit referred to follows:)

Percentage contribution of employees to retirement fund

	<i>Percent</i>
1920-26	2½
1926-42	3½
1942-48	5
1948-56	6
1956	6½

Congressional retirement

	<i>Percent</i>
1920-26	2½
1926-42	3½
1942-46	5
1946-56	6
1956	7½

Senator MCGEE. Senator Brewster, do you have any comments at this time?

Senator BREWSTER. I have no comments at this time.

Senator MCGEE. Senator Fong?

Senator FONG. I have no comment.

¹For departmental views on the proposed amendment, see communications beginning on p. 42.

Senator McGEE. The committee will proceed to the first witness this morning who is Mr. John W. Macy, Jr., Chairman of the U.S. Civil Service Commission.

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

Mr. MACY. Thank you, Mr. Chairman. I should also like to invite to the table my former Commission colleague, Frederick Lawton. Mr. Lawton served in the development of this program and I am sure his testimony will be helpful.

Mr. Chairman and members of the subcommittee, thank you for this opportunity to appear before you today to give the Commission's views on S. 1562.

I wish to express my appreciation to Chairman Johnston for introducing this bill which embodies a proposal of the Civil Service Commission for improving the financing of the civil service retirement system. I wish to thank all members of this committee for its consideration of this far-reaching and important proposal.

If approved, the Commission's proposal would set the civil service retirement system on its feet financially, supporting itself in terms of long-range operations, for the first time since enactment of the original Retirement Act in 1920.

The proposal which is now S. 1562 was submitted to the Congress by the Civil Service Commission in a letter dated May 9, 1963, to the President of the Senate. Summarizing very briefly, Mr. Chairman, this letter makes four points, as follows:

1. Present financing of the civil service retirement system is inadequate.
2. This inadequacy will be felt, and felt sharply, not too many years from now, unless action is taken to produce additional income.
3. Sound and orderly financing can and we believe should be achieved by advance planning.
4. A gradual increase in agency contributions offers the most practicable approach to the financing problem.

May I suggest, Mr. Chairman, that the Commission's letter of May 9 be made a part of the record at this point?

It gives in substantial detail the views of the Commission.

Senator McGEE. It will be made a part of the record at this point. (The communication referred to follows):

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 9, 1963.

HON. OLIN D. JOHNSTON,
Chairman, Post Office and Civil Service Committee, U.S. Senate, New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The Civil Service Commission has today transmitted to the President of the Senate proposed legislation to improve the financing of the civil service retirement system. The objective of this proposal is to write into the law advance assurance that funds will be available when needed to pay the retirement benefits earned by and promised to civilian employees of the Government.

Improved financing would be achieved by amending the Civil Service Retirement Act to establish a supplemental agency contribution to the retirement fund, beginning in 1965 at a rate equivalent to one-half of 1 percent of the basic salaries of covered employees, with the rate increasing gradually to 11 percent in 1986.

A copy of the proposed bill² and accompanying documents setting forth the need for the legislation are attached.

Because of your keen interest in the subject involved, I urge your careful consideration and support of the proposal.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 9, 1963.

HON. LYNDON B. JOHNSON,
President of the Senate.

DEAR MR. PRESIDENT: I submit for consideration of the Congress a proposal for improving the financing of the civil service retirement system, and strongly recommend its adoption. As a result of failure to contribute adequate sums in the past, the unfunded liability of the system has grown to an estimated \$34 billion as of June 30, 1963. Unless steps are taken to increase the present level of contributions, the unfunded liability will continue to grow and as benefit disbursements increase the civil service retirement and disability fund will vanish by the year 1990.

This unsound financial condition arises because contributions to the system have not been adequate in past years, and no significant provision is now being made to overcome these past deficits. At the present time employees contribute 6½ percent of their basic pay, and the employing agencies are required to match these contributions from their appropriations. But the combined contributions cover only a little more than the currently accruing or normal cost of benefits under the system. They are not sufficient to make any significant contribution even toward the interest accruing on the unfunded liability, with the consequence that the accrued unfunded liability accrued with respect to past service continues to mount rapidly. It is now increasing at \$1.1 billion a year and under present financing this rate will progressively increase in future years.

The Civil Service Commission, therefore, urgently recommends action to place the finances of the civil service retirement system on a sound long-range basis. In brief, the plan contains three elements:

1. The present contributions of 6½ percent of pay by employees and the matching contributions by the agencies would be continued. These regular contributions together approximately cover currently accruing or normal cost of the system.

2. Each agency would be required to make supplemental contributions to help arrest the growth of the unfunded past service liability of the system and to preserve the integrity of the fund. To ease the budgetary impact, this would be accomplished by starting these supplemental contributions at one-half of 1 percent of payroll in fiscal year 1965 and increasing them by one-half of 1 percent annually for 21 years so that by fiscal year 1986 they would reach 11 percent of payroll and remain at that level thereafter. Based on our present estimates, this supplementary contribution schedule, together with the regular matching contributions, would stabilize the growth of the unfunded liability in 1986 and thereafter permanently finance the system on a normal cost-plus-interest basis.

3. Any new or increased benefits resulting from future changes in the Civil Service Retirement Act would not become effective and no benefits would accrue until the full estimated increase in unfunded liability for past service which would otherwise result from such change in the act had been appropriated to the fund. This would avoid the escalation of unfunded liabilities because of benefit or coverage liberalizations.

The enclosed draft bill would modify the Civil Service Retirement Act to implement these changes. The following paragraphs outline the basis for our recommendations in greater detail.

The normal contribution rate is the estimated level percentage of the salaries of new employees that is required to be paid into the fund each year they will be in the service to pay fully for all benefits to them and to their survivors. The "interest" part of the "normal-cost-plus-interest basis" means interest on

² Subsequently S. 1562. (See p. 1.)

the unfunded liability, or deficiency, which represents the excess of benefit liabilities over the present fund and future contributions at the normal rate. If the deficiency is not being amortized, payment of interest is necessary to prevent its increase.

The normal cost-plus-interest basis is the actuarially accepted method of estimating retirement costs as a level percentage of payroll. It thus reveals long-term cost implications, as contrasted to projections over the immediate future, which ordinarily give little clue to total costs. A normal cost concept has been used consistently since the Retirement Act became effective in 1920, to appraise the costs of the system and the actuarial condition of the fund. It has also been generally used to estimate the effect of proposed amendments to the Retirement Act, as being the most meaningful measure of their impact.

The Board of Actuaries of the civil service retirement system has long recommended the normal cost-plus-interest basis as an appropriate method of financing. The Committee on Retirement Policy for Federal Personnel, created by Congress in 1952 to study all Federal retirement systems, made a similar recommendation, tempered by the recognition that the fiscal situation of the Government might make necessary a gradual rather than immediate approach to this goal. The Comptroller General in his report of October 27, 1959, to the Senate Appropriations Committee also endorsed the normal cost-plus-interest approach.

However, as will be shown later in this letter, there has been no consistent observance of the normal cost-plus-interest method of financing. The Commission has now concluded that attainment of this objective requires a schedule of Government contributions fixed by law. An immediate shift would require additional Government payments of about \$1.1 billion annually. Because of the sharp budgetary and fiscal impact of such a sudden increase, we recommend a gradual approach, with a schedule of increased agency contributions which is regular and definite and which is calculated to attain the goal of normal cost plus interest within a period of 22 years.

The Commission considers that one of its gravest responsibilities is the administration of the civil service retirement system. It is a powerful tool in our personnel program, serving to attract and retain employees of the caliber required to conduct the complex business of government. It contributes toward financial security for millions of past, present, and future Government employees and their dependents. There should never exist the slightest doubt of the system's ability to meet these promises. That doubt now exists.

The Government's financial obligation is clear. Legislative enactments have established a program of benefits, liberalized many times since the system was initiated in 1920. Employees have contributed at the rates required by law, ranging from an initial rate of 2½ percent of salary to the present rate of 6½ percent. The balance of the cost of the program must be borne by the Government.

A brief review of past policies on financing may be helpful in appraising this problem. Employees have contributed to the 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 costs have been used and the attitude of the Congress and its committees toward these approaches has changed from time to time. In the first 8 years of the system's existence no appropriations were recommended by the President and none were enacted by the Congress. From 1929 to the World War II period, appropriations were generally recommended by the President on a basis to cover normal cost and to amortize the unfunded liability by the end of this century. From 1929 through 1949 the appropriations enacted by the Congress were those recommended by the President.

In the 8-year period 1950 to 1957, appropriations based on several different methods were recommended by the President. The Congress enacted lower appropriations on five occasions, higher amounts twice, and on one occasion approved the amount proposed. The budget recommendation for the fiscal year 1953 was based on normal cost plus amortization over a 30-year period and was reduced somewhat by the Congress. Recommendations for appropriations to cover normal cost plus interest for each of the years 1950, 1951, 1952, and 1954 were reduced by the Congress. A recommendation for 1955 to cover only the additional cost of annuities increased by a then-recent enactment was approved by the Congress. On the other hand, requested appropriations for 1956 and 1957, computed on the basis of the Government's share of costs for current disbursements less the interest on its equity in the fund, were increased.

The present method of financing was recommended by the Commission and enacted by the Congress in the Civil Service Retirement Act Amendments of 1956 (Public Law 84-854), effective with the beginning of fiscal year 1958. Under it, each employing agency contributes to the fund, from its appropriations for payment of salaries, amounts equal to deductions from the salaries of its covered employees at the rate of 6½ percent, or 7½ percent for Members of Congress. Adoption of the agency contribution provision achieved the desirable objective of assuring annual income approximating normal cost.

However, agency matching contributions are not sufficient to meet fully the Government portion of retirement cost, because no significant provision is now being made toward the unfunded liability or even toward the interest on it. In recognition of this fact, Congress provided in section 17(e) of the 1956 amendments that "the Commission shall submit estimates of the appropriations necessary to finance the fund on a normal cost-plus-interest basis and to continue this act in full force and effect." With respect to this provision, the act, however, does not require automatic appropriation of amounts so estimated, just as the similar provision in force before the 1956 amendments did not so require. Instead it leaves final determination of amounts to be recommended for this purpose to the discretion of the President. Accordingly, the Commission's estimates have been forwarded to the Bureau of the Budget for consideration as part of the normal process of formulating the executive budget. The President's final determination has been made only after consideration of the financial status of the system, including its unfunded liability, in the light of the general fiscal situation of the Government. This procedure is in keeping with the tradition of executive development of the budget.

The President did not request an appropriation to the retirement fund in his budget for the fiscal years 1959 or 1960 beyond the amounts to be appropriated to the various agencies. For fiscal year 1959, Congress included in H.R. 11574 an appropriation to the fund of \$589 million more than the agencies' contributions included in the President's budget. This amount plus employee and agency contributions equaled full normal cost plus interest. The President vetoed this bill, and Congress accepted his view by enacting H.R. 13856, which omitted an additional appropriation for the fiscal year 1959.

In fiscal years 1961 and 1962, appropriations were made to the fund for the specific purpose of continuing in effect certain benefits provided by Public Law 85-465. Otherwise, no Government payments in addition to agency contributions have been made.

The effect of a continuation of current policy is shown in table I attached. If present assumptions do not change, we estimate that the fund, now in excess of \$12 billion, would continue to increase until early in the next decade, but thereafter decline at an accelerated rate as benefit payments maintain their inevitable climb. The fund would be exhausted by 1990, and continuation of payment of benefits at promised levels would require direct appropriations exceeding \$2.5 billion annually by the end of the century, and ultimately approximating \$3 billion. The deductions of then-active employees, which the system promises to return as a minimum under all circumstances and thus are in effect a deposit liability of the fund, would amount to nearly \$13 billion. However, these deductions would have been expended in benefits to retired employees, leaving nothing in the fund to assure their later repayment.

The Commission urgently recommends that such a situation not be allowed to develop. We propose in the attached draft bill that a supplemental agency contribution be established starting in fiscal year 1965 at the rate of one-half of 1 percent of basic salary and with the rate increased by one-half of 1 percent each fiscal year from 1966 through 1986, reaching 11 percent in that year and continuing at that level thereafter. Based on our present estimates, this schedule of contributions would permanently finance the system under accepted actuarial principles on the normal cost-plus-interest basis, a standard already approved by the Congress in section 17(e) of the Retirement Act. Table II attached shows the estimated effect of this proposal.

Section 2 of the draft bill would make the proposed agency contribution rates applicable to certain Government corporations, whose organic acts now provide a different basis for determining the amounts of employer contributions to the fund. Section 3(a) would repeal the provision contained in the Independent Offices Appropriation Act of 1959 which places certain restrictions on the use of the fund toward the payment of authorized benefits. Section 3(b) would repeal the requirement that there be submitted annually to the Congress estimates of the appropriations necessary to reimburse the fund for the cost of benefits provided

by Public Law 85-465. Public Law 87-114 removed the requirement that appropriations be made to continue these benefits in effect, and the financing proposed in the draft bill would cover the estimated cost of Public Law 85-465 benefits together with all others now provided under the retirement system.

Section 4 of the draft bill would prevent an increase in the deficiency because of any future liberalization of the Retirement Act. Before any new or increased benefits hereafter enacted could become effective, an appropriation to the fund would be required in an amount equal to the excess of the total present value of such benefits over the present value of their normal cost. In nontechnical terms, section 4 would permit liberalized benefits to become effective only after funds have been appropriated in an amount equal to the estimated increase in past service liability accruing because of the new legislation.

The question may well be asked why the Commission recommends improved financing of the system solely through an increase in agency contributions. The fund has three sources of income: employee deductions, Government contributions, and interest earnings. Since the fund was established in 1920, its investments have been limited by law to obligations issued or guaranteed by the United States. We believe this policy is sound and should not be changed. The present formula for determining the interest rate on special issues to the fund was established in 1961 by Public Law 87-350, providing an equitable basis geared to the average market yield on Treasury securities. We believe this to be a proper approach and suggest no change.

Neither do we recommend an increase in the present deduction rates of 6½ percent for employees and 7½ for members. Under the assumption of a long-term interest rate of 3½ percent used in our estimates, the normal cost of the benefits provided by the system is 12½ percent. This measures the average value of benefits to a new employee who contributes throughout his entire service. At the 6½-percent rate, he is paying 52 percent of the total cost of his benefits. Few retirement systems require as much; many are noncontributory. Moreover, the past history of the system shows that every increase in the employee deduction rate has been accompanied by benefit liberalizations costing more than the increased income so provided. The net result has been increased, rather than decreased Government cost.

We thus have no desirable alternative to an increase in Government contributions if the financing of the system is to be improved. This is as it should be. The Government has established a retirement plan for its employees under which they must contribute at specified rates; the Government as the employer is responsible for the balance of the cost, which exceeds the portion assessed to employees. But since the system began, employee payments have exceeded Government payments by more than \$2 billion. This policy of deferment can have only one result—increased future requirements. Unless provision is made toward improved funding, the combined employee-Government contribution required will total about 34 percent of payroll after the turn of the century.

There then remains the question of whether increased Government payments should be made as agency contributions or as direct appropriations. In either case, the general fund of the Treasury—and ultimately, the American taxpayer—bears the cost. We favor the agency contribution approach because it provides an explicit schedule of definite contributions clearly designed to fully meet estimated benefit expenditures. The need for increased Government payments is due to the present deficiency, and about 85 percent of this deficiency is with respect to future benefits which will be payable to presently active employees.

In summary, the Commission is deeply concerned by the present lack of adequate and permanent provisions for financing the civil service retirement system. This concern is shared by Members of Congress and by employees, both active and retired. We believe that corrective action should be taken now, and recommend to the Congress the proposal set forth in this letter.

The Bureau of the Budget advises that there would be no objection to the presentation of this draft bill from the standpoint of the administration's program.

By direction of the Commission:
Sincerely yours,

JOHN W. MACY, JR., *Chairman.*

CIVIL SERVICE RETIREMENT SYSTEM

TABLE I.—Estimated progress of the fund, assuming agency contributions matching employee deductions at 6½ percent, plus direct appropriations when needed to meet benefit payments

[In millions]

Fiscal year	Employee deductions and deposits	Government payments		Interest at 3½ percent from 1968	Total receipts	Benefit payments	Balance in fund at end of year
		Agency contributions	Direct appropriations				
1962							\$12, 166
1963	\$908	\$896	\$30	\$374	\$2, 208	\$1, 219	13, 155
1964	932	920	62	418	2, 332	1, 345	14, 142
1965	944	932	(1)	458	2, 334	1, 518	14, 958
1966	944	932		496	2, 372	1, 708	15, 622
1967	944	932		530	2, 406	1, 915	16, 113
1968	944	932		560	2, 436	2, 105	16, 444
1969	944	932		569	2, 445	2, 232	16, 657
1970	944	932		576	2, 452	2, 304	16, 805
1971	944	932		579	2, 455	2, 395	16, 865
1972	944	932		579	2, 455	2, 492	16, 828
1973	944	932		577	2, 453	2, 587	16, 694
1974	944	932		570	2, 446	2, 681	16, 459
1975	944	932		560	2, 436	2, 768	16, 127
1976	944	932		547	2, 423	2, 853	15, 697
1977	944	932		531	2, 407	2, 935	15, 169
1978	944	932		511	2, 387	3, 016	14, 540
1979	944	932		488	2, 364	3, 091	13, 813
1980	944	932		461	2, 337	3, 166	12, 984
1981	944	932		431	2, 307	3, 236	12, 055
1982	944	932		397	2, 273	3, 305	11, 023
1983	944	932		360	2, 236	3, 370	9, 889
1984	944	932		319	2, 195	3, 435	8, 649
1985	944	932		274	2, 150	3, 501	7, 298
1986	944	932		226	2, 102	3, 564	5, 836
1987	944	932		174	2, 050	3, 628	4, 258
1988	944	932		117	1, 993	3, 691	2, 560
1989	944	932		57	1, 933	3, 752	741
1990	944	932	1, 195		3, 071	3, 812	
1991	944	932	1, 906		3, 872	3, 872	
1992	944	932	2, 056		3, 932	3, 932	
1993	944	932	2, 116		3, 992	3, 992	
1994	944	932	2, 176		4, 052	4, 052	
1995	944	932	2, 236		4, 112	4, 112	
1996	944	932	2, 296		4, 172	4, 172	
1997	944	932	2, 356		4, 232	4, 232	
1998	944	932	2, 416		4, 292	4, 292	
1999	944	932	2, 476		4, 352	4, 352	
2000	944	932	2, 536		4, 412	4, 412	
2001	944	932	2, 595		4, 471	4, 471	
2002	944	932	2, 653		4, 529	4, 529	
2003	944	942	2, 710		4, 586	4, 586	
2004	944	932	2, 766		4, 642	4, 642	
2005	944	932	2, 820		4, 696	4, 696	
2006	944	932	2, 871		4, 747	4, 747	
2007	944	932	2, 918		4, 794	4, 794	
2008	944	932	2, 934		4, 810	4, 810	
2009 and after	944	932	2, 934		4, 810	4, 810	

¹ Presumes legislative action removing the requirement for appropriations to continue benefits provided by Public Law 87-793, effective from and after fiscal year 1965.

10 SOUNDNESS OF THE CIVIL SERVICE RETIREMENT SYSTEM

TABLE II.—Estimated progress of the fund, assuming agency contributions increasing by ½ of 1 percent each year from 1965 through 1986 and remaining level at 17½ percent thereafter, which then equals Government's normal cost plus interest on deficiency

[In millions]

Fiscal year	Employee deductions and deposits	Government payments			Interest at 3½ percent from 1968	Total receipts	Benefit payments	Balance in fund at end of year
		Agency contributions		Direct appropriations				
		Amount	As percent of payroll					
1962							\$12,166	
1963	\$808	\$896	6½	\$50	\$374	\$2,208	\$1,219	13,155
1964	932	920	6½		416	2,268	1,345	14,078
1965	944	1,004	7		457	2,405	1,518	14,965
1966	944	1,076	7½		499	2,519	1,708	15,776
1967	944	1,147	8		539	2,630	1,915	16,491
1968	944	1,219	8½		578	2,741	2,105	17,127
1969	944	1,291	9		599	2,834	2,232	17,729
1970	944	1,363	9½		621	2,928	2,304	18,353
1971	944	1,434	10		642	3,020	2,395	18,978
1972	944	1,506	10½		663	3,113	2,492	19,599
1973	944	1,578	11		685	3,207	2,587	20,219
1974	944	1,649	11½		706	3,299	2,681	20,837
1975	944	1,721	12		727	3,392	2,768	21,461
1976	944	1,793	12½		749	3,486	2,853	22,094
1977	944	1,865	13		771	3,580	2,935	22,739
1978	944	1,936	13½		793	3,673	3,016	23,396
1979	944	2,008	14		816	3,768	3,091	24,073
1980	944	2,080	14½		840	3,864	3,166	24,771
1981	944	2,151	15		865	3,960	3,236	25,495
1982	944	2,223	15½		890	4,057	3,305	26,247
1983	944	2,295	16		916	4,155	3,370	27,032
1984	944	2,367	16½		944	4,255	3,435	27,852
1985	944	2,438	17		973	4,355	3,501	28,706
1986	944	2,510	17½		1,003	4,457	3,564	29,599
1987	944	2,510	17½		1,033	4,487	3,628	30,458
1988	944	2,510	17½		1,062	4,516	3,691	31,283
1989	944	2,510	17½		1,090	4,544	3,752	32,075
1990	944	2,510	17½		1,116	4,570	3,812	32,833
1991	944	2,510	17½		1,142	4,596	3,872	33,557
1992	944	2,510	17½		1,166	4,620	3,932	34,245
1993	944	2,510	17½		1,189	4,643	3,992	34,896
1994	944	2,510	17½		1,211	4,665	4,052	35,509
1995	944	2,510	17½		1,231	4,685	4,112	36,082
1996	944	2,510	17½		1,250	4,704	4,172	36,614
1997	944	2,510	17½		1,268	4,722	4,232	37,104
1998	944	2,510	17½		1,284	4,738	4,292	37,550
1999	944	2,510	17½		1,299	4,753	4,352	37,951
2000	944	2,510	17½		1,312	4,766	4,412	38,305
2001	944	2,510	17½		1,323	4,777	4,471	38,611
2002	944	2,510	17½		1,333	4,787	4,529	38,869
2003	944	2,510	17½		1,341	4,795	4,586	39,078
2004	944	2,510	17½		1,347	4,801	4,642	39,237
2005	944	2,510	17½		1,352	4,806	4,696	39,347
2006	944	2,510	17½		1,355	4,809	4,747	39,409
2007	944	2,510	17½		1,356	4,810	4,794	39,425
2008	944	2,510	17½		1,356	4,810	4,810	39,425
2009 and after	944	2,510	17½		1,356	4,810	4,810	39,425

Source: U.S. Civil Service Commission, Mar. 21, 1963.

Mr. MACY. Thank you, Mr. Chairman.

For a discussion of the basics of the financing proposal, I should like to refer to the attached booklet entitled "A Proposal To Improve Financing of the Civil Service Retirement System." By going through this booklet together, I believe we can get a good picture of the problem, how and why it exists, and of a reasonable and workable solution through increased agency contributions.

I believe you have before you, Mr. Chairman, and members, a copy of this booklet. I would propose that I run through this relatively rapidly and upon completion we can go back and cover any points that require further development.

Turning to the first page, this proposal is one for permanent financing of retirement costs via a gradual increase in agency contributions scheduled by law.

The present financing of the retirement fund covers only part of the retirement benefit costs. To review the contributions situation, employee contributions amounting to 6.5 percent of payroll are contributed regularly plus agency contributions of 6.5 percent of the payroll. This condition has existed since the passage of Public Law 854 in 1956, the statute referred to by Senator Johnston.

These two contributions, when invested and earning interest, will cover all retirement benefits now being earned and to be earned during future service. In other words, the present contribution takes care of current service and anticipated future service for those now on the Government payroll.

The problem is involved in past financing as Senator Johnston indicated in his opening remarks. Past financing, while producing income exceeding benefit payments made to date has not built up an invested fund big enough to cover payments still to be made for benefits earned during past service. Expressed in another way, past financing has not been adequate to provide the necessary resources to cover the benefits that have been accrued by those employed by the Government during this period of time.

At the start of fiscal year 1965, approximately a year from now when the next fiscal year would start, the picture is this: Liability for benefits earned during past service totaling \$49 billion, minus the retirement fund balance which will be approximately \$14 billion at that time, leaves what we have described as an unfunded liability of \$35 billion. As indicated at the bottom of that page, the total past service liability totals \$49 billion, made up of a funded portion of \$14 billion and an unfunded portion of \$35 billion.

The questions frequently asked of the Commission in discussing the unfunded liability is "Why is it there?" "Why is there an unfunded past service liability?" There are basically three reasons for this. In some years the Government did not pay its share of the cost of the benefits earned in those years though at all times employees paid their share.

As Senator Johnston pointed out, for many years there was no payment at all. For a number of years there was payment that provided sufficient funds to take care of normal cost and for a number of years there had been a variety of contributions made to the fund without any consistent rational pattern.

So we have the situation in this of inadequate Government contributions, in the past.

The second factor has been periodic liberalization which have been made by Congress without payment to cover past service liability. These liberalizations are of four different types. Annuity increases for those already retired, such as those enacted last year; pay increases for active employees, such as those enacted last year. These pay increases have a future liability impact upon the annuity rate and the annuity fund.

Third, liberalized benefit structures. The last major liberalization of structure occurred in Public Law 854 in 1956.

Finally, credit given to new groups for past service. There have been occasions in the past where groups were added to the coverage of the Retirement Act which produces a further volume of liability.

The third reason for the unfunded past service liability is that the retirement fund has lost the interest it would have earned if all payments had been made and invested as retirement costs were incurred. When we are dealing with sums of money of the magnitude of those required for this program, the loss of even a fraction of a percent of interest is a significant loss.

Under present financing, the unfunded liability continues to grow. It continues to grow at a rate of approximately \$1.1 billion each year because of the failure of the Government to replace the interest loss.

Then to the left on that page you will see at 5-year intervals the growth in the total past service liability. As I have already indicated, in 1965, the fund would be \$14 billion, the unfunded liability \$35 billion. In 1970, the fund would be \$17 billion, the unfunded liability \$41 billion, and in 1975 the fund would be \$16 billion. In other words it would have fallen off in that period, and the unfunded liability would have grown to \$49 billion. So the question was before us as we contemplated this issue of what happens if the present financing continues unchanged.

We find that in 7 years, by 1972, the outgo in the form of benefit payments under the Retirement Act will exceed the income. From that date on this unfavorable situation continues to eat into the fund balance so that in 25 years, by 1990, the retirement fund balance is zero.

I realize, Mr. Chairman, that this appears to be many years ahead, but we feel as the responsible administrators of this fund that we must look that far ahead.

Benefit payments will be high. You can see from this table that the annual benefit payments will grow from a figure of roughly \$1.8 billion up to \$3.8 billion by 1990 and by 2010 to \$4.8 billion. The annual income, after crossing the benefit line in 1972, will continue down and will stabilize off at about \$1.8 billion.

This means that the payments for benefits will exceed income by from \$2 to \$3 billion each year from the 1990 point on.

The problem then we are faced with in considering future financing is how to produce the additional income required to met benefit payments. In seeking the solution to this problem, the Commission identified five different types of approaches that might be taken as a means of producing the additional income. One was to request an appropriation of \$35 billion to the fund now and wipe out the

unfunded liability. As you may imagine, we quickly abandoned that proposition due to the fact that this would represent an equivalent of more than 35 percent of the total budget.

The second possibility was to appropriate \$2 to \$3 billion more to the fund each year after 1990. Our view was that our successors and your successors would be faced with a very substantial burden with appropriations of that magnitude and that that was not a sound solution.

The third was to jump immediately to level annual appropriations of \$1.1 billion which would be the equivalent to the lost interest that I identified a moment ago. This would mean that we would be adding this interest to the fund. Our belief was that this was unsound, that this was an excessive appropriation to the fund at this particular time.

The fourth proposition was a very unpopular one and that was to increase the employees' contributions. Our view was that this was an inequitable and inappropriate solution. The Federal employee in contributing 6.5 percent of his annual salary to the fund is paying a high rate to the fund in comparison with other retirement plans and actually is paying approximately 52 percent of the normal cost of the benefits that he receives. We felt that this was primarily a problem of the Government. The Government had failed in making past contributions, the employee had not.

So, our fifth solution was the one that we considered to be most appropriate, and we have come to feel it is increasingly the one to recommend as we have studied it further. That is a gradually increasing supplemental agency contribution, growing from one-half of 1 percent of payroll in 1965 to 11 percent by 1986. This process is depicted graphically on the next page, page 12, showing the half percent steps that would constitute the increase in the supplemental agency contributions aimed at the unfunded past service liability. This would be in addition to the 6½ percent of payroll already contributed by the agencies.

This would climb and reach 11 percent supplemental by 1986 at which time it would level off and continue at 11 percent, producing income equivalent to the interest on the unfunded past service liability existing at that time.

The result would be that benefit payments would be fully covered. They would be covered by a combination of factors, the first being the existing contributions of employees and the matching agency contributions which total 13 percent, 6½ percent for each party. It would include the supplemental agency contributions that would be 11 percent, and the third factor would be the interest earnings from the fund.

By the year 2010, this would mean that the \$4.8 billion volume of benefit payments would be met by \$1.8 billion from the employee and matching agency contributions, \$1.6 billion from the supplementary agency contributions, and \$1.4 billion from the interest earnings.

It is the judgment of the Commission, Mr. Chairman, that this proposal will accomplish five basic objectives which we feel are desirable in establishing a sound financial condition for the fund.

First, it makes operative the normal cost plus interest financing principle adopted by Congress in 1956. This principle has again and again been endorsed by the Commission's Board of Actuaries, and by

special study groups that have considered the retirement fund from time to time, most recently in the Kaplan report. This is the actuarial approach to sound financing.

Second, it would slow and then stop the growth of the unfunded liability, now at \$34 billion.

Third, it would keep the retirement fund solvent over this extended period of time in the future.

Fourth, it would achieve this goal of solvency without a sharp increase in appropriations either now or later. The increase for the first year would be approximately \$70 million. It would increase by that factor into the future.

Finally, it would assure the availability of sufficient funds to pay benefits promised to and earned by employees.

In this presentation I have used the expression "normal cost"; on page 15 you will find the definition. I think it is important that we all have an understanding of it. It is a technical term. The definition of "normal cost" is that level percentage of salaries which, if paid into an invested fund each year employees are in service, will, together with interest earnings, cover fully all retirement benefits due them and their survivors.

The "plus interest" part of the normal cost plus interest formula means: Interest on the unfunded liability, needed as annual income to the fund to replace interest lost because growth of the fund has not kept pace with the accumulating obligations.

In considering this proposal and S. 1562, Mr. Chairman, I believe it is important for me to emphasize that there are certain basic assumptions behind the figures that are offered here—three assumptions in fact. First the pattern of benefits would remain stable throughout the period from 1965 to 2010. Second, that the current employment levels would be stable over this period of time. Finally, that the pattern of salaries would remain stable.

Obviously these are assumptions that will not be maintained in actual experience in the future. Consequently, it would mean that the figures that we offer here are figures that would have to be revised in order to encompass any changes of that kind that might take place in the future.

Attached to the statement are two tables; the first gives in a more precise form the pattern of the status quo projected into the future. This table shows the employee deductions and deposits in terms of dollars, the Government's payments in terms of dollars; interest estimated after 1968 at 3½ percent; the total receipts made up of employee contributions, Government payments, and interest; the benefit payments or the outgo from the fund; and then the balance in the fund.

There are a few points here which are perhaps worthy of comment. Under direct appropriations the figure of \$30 million and \$62 million for 1963 and 1964, respectively, are amounts requested in appropriations to cover the increase in annuities authorized last year.

In the column on total receipts, you will note that the total receipts begin to fall off between 1972 and 1973. This is due to the declining balance of the invested fund.

On benefit payments, you will notice that the benefit payments continue to climb; that they reach \$2 billion by 1968, that they reach \$3 billion by 1978.

You will note that the balance in the fund continues to grow at a relatively shrinking rate and then begins to fall off starting in 1972.

You will note that in 1990 the appropriations necessary in order to meet the benefit payments obligated as of that date would be approximately \$1 billion and would become \$2 billion by approximately 1992 and \$3 billion by 2010.

Table 2 is illustrative of the same picture if the provisions of S. 1562 were applied. You see in the column marked "Agency Contributions as Percentage of Payroll" the half percent increments starting in 1965, advancing up to 1986 and then remaining at 17½ percent, the 6½ percent already authorized, and the supplemental up to 11 percent from that point on.

You will see that the balance in the fund continues to grow up until approximately the turn of the century and then stabilizes. You will see the same benefit payment figures that you saw on table I. You will see a revision in the total receipts because of the supplemental agency contributions, and you will also see a rather dramatically different picture insofar as the interest income is concerned over that span of time.

Mr. Chairman, in conclusion I would like to state that the Civil Service Commission as the administrator of the civil service retirement system and as custodian of the civil service retirement fund believes that this legislation is of the utmost importance to the future soundness and effective functioning of the retirement system. We believe that the system as it has been developed over the years by the Congress is an exceedingly important part of the total personnel management pattern of the Federal Government; that its basic weakness at the present time is the instability, the inadequacy of the financing of that fund.

We appreciate the opportunity to appear before you and to present this case. I would like to suggest, Mr. Chairman, if I may, that perhaps the subcommittee at this point would like to hear a few supplementary comments from former Commissioner Lawton, who in addition to his experience on the Commission, served for a number of years as Director of the Budget Bureau and has over a long period of time evidenced interest and concern in this very important matter.

Senator McGEE. Before we do, I want to take special note of the refreshing and substantially different form that your prepared script took. In my judgment, it was exceedingly effective. It highlights the major points you have to make and it is readily intelligible to all members of the subcommittee. I would hope that elsewhere around the Hill in future testimony from you administration officials that your example might be emulated. It is exceedingly effective and I cannot exaggerate the effectiveness of both the presentation and the substance which you have contributed in this form. I will place your exhibits in the record at this point.

(The exhibits referred to are as follows:)

A Proposal
to
Improve Financing
of the
Civil Service Retirement System

United States Civil Service Commission
Bureau of Retirement and Insurance
May, 1963

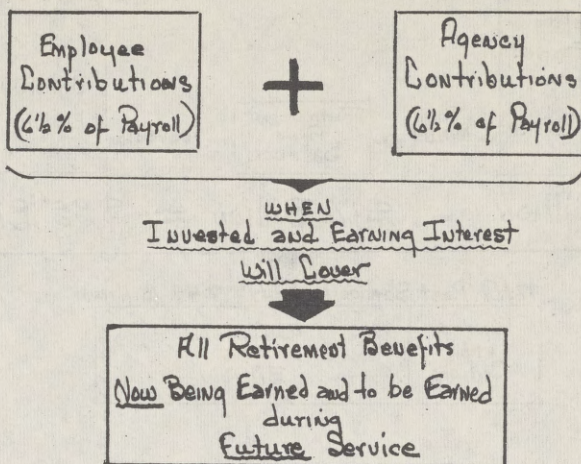
The Proposal:

Permanent Financing
of
Retirement Costs

via

A Gradual Increase in Agency Contributions
Scheduled by law

Present Financing Covers Only PART
of Retirement Benefit Costs

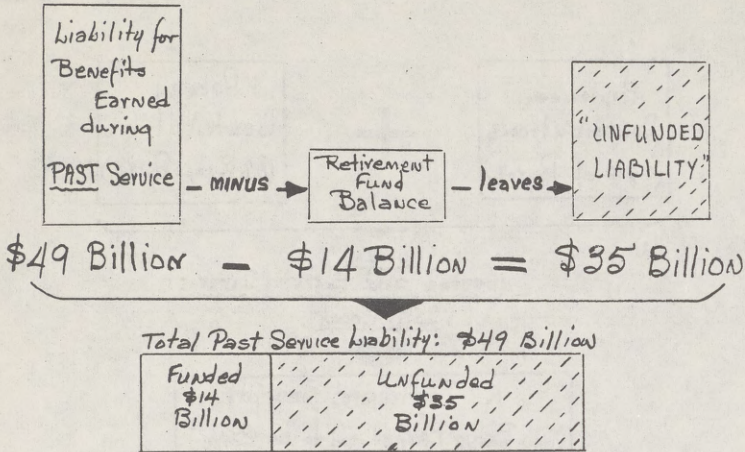


PAST Financing —

while producing income exceeding
 benefit payments made to date,

➔ has NOT built up an invested
 fund big enough to cover
payments still to be made for
 benefits earned during PAST Service

At Start of F.Y. 1965:



WHY is there an Unfunded Past-Service Liability?

➔ In some years, Government did not pay its share of the cost of benefits earned in those years (though employees always paid their share)

➔ Liberalizations have been made without payment to cover past-service liability ➔

➔ Retirement fund has lost the interest it would have earned if all payments had been made and invested as retirement costs were incurred

Such as—

- annuity increases
- pay increases
- liberalized benefit structure
- credit given to new groups for past service

Under present financing —
the UNFUNDED LIABILITY GROWS

Total Liability
Past Service ↓

1965	Fund \$4 Billion	Unfunded liability \$35 Billion
------	------------------------	---------------------------------------

1970	Fund \$17 Billion	Unfunded liability \$41 Billion
------	-------------------------	---------------------------------------

1975	Fund \$16 Billion	Unfunded liability \$49 Billion
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by more than
\$1 Billion
each year

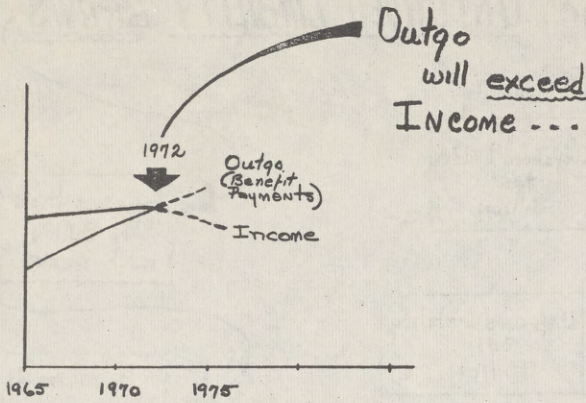
because of
failure to replace
the
interest lost

WHAT HAPPENS

if

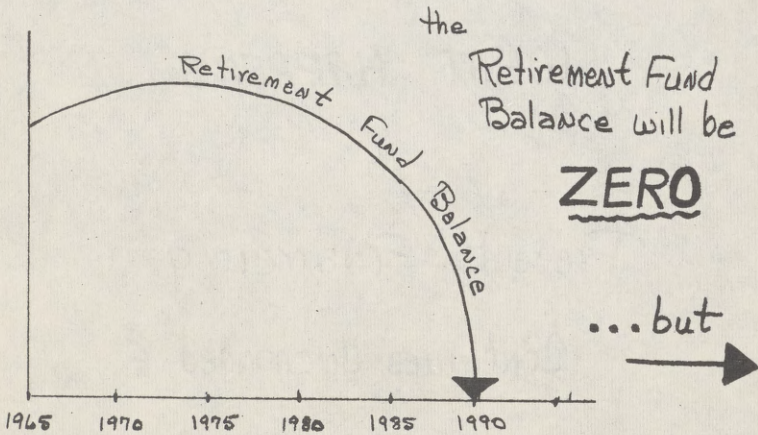
Present Financing
Continues Unchanged ?

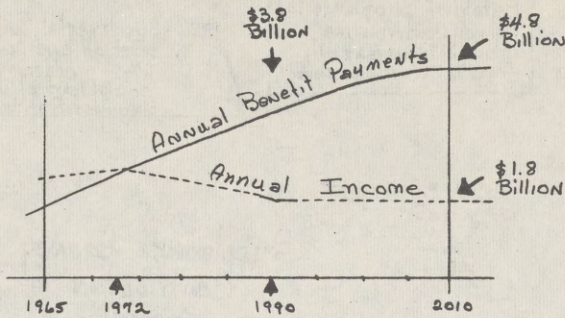
In 7 Years...



... and Start Eating Into Fund Balance

In 25 Years...



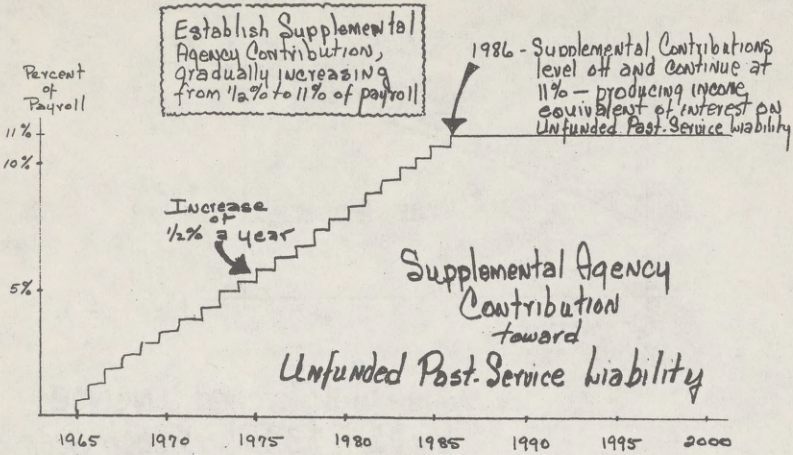
Benefit Payments will be HIGH,

--- and Will Exceed Income
by \$2 to \$3 Billion each year

Problem: How Produce the Additional Income
Required to Meet Benefit Payments?

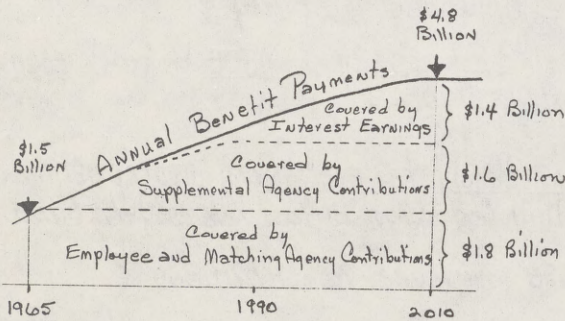
- ▶ Appropriate \$35 Billion to Fund NOW and wipe out the unfunded liability? **NO**
- ▶ Appropriate \$2 to \$3 Billion MORE to Fund each year after 1990? **NO**
- ▶ Jump immediately to level annual appropriation of \$1.1 Billion (equivalent of lost interest) to Fund? **NO**
- ▶ Increase employee contributions? **NO**
- ▶ Establish a gradually increasing supplemental agency contribution, growing from 1/2% of payroll in 1965 to 11% by 1986? **Yes**

Here's How:



Result:

Benefit Payments Fully Covered



This Proposal will —

- Make operative the Normal-Cost-Plus Interest financing principle OK'd by Congress in 1956
- Slow, then stop, growth of Unfunded Liability
- Keep Retirement Fund solvent
- Achieve goal without sharp increase in appropriations, either now or later
- Assure availability of sufficient funds to pay benefits promised to and earned by employees

For Technical Details, see

- Letters of transmittal to the Speaker of the House and the President of the Senate (May 1963)
- Draft Bill to improve the financing of the Civil Service Retirement System
- Table 1: Civil Service Retirement System -- Estimated progress of the fund, assuming agency contributions matching employee deductions at $6\frac{1}{2}\%$, plus direct appropriations when needed to meet benefit payments
- Table 2: Civil Service Retirement System -- Estimated progress of the fund, assuming agency contributions increasing by $\frac{1}{2}$ of 1% each year from 1965 through 1986 and remaining level at $17\frac{1}{2}\%$ thereafter, which then equals Government's normal cost plus interest on deficiency.

"Normal Cost" means--

That level percentage of salaries which, if paid into an invested fund each year employees are in service, will, together with interest earnings, cover fully all retirement benefits due them and their survivors.

"Plus Interest" means--

Interest on the Unfunded Liability, needed as annual income to the fund to replace interest lost because growth of the fund has not kept pace with accumulating obligations.

Senator McGEE. I might also add that it is a little refreshing in a way, having come from the Commerce Committee in the past few days, where we are sitting with a time bomb in our laps of just x number of days, to consider a question in which the time bomb is 25 years as far as its actual explosion is concerned, but that is not meant to downgrade the wisdom of our considering this question now and if possible at this session rather than in the year 1990 when the barrel will be empty.

Now, Mr. Lawton, if you would like to proceed with a statement, we would be pleased to hear from you.

**STATEMENT OF FREDERICK J. LAWTON, CONSULTANT, CIVIL
SERVICE COMMISSION**

Mr. LAWTON. Just a couple of comments from me, Mr. Chairman.

The problem that we are facing in this, of course, is one of our own making, both on the part of the Executive and on the part of the Congress.

Past financing of the retirement system has been based on what seemed to be expedient at the time the budget was being presented or the appropriations were being enacted, rather than upon any consistent plan or program.

Following the whim of the moment has caused the accumulation of the present unfunded deficiency. True, we have never failed to pay retirement benefits. True, we are still building up the balance in the investment accounts. But the tide is beginning to turn. Next year our benefit payments will show a higher rate of increase than our receipts.

In 8 years we will begin the downward spiral in invested funds. In another 20 years the fund balance will have disappeared and we start the upward climb in annual appropriations. In the first year the increase will be 125 percent, at the end of 10 years the annual appropriation will have increased 250 percent.

The major shock here is the sudden change in appropriations from just under \$1 billion in 1989 to over \$2 billion in 1990 and nearly \$3 billion in 1991. The progression to the maximum annual rate of about \$3.9 billion will continue at about \$60 million a year.

Under the existing system the total appropriations—including interest—are \$1.4 billion for 1964 and will rise gradually to a high of \$1.5 billion in 1972. Then as benefit payments increase the total appropriations begin to decline. This inconsistency results from the lower interest earnings on the declining balance in the investment account. A few years thereafter the total liability beyond the current year will be unfunded and the employees' equity resulting from their own contributions will have been dissipated.

This practice has the tendency to hide, or at least to push into the limbo of forgetfulness, the future requirements for meeting the retirement system's obligations. It diminishes the cost consciousness with which proposals for change must be viewed. How impressive can the cost argument be to the present generation, if it is left to a future group of taxpayers to pay the piper or face the deficit?

The argument is always made that there is no real distinction between a funded and unfunded liability as long as the investments are in your own obligations and the interest is paid from your own funds. Obviously this is a real distinction between Government and private pension plans. But just as obviously the danger of sweeping future obligations under the rug is real, human nature and politics being what they are.

Is a debt limit much more than a gesture, if you mortgage the future without recording the mortgage? Does the future commitment disappear just because you do not mention it? Is fiscal planning purely a hand-to-mouth operation? Our tax system is not and probably will not be one that can easily and quickly be responsive to changing needs for revenue. The machinery is complicated, the process of change is slow and often painful.

The financial situation of the retirement fund is no sudden emergency. We have been tinkering with it and changing directions for years. Now we see the results approaching a few years ahead. Now is the time to put the fund on a solid basis. This proposal will do that. It will give us a constant reminder of the extent of our liabilities and the annual cost of meeting them. It will dispel the doubts that have been expressed and I think face up to the real facts of the situation as they exist. Thank you, Mr. Chairman.

Mr. MACY. Mr. Chairman, we are all available for any questions you and your colleagues may care to ask.

Senator MCGEE. I suppose one alternative is one being suggested by some groups in this country and that is, by pursuing certain policies, we can count on the Chinese or someone to blow us to smithereens by 1990 and therefore we won't have to pay this and we just have to last it out.

The last statement stems from the statement of the distinguished chairman of the Post Office and Civil Service Committee; namely, the proposed amendment that after the fiscal year ending June 30, 1965, the Secretary of Defense pay into this fund those sums that would properly pay for the costs of the annuities attributable to credit for service in the armed services. I wonder if you would care to comment on that.

Mr. MACY. Mr. Chairman, I would be pleased to offer some very rough estimates as to the impact of that amendment. I have not as yet had an opportunity to discuss with the Secretary of Defense or the Director of the Bureau of the Budget the policy implications of this.

I do believe that if this is adopted it will mean that the source of the fund contribution will be approximately the same as the one we are talking about. It will identify the fact that military service is credited against retirement and would necessitate going to the military source for funds to cover it.

Our estimates are roughly these. That about half of all of the annuitants have military service of some degree, that the average military service of the total body of annuitants is about 1 year, that about 4.5 percent of the service of present annuitants is military service. Let me explain that a little further. The average service of those on the annuitant rolls is roughly 22 plus years. Therefore if you use the figure I gave before of approximately 1 year, that is approximately 4.5 percent of the total average service of those on the annuitant rolls.

The annuity cost of military service for fiscal year 1962 disbursements would be about \$42 million. This is 4½ percent of the \$937 million which were disbursed in 1962 to annuitants.

The cost of military service will increase to approximately 5 percent of annuity disbursements in the future based upon our analysis of the patterns of service of prospective annuitants.

The cost of military service for fiscal year 1965 would be about \$62 million, increasing about \$5 million a year and leveling off at about \$230 million after the turn of the century.

The effect of this particular pattern on the legislative proposal before you would be to have the agency contributions rise over a period of 4 less years or to a level of 9 percent rather than 11 percent.

Expressed in another way, if this amendment were adopted within the system that we propose, it would make it possible for the agency total payment to become 15½ percent rather than 17½ percent, and for the date to be 1982 rather than 1986. These are the rough conclusions, Mr. Chairman, from this analysis. I feel that this is a very interesting and appropriate suggestion. I will take it up with my colleagues in the executive branch. This reflects our preliminary and very rough calculations as to the impact of the amendment.

Senator MCGEE. The increase that this would impose to which you have been addressing yourself would not necessarily reduce the present unfunded liability over the period of years. You would come out at about the same place on it.

Mr. MACY. That is right. We would reach the plateau at an earlier point and at a lower point.

Senator MCGEE. If this measure is enacted, will the Government contributions ever revert to that figure of 6½ percent?

Mr. MACY. No, it would have to be continued at the level reached after the buildup of the agency contribution rate.

Senator MCGEE. So this does not look forward to an accumulation of reserves that would ever enable it to go back?

Mr. MACY. That is right. I think we must face, in considering this plan the fact that we would have a uniform level at the high point into perpetuity.

Senator MCGEE. If we accept those basic assumptions which you made which are not very basic because they are almost certain to change.

Mr. MACY. That is right, and if there are changes it means there would have to be additional financing to cover whatever liberalization is authorized.

Senator MCGEE. Do you think the 6½ percent on the employee's side would be open to the same fluid circumstances?

Mr. MACY. My view would be that the 6½ percent is the maximum figure for the employee contributions unless there were substantial liberalization of benefits to employees. Then I would believe that the Congress should consider revision of the percentage. In terms of the present pattern and the increases in salaries for active employees, and the like, I would not feel that an increase in the percentage was justified.

Senator MCGEE. Why is there included in this measure a section which provides that before any new liberalization in the retirement program can go into effect a specific appropriation to pay for them must be made?

Mr. MACY. This directly relates to your earlier question. It is the view of the Commission that the executive branch and the Congress should be fully conscious of the fact that any liberalization means that there will be a return to insolvency unless there is funding provided to cover that liberalization over the long term of the future.

As I pointed out in my testimony, part of our difficulty at the present time is attributable to past liberalization which resulted in additional obligations without any move to adequately finance them. So, in section 4 of S. 1562 the proposal is that in any future liberalization, that liberalization only becomes effective when adequate appropriations have been provided to fund the liberalization.

Senator MCGEE. What is your response to the view that is sometimes expressed that, since the Federal Government stands behind this program anyway and underwrites the funds, total actuarial soundness is unnecessary.

Mr. MACY. This view has been advanced and perhaps spokesmen of the Commission have advanced it on occasion. Our view is that the plan we propose is one that will make it possible for the Federal Government to gradually move to a position where it can meet obligations which are already established and avoid the shock that Mr. Lawton identified of heavy appropriations when the fund expires. This proposal is in no sense a withdrawal from the position that the faith and credit of the United States stands behind this fund.

It is our belief that we have an obligation today to plan for the future in the payment of these obligations that have been made in good faith to Federal employees who have contributed from their own salaries their portion of the funding.

Senator MCGEE. This is somewhat facetious but it occurs to me you may have opened up a real alternative here, or the chairman has, that the Department of Defense be brought into this. I don't imagine they would notice this \$35 billion if we appropriated it under the Defense Department for the years to cover the whole operation.

Mr. MACY. I am afraid they would.

Senator MCGEE. There would be a second opportunity for us, and that is we have been able to sell the people of this country on defense and they will buy almost any appropriation for defense, but we have a whale of a time getting them to support education or civil employees in the Government. In fact they think most civil service positions are boondoggles that were set up for political purposes. This may help us get this across if we get actuarial soundness.

Mr. MACY. We all favor military disarmament but we do have this problem, too.

Senator MCGEE. Is it true that with this enactment the Congress will obviate the need for the Civil Service Commission after 1990 to request several billions each year to pay the current costs of the retirement annuities?

Mr. MACY. Yes, I believe that is illustrated in table 2 of my statement. It shows that there would be no appropriation to the fund requested by the Commission after this program went into effect. The Commission would annually analyze the fund and make its recommendations to the Bureau of the Budget and to the Congress but there would be no request for direct appropriations to the fund by the Commission.

Senator MCGEE. When you refer in your comments to the fund that is expected in the future, in particular, and its investment by the Secretary of the Treasury and the income from that investment, how is that invested?

Mr. MACY. The fund is invested in Treasury issues by the Secretary of the Treasury and the interest pattern is controlled by the provisions of the bill that was passed in 1961, and our estimate is that that will produce by 1968 an interest level of approximately 3½ percent.

Senator MCGEE. Those are all the questions I have, Mr. Chairman.

Senator Brewster, do you wish to question the Chairman?

Senator BREWSTER. Mr. Chairman, first of all I would like to compliment the Chairman on his convincing and clear case that he presented for this proposal.

I have just one or two questions now. Those who oppose a sound fund and in fact those who oppose our social security system argue that the revenues that you receive are invested in Government securities. These revenues are then spent for the other costs of operating the Federal Government, that when these Government obligations come due, as surely they must, then you will be right back to the problem of an annual appropriation, not to pay the pensions to our retired civilian employees, but to pay off the Government obligations as they come due. What is your argument against that opposition?

Mr. MACY. May I refer that one to Mr. Lawton? I believe he can give you a far more authoritative reaction to it.

Mr. LAWTON. The fund that is established is of course, truly invested in Government obligations. But the amounts that are invested come, first, from the employees themselves and their contributions. It is a reduction in their pay. The other part comes from the appropriations made to agencies.

They are a measure of the liability that you are incurring, a reminder of that liability. There is not a diversion of those funds for other purposes. The fund itself is in special obligations that are available only for the civil service retirement fund.

The amount of taxpayer's money that goes into this is simply measured by the Government's contributions and not the total amount. The invested fund as it stands at the moment consists largely of employee contributions rather than Government. So I think that the suggestion being made that no measure of your liabilities be established and currently kept before you is one which will tend, as I said, to sweep those obligations under the rug to hide them and suddenly you awaken to the fact that several years from now you are going to be obligated to make heavy inroads into your budget structure by increasing appropriations and, at that time, you will either have to increase taxes or do some deficit financing.

This simply is your measure of liability, and that this is a constant reminder that these are the obligations you are currently creating.

Senator BREWSTER. Are the amounts of Government obligations held by the fund included in any statement of our national debt? Do they constitute a part of our national debt?

Mr. LAWTON. They do. They are special Treasury issues and they are a part of the debt.

Senator BREWSTER. If you were to attempt to pay off the national debt at that time, there would have to be direct appropriations to pay off, in part, these obligations? Is that correct?

Mr. LAWTON. You would pay it to yourself. You would pay it into the Government's own retirement fund. These are not obligations held by the public. They are obligations held by this fund. They are special issues. They are not marketable. It is an invested fund that is owned by the Government and in obligations that are owed by the Government. It is not held by private investors.

Senator BREWSTER. Thank you very much, sir.

Senator MCGEE. Senator Fong.

Senator FONG. Mr. Macy, how long has the Civil Service Commission been aware of the deficit in this fund?

Mr. MACY. The Commission has been aware of it during the entire period of its responsibility for the retirement system but more acutely in the past 6 or 7 years as the conditions of the annuities have been liberalized and other liberalizations have taken place and this unfunded liability has been rising very rapidly.

Senator FONG. I presume you have figures showing how bad the fund was prior to the 1962 salary increase?

Mr. MACY. Yes, sir.

Senator FONG. You were already aware that you had a very large deficit facing you?

Mr. MACY. Yes.

Senator FONG. I do not know whether you have requested legislation or asked the consideration of this problem before, but has the Commission formally asked the Congress to look into this matter prior to this time?

Mr. MACY. Yes, Senator Fong. At the time of the Retirement Act amendments in 1956, the predecessor Commission requested consideration of the entire matter of financing the fund. This was in the wake of the so-called Kaplan report of a committee formed by congressional authorization in 1952. That committee strongly recommended that the fund be put on a normal cost-plus-interest basis. The step taken by the Congress in 1956 to provide for the first time that 6½ percent be contributed by the agencies was a step in that direction.

Congress also required that the Civil Service Commission present to the Bureau of the Budget annually an indication of the unfunded liability and provide recommendations as to how the interest on the liability should be met.

This has been a matter of active concern in the Commission to my knowledge at least since 1954. We have only come upon this particular approach this year because other approaches have appeared to be unsatisfactory. We have not been able to arrive at a plan that would offer the long-term solution to the needs of the fund without excessive current appropriations.

I might add that in the course of my experience with the Civil Service Commission, which now numbers a good many years, each time I have appeared before either the House or Senate Appropriations Committee, I have been subject to rather extensive criticism for the fact that the executive branch, whether it was headed by a Republican President or a Democratic President, was not more aggres-

sive in requesting appropriations that would produce a greater degree of solvency. So I feel there has been an evolutionary process of experience that has occurred during these past years and the legislation before you at the present time represents our best judgment out of that experience.

Senator FONG. Prior to 1956, what was the employees' contribution?

Mr. MACY. The employees had made a percentage contribution every year since 1920. It started at 2½ percent and went on up to 6 percent prior to the 1956 amendments, which made it 6½ percent.

The Government had contributed spasmodically. There was no Government contributions at all through 1928. Then from 1929 through to the war period 1941 there was an appropriation made annually that was in excess of the normal cost. Then, since the war there have been a variety of plans pursued. The executive branch on a number of occasions has requested appropriations. In some instances they have been denied all together and in other instances they have been reduced. In two instances they have actually been increased. But it was not until the fiscal year 1958, under the terms of the 1956 statute that there was a regular percentage of payroll contributed by the agencies. So this was a substantial improvement, as Senator Johnston indicated, to provide at least that degree of regular contributions by the Government to the fund. But even so as we see from these statistics, that is inadequate to meet the long-term need.

Senator FONG. In 1956, when there was an increase of contributions by the employees to 6½ percent and a contribution by the Government of 6½ percent, was the fund actuarially sound at that time? Let me rephrase that question.

If we did not have the annuity increases, judging from the pay scale at that period without annuity increases, without liberalization, without bringing in any new groups, and if we were to stop the fund at that time in 1956, would the contributions of 6½ percent by employees and Government be sufficient to take care of future needs?

Mr. MACY. It would be sufficient to take care of future service needs but it would not take care of past service obligations liability.

Senator FONG. Actuarially it would have been sound if the figures of 13 percent were kept and past obligations were not included?

Mr. MACY. That is right. The 13 percent covers what I have defined as normal cost which is the cost for employees coming on the rolls and not those that had been on the rolls previously in accumulated obligations.

Senator FONG. So this supplemental increase you are asking for is to take care of past obligations. You have annuity increases in addition to past obligations and also other employee groups were included in the retirement laws, is that correct?

Mr. MACY. That is right.

Senator FONG. Do you have figures to show what each amounted to?

Mr. MACY. I don't have that with me. Let me check with Mr. Rudock as to the feasibility of securing it.

Senator FONG. I think it would help very much if we had those figures. If we do pass this bill it will show that the Government will be contributing 17½ percent of the total payroll of the employees toward his retirement system. I think many of the people would not understand this.

Mr. MACY. Senator, I think we can develop a table for you which will show the increase in the unfunded liability related to each of these liberalizing actions in the past that have built up the situation that exists.

Senator FONG. What I want to show is this: As far as the present employees are concerned, the Federal Government is contributing a sufficient percentage of his salary to this fund to take care of his retirement and that a certain percentage is being put in to take care of past obligations, for things that we did not do, for liberalization of salaries and for some of the other things which crept into the fund without proper appropriations.

Senator McGEE. What you are proposing is that the participants, the employees in drawing from the fund, would not be smeared in the public minds by the suggestion that they are getting this larger chunk from the Federal contributions.

Senator FONG. Yes. Because they were paid \$10,000, they would say the Government is paying them \$11,750, because \$1,750 is going into this fund from the Government. This would be equivalent to profit sharing, 15 percent.

Mr. MACY. I think it is quite appropriate that we make this distinction, because if we do not have this financing to take care of these past obligations, it means that what the current employees are contributing is going to be drawn from the fund to cover these obligations because it is the only resource available for that purpose.

Senator FONG. If a statement is made that the Government is contributing 17½ percent of the employee's salary to take care of his retirement, we can show that is not correct. By a breakdown of all of those various sums to annuity increases, to pay increases, to liberalization, benefit structure, credit given to new groups for past service, it would be possible to work out a formula showing that the Government's contribution of 6½ percent is actuarially sound? I don't know whether it is or not.

Senator Boggs. Let me interrupt to be sure I understand what you are saying. You said that after 1985, the Government would be paying 17½ percent. Would it be paying 24 percent, because it is already paying 6½ percent?

Senator FONG. It is going up to 11 percent.

Senator McGEE. If the amendment prevails it would go to 15½ percent instead of 17½ percent.

Mr. MACY. We will provide that as a supplement to our testimony.

Senator BREWSTER. Would you yield, Senator Fong?

Senator FONG. Certainly, Senator.

Senator BREWSTER. At some time in the future everybody in this room is going to be dead and buried and so at some time there will be persons drawing benefits that were not based on payments that were made at the time of deficiency in the fund. So if your figure of 17½ is a sound one, would there not be a time sometime after the year 2000 when the contributions could be cut back and, if not, why not?

Mr. MACY. Mr. Lawton, would you care to speak to that one?

Mr. LAWTON. The rate of contributions does not attempt to completely fund the liability. You will have at the year 2009 a liability that will remain constant. It will remain stable but unfunded at that time. If at that time the Government went out of business and

tried to pay off the retirement fund there would be a lot of people that would be left out in the cold. We do not anticipate that ever occurring, but there is still the unfunded liability, but it is at a constant rate and does not increase or diminish by reason of this contribution. This is built up to pay annually the normal cost plus the interest on the unfunded liability. At that point your unfunded liability does not change. It remains at the level rate. But it is still there.

Senator BREWSTER. Even though looking well into the future and admitting that you are collecting more in the fund than you need for the purposes of that year, should not sooner or later you pay off the deficiencies, the unfunded liability?

Mr. LAWTON. Not if you are going to have the same number of people constantly coming on to the payroll and the payroll remaining the same and the constant assumptions that are in this picture.

Senator FONG. And you are working toward a figure of what you need and you are projecting your contributions up to that figure?

Mr. LAWTON. You are projecting it up to a figure that would maintain constancy.

Senator FONG. You are not saying that for those people who have not contributed before or for those people who have added annuity, we will appropriate a certain amount to take care of all of that. You have not done that.

Senator MCGEE. It seems to me that Senator Brewster's point is a valid one. If we are able to catch up now with our sins of the past—

Mr. LAWTON. Partially. You are not catching up all the way. You are catching up to a point where you are again maintaining—

Senator MCGEE. You are catching up X amounts or we would not be able to level off, so why do you level off at the point where you end off? I need a chart on this just like your opening chart, Mr. Chairman.

Mr. MACY. You have an adequate amount in the fund to meet the level of benefit payments at that particular time. As Mr. Lawton has pointed out, we do not eliminate the unfunded liability—

Senator MCGEE. But we were able to run faster with this stepped-up figure than the actual need from year to year. Once you level off, have you not gained an extra increment there?

Mr. LAWTON. You have not gained an extra increment because the minute you reach the leveling point you stop increasing your contributions at the 17½ percent which is the level rate. If you went above that you would then begin to reduce the unfunded liability but up to that point you make it constant.

Senator FONG. In other words you are asking for \$70 million more each year for 22 years and you are going to pyramid 22 times your \$70 million at the end of the period so you would then be contributing \$1.5 billion over and above the 6½ percent?

Mr. MACY. If you go back to the table that shows that on the presentation, page 13 shows you have provided this supplemental agency contribution that adds 11 percent of payroll on top of what you already have and this will meet the benefit payment obligations as they accrue but it will not reduce the unfunded liability.

Senator MCGEE. Suppose we were to get a defense program to pay the \$35 billion right now as a flat sum. Would the 13 percent then carry it?

Mr. MACY. Yes.

Senator McGEE. From here on?

Mr. MACY. Yes. I believe Senator McGee's point is if you paid the entire \$35 billion—

Senator McGEE. Right.

Mr. MACY. This would wipe out the unfunded liability.

Senator McGEE. Then would the 6½ percent on each side, 13 percent, carry it from there on?

Mr. LAWTON. Yes.

Senator McGEE. Then why is that not the smart way to do it? You are going to cost everybody a lot of money. I am talking theoretically.

Mr. MACY. If you wanted to increase the budget to \$135 billion this would be one way to do it.

Senator McGEE. If Mr. Mao or somebody dropped something on us tomorrow nobody would bat an eyelash about a billion dollars or \$2 billion; the Congress would legislate tomorrow. I am not going to propose this but it seems to me somebody ought to have the intestinal fortitude to propose it and do it the right way.

Mr. MACY. As I pointed out, we viewed this as one of five solutions. Our belief was it was not feasible.

Senator McGEE. This would be the less costly, is that not right?

Mr. MACY. Yes; I think over the long haul this would be less expensive. This is like paying for your house all at once rather than paying it over a long period of time. This would avoid the mortgage payment.

Senator McGEE. I wonder what the difference would be. Can we calculate that? That would be an interesting figure because then it would give us a figure which we might be able to use to make some more serious inroads on this back load of obligations.

Mr. MACY. This would have far-reaching fiscal effects on the entire Government finances with respect to the debt limit and the revenue picture and many other things.

Senator FONG. If you put in the \$35 billion now as compared to putting in \$70 million more every year for 22 years, that would far exceed the \$35 billion, would it not, going on the installment basis?

Mr. MACY. Yes.

Senator FONG. Would it be possible for the Commission without too much work to work out a set of figures for the committee here eliminating all of these past deficiencies that we have to see what the present employees would be paying to keep the fund solvent?

Mr. RUDDOCK. I think we have done that, Senator. The amount to wipe out all of the past deficiencies would be this \$35 billion we have just been talking about, and if we wipe that out then presumably employees with the 6½ percent and the agency matching of 6½ percent would again maintain the fund stably, just as the present matched 6½-percent rate invested at interest, would take care of new employees.

Senator FONG. There is probably a fallacy there. What I am trying to show is this: Will the fund be actuarially sound? Suppose we started today without all of these past obligations with the present employees; would the fund be actuarially sound with the contributions of 6½ percent by the Government and 6½ percent by the employees?

Mr. RUDDOCK. Counting service from this point forward, yes; it would. That is the normal cost by definition.

Senator FONG. As far as the employees are concerned they are carrying 50 percent of the burden.

Mr. RUDDOCK. Fifty-two percent.

Senator FONG. And the Government is carrying 48 percent.

Mr. RUDDOCK. That is right.

Senator FONG. The \$35 billion is to get the fund back to normal. As I see it, you are asking for the sum of \$70 million a year projected for 22 years, is that right?

Mr. MACY. That is approximately correct.

Senator FONG. Until you get to the figure of \$1.54 billion and then that will be a constant figure.

Mr. MACY. That would be a constant figure after you reach the top of the climb which would be in 1986.

Senator FONG. Thank you.

Senator McGEE. But that \$70 million a year is \$70 million a year more than the previous year.

Mr. MACY. It is a \$70 million increment for each of the 22 years. So as Senator Fong says, it works up to \$1.5 billion over that period of time.

Senator McGEE. But then that is starting from our X point here where we would start this and it means the total would be a gargantuan figure. The \$1.5 billion does not begin to touch it.

That is the \$1.5 billion over the preceding year.

Mr. MACY. It is \$1.5 billion, plus the 6½ percent of payroll that is contributed by the agencies and employees, plus the interest that will make up the \$4.8 billion that will be necessary to cover the benefits payments.

Senator McGEE. I have to think some more on this.

Mr. MACY. I think page 13 of the charts shows how the level of contributions and interest earnings produces the \$4.8 billion that is necessary to meet benefit payments.

Senator FONG. Would the statement be correct that to take care of an employee's retirement, the Government is only paying 6½ percent and the employee pays the other 6½ percent?

Mr. MACY. Yes, sir.

Senator FONG. When an employee is faced with the statement that the Government is paying 17½ percent for him when we arrive at that 22-year period, can he say, no that is not correct and that the Government is only paying 6½ percent of his salary for the retirement? Can he definitely state that?

Mr. RUDDOCK. I think the present employee could say the Government is contributing only 6½ percent for my present and future services. It did not always contribute 6½ percent of my present salary with respect to my past service. At the present time, each employee is partly responsible for the unfunded liability. Most of us have considerable past service. A new employee could clearly say the Government is paying only 6½ percent toward his retirement and you could say the same thing of a present employee with respect to his present and future service.

Senator FONG. When you have employees enter the civil service system who have past military service, you give them credit for their military time, don't you?

Mr. MACY. Yes.

Senator FONG. If you should have a flood of those employees coming into civil service, your system is going to be all jumbled up again if you did not get some appropriations from somewhere.

Mr. MACY. This would be an added factor in our computations.

Senator FONG. You have provided in this bill that an appropriation be made if there were any further crediting of service or liberalizations. Do you include military service?

Mr. MACY. That is included now in the computations, the military service of those in the system.

Senator FONG. I am talking about those who are not in the system who will be coming in at some future date. How are you going to take care of that discrepancy?

Mr. RUDDOCK. The present cost assumptions assume crediting of military service, so that if new employees come in next year or 3 years from now our present cost assumptions assume that they will have military service approximately the same as present employees.

When we are talking about liability resulting from giving credit for a type of service not previously credited, we are thinking of legislation of the type we had a few years ago which brought in employees of the agricultural stabilization and conservation county committees where they had not been considered employees of the Federal Government and their service was not creditable and none of our accounting took into consideration the ASC county committee service.

Senator FONG. Judging from your past experience and if this is projected into the future, employees coming in from the military service need not contribute anything more?

Mr. RUDDOCK. That is right.

Senator FONG. And this fund will be actuarially sound?

Mr. RUDDOCK. That is right.

Mr. MACY. As I said before, we have estimated that approximately 5 percent of the service of Federal employees is military. That is how we arrived at the figures we gave you.

Senator MCGEE. It still remains from what you just said that the veteran now in civil service has made no contributions nor has the Government made contributions for his credited military service?

Mr. MACY. That is right.

Senator MCGEE. This is what the amendment from the chairman of the committee will study.

Mr. MACY. That is right.

Senator FONG. I would like to thank the Civil Service Commission for bringing this to our attention and bringing us such a fine report and such a fine statement.

Senator BOGGS. I want to commend Chairman Macy and the Civil Service Commission for bringing this up and the presentation you have made.

Frankly the reaction I have, I don't know why it is I always have to walk into these tough problems. I would just like to keep on with the benefits thing.

As the chairman said so aptly—I don't know whether aptly or not, I thought it was appropriate and I could understand it anyway—we are just trying to take care of the sins of the past and we promise not to sin any more.

Senator McGEE. That seems to be what it comes down to and it is a rather broad promise.

Senator BOGGS. It is a tough situation to be in, but actually it is right that we look at this situation and try to take whatever corrective action is necessary to make this program sound for the present and keep it sound for the future. Because it is difficult to face up to, I was wondering if this proposal is not enacted, what is your plan or what is the situation then?

Mr. MACY. If it is not enacted, we would continue annually to make a report to the Bureau of the Budget of the level of the unfunded liability, and the necessary payment to provide normal cost-plus interest. It would then be up to the Chief Executive to make a determination of how much of that funding would be recommended as a part of the annual budget and it would be through the appropriations process. Beyond that, speaking for myself, I believe we would have an obligation even if no action were taken to continue our efforts to have the long-range needs of the fund met, and I would hope that out of discussions such as this would come perhaps some alternate solution if the solution we offer is judged not to be the appropriate one because those of us who have responsibility for this field do not feel we can let this drift in an uncertain course as it has in recent years.

Senator BOGGS. Would this proposal amount to a directive for automatic appropriations or would the Appropriations Committee or the Congress, if they wanted to, still continue as they have in some years in the past by not appropriating?

Mr. MACY. This would be a statutory schedule of dates and amounts just as the 6½ percent now required as agency matching contributions is a part of the statute. It would be my understanding that annually each agency would be required by this law to include in their appropriations requests as part of the President's budget, a sum equivalent to the amount set forth in this particular statute for that particular year.

Senator BOGGS. In other words it would still be up to the Congress each year to come forward with the appropriations to meet that?

Mr. MACY. Since 1956 the Appropriations Committees have always appropriated the 6½ percent as a factor of the payroll cost of the Federal Government.

Senator BOGGS. I think this point was developed by Senator Fong but maybe I did not get it clear in my mind and if we do not have the figures I hope it will be possible to have them. As I understand it, the employees' contribution all along has been kept up to date since 1920, actuarially up to date in this percentage contribution, is that right?

Mr. MACY. I am not certain that the word actuarially is correct there.

Mr. RUDDOCK. No, I do not believe it is. Actually the law from 1920 has been basically one in which the law has specified a percentage for the employee. The employees have always met that percentage. There has not been written in the law itself, but clearly understood by all, a promise of the Government to meet whatever part of the benefit cost was not met by the employee contributions. During, I believe, all periods—there may be one or two relatively short periods

of exception—the employee's contribution has been at least 50 percent of the normal cost of the benefit structure.

Mr. MACY. That is a slight modification of your point but I wanted to make sure it was entirely clear.

Senator BOGGS. That is fine.

I think Senator Fong asked for the figures which would show wherein the Government has failed to live up to its contributions, the years and the total amounts involved.

Mr. MACY. That is right. We will provide that.

Senator BOGGS. If somehow or other we would arrange a percentage increase to take care of where the Government has failed to meet its share—this is exploratory—then the Government's share and the employee's share go together. Has that been considered among your plans and what would that bring—

Mr. MACY. Do you mean if you had matching contributions?

Senator BOGGS. Yes, what would that bring to each side?

Mr. MACY. Our estimate is in order to meet the benefits for which there would be a commitment under the assumptions we have stated, it would be necessary for us to have the 6½ percent from the employees, the 6½ percent regular contributions—the present 13 percent—plus 11 percent in this buildup in order to meet the needs. This is then a total of 24 percent. If we were to reach a point where this was to be shared equally, this would mean a 12-percent contribution on the part of the employee, or 5½ percent on the part of the employee more than he is already making. Our view is that it is not equitable or fair to ask the employee to increase his contributions because he has been paying his share all along in many years where the Government paid no contributions at all. He is already paying a percentage which is relatively high in comparison with other retirement plans, and the obligations are the obligations of the Government and, therefore, the Government should carry this disproportionate share.

Senator BOGGS. Your letter of May 9, 1963, which you placed in the record, under section 3, reads:

Any new or increased benefits resulting from future changes in the Civil Service Retirement Act would not become effective and no benefits would accrue until the full estimated increase in unfunded liability for past service which would otherwise result from such change in the act had been appropriated to the fund. This would avoid the escalation of unfunded liabilities because of benefit or coverage liberalizations.

Would that have the effect of freezing any new retirement benefits until supplemental appropriations went into effect?

Mr. MACY. Yes. It is our belief that this kind of self-discipline on the part of the Government is necessary to prevent a continuation of the condition that we have already developed.

Senator BOGGS. Mr. Macy, under this proposal, the present 6½ percent employee contributions would be continued. It does not affect that at all.

Mr. MACY. It does not affect that at all. This is additive to the 6½ percent by the employee and 6½ percent by the Government, so that the total Government contribution by the time the steps have been climbed over 22 years would total 17½ percent.

Senator BOGGS. Thank you.

Senator MCGEE. Are there any other questions from the committee?

I want to repeat my interest in the figure that you have come up with on the difference of cost between a flat payment now and the increment approach to it merely as a business operation to see how much money we are going to talk ourselves out of that might otherwise be saved. I cannot help but reflect back 25 years when there were groups in our country telling us that we had to amend the Constitution to put our debt limit at \$45 billion or we would go broke. The only catch was that Hitler and Mussolini did not respect that and we found we were capable of things we had to do in our country's best interests, and I think it is a yardstick we can apply here.

I am afraid we are crowding away from it, all of us, because of the political psychology involved, and it is less a question of fiscal responsibility. We may even be guilty of fiscal irresponsibility if we were to run up a huge cost factor here which by baiting along at 12½ percent a year when the rest of us—I don't know how many terms you will be in by then, but we won't be around to sweat it out, but I think it will be an interesting figure that we can worry over. We have a preliminary calculation here that the cost will be in excess of \$55 billion, making no allowance for the interest costs that might be accumulated through that period but that can work both ways in terms of the debt as well.

Mr. MACY. \$55 billion as the cumulative amount over the period of years that we are talking about.

Senator McGEE. Yes. But the figure that you can work out with those magic pencils you have would be very helpful.

Mr. MACY. We even have some magic computers which we will put to work.

Thank you, Mr. Chairman.

Senator McGEE. Thank you.

(Subsequently the following communications containing information requested at the hearing were submitted:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., August 21, 1963.

HON. GALE W. MCGEE,
Chairman, Retirement Subcommittee,
Committee on Post Office and Civil Service,
U.S. Senate.

DEAR MR. CHAIRMAN: Attached is additional information requested of the Commission during the hearings on S. 1562, a bill to improve financing of the civil service retirement system, before your subcommittee on August 14, 1963.

The information consists of two items: (1) a statement showing the past growth of the unfunded liability of the civil service retirement system, with some of the reasons therefor; and (2) a comparison of costs of financing the unfunded liability under S. 1562 with costs of its immediate liquidation in full.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

COSTS OF \$35 BILLION DIRECT PAYMENT OF UNFUNDED LIABILITY COMPARED TO ITS
PROPOSED FINANCING UNDER S. 1562

The out-of-pocket cost of an immediate lump-sum payment of \$35 billion to liquidate the unfunded liability is less than the total of all payments toward unfunded liability under S. 1562, in the sense that immediate payment of a debt is always less expensive than deferment, the difference being due to additional interest required if the debt is not immediately paid. This point is illustrated by columns (1) and (4) of the attached table. Column (4) shows total payments into the fund (in excess of required "normal" costs) of \$18,071.9 million by the end of fiscal year 1985, under S. 1562. After 1985, payments would continue, as shown, at the rate of \$1,649.4 million annually into the indefinite future. By the end of fiscal year 1996 (not shown in the table) total

payments in column (4) would begin to exceed the single lump sum of \$34,811.3 million shown in column (1), and would continue to do so into the indefinite future (unless the debt were liquidated), the cumulative difference increasing by \$1,649.4 million each year.

A standard method of considering debt costs—a method which is here applicable—recognizes that money is always to be valued at interest or, if due in the future, discounted at interest. Under this assumption, there is no real difference in the cost of immediate liquidation of a debt and its deferred liquidation. In other words, the individual or organization deciding to liquidate a debt must do so with money which could otherwise have been invested to earn interest equivalent to that "saved" by the immediate liquidation, or which could have been used to liquidate other similar debt. In either case, as long as the assumed interest rate is the same, the net result to be attained will be mathematically equivalent in the long run under alternatives of deferred or immediate financing.

This latter concept is brought out by columns (3) and (6) of the attached table. If interest on Treasury obligations created by special payments into the fund is considered, the total Government cost for the years 1965-85 under the direct-payment method is \$71,691.4 million (col. 3). The corresponding total under S. 1562 is \$23,742.4 million (col. 6), or in other words \$47,949 million less than under direct payment. But this difference is exactly equal to the unfunded liability still existing at that time under S. 1562. No such liability would exist under the direct-payment alternative, having been fully paid off.

It will be noted that when the supplemental agency rate levels off after 1985, total annual payments (cols. 3 and 6) are identical under either alternative. If comparative totals were taken after 1985, the difference in total payments to date at any time would be equal to the \$47,949 million previously mentioned. This reflects the fact that full interest is then being paid to stabilize the unfunded liability at that figure.

Thus the two alternatives (immediate liquidation versus S. 1562) are mathematically equivalent, any difference in total payments to any date showing up as the amount of unfunded liability then outstanding.

\$35,000,000,000 direct payment versus proposed financing of unfunded liability under S. 1562

[In millions]

Fiscal year	\$35,000,000,000 direct payment			S. 1562		
	Government payment into fund	Treasury interest payments on obligations created by (1)	Total annual Government cost (1)+(2)	Government payment into fund	Treasury interest payments on obligations created by (4)	Total annual Government cost (4)+(5)
	(1)	(2)	(3)	(4)	(5)	(6)
1965	\$34,811.3	\$1,218.4	\$36,029.7	\$143.4	\$2.5	\$145.9
1966		1,261.0	1,261.0	215.1	8.9	224.0
1967		1,305.2	1,305.2	286.9	18.0	304.9
1968		1,350.9	1,350.9	358.6	29.9	388.5
1969		1,398.1	1,398.1	430.3	44.7	475.0
1970		1,447.1	1,447.1	502.0	62.6	564.6
1971		1,497.7	1,497.7	573.7	83.6	657.3
1972		1,550.1	1,550.1	645.4	107.9	753.3
1973		1,604.4	1,604.4	717.1	135.5	852.6
1974		1,660.5	1,660.5	788.9	166.6	955.5
1975		1,718.7	1,718.7	860.6	201.3	1,061.9
1976		1,778.8	1,778.8	932.3	239.7	1,172.0
1977		1,841.1	1,841.1	1,004.0	282.0	1,286.0
1978		1,905.5	1,905.5	1,075.7	328.3	1,404.0
1979		1,972.2	1,972.2	1,147.4	378.7	1,526.1
1980		2,041.2	2,041.2	1,219.1	433.3	1,652.4
1981		2,112.7	2,112.7	1,290.8	492.4	1,783.2
1982		2,186.6	2,186.6	1,362.6	556.1	1,918.7
1983		2,263.2	2,263.2	1,434.3	624.5	2,058.8
1984		2,342.4	2,342.4	1,506.0	697.8	2,203.8
1985		2,424.3	2,424.3	1,577.7	776.2	2,353.9
1965-85	34,811.3	36,880.1	71,691.4	18,071.9	5,670.5	23,742.4
1986		2,509.2	2,509.2	1,649.4	859.8	2,509.2
1987		2,597.0	2,597.0	1,649.4	947.6	2,597.0
1988		2,687.9	2,687.9	1,649.4	1,038.5	2,687.9

NOTE.—Additional Treasury obligations are issued to the fund periodically to give credit for interest earnings. These obligations in turn bear interest. This fact has been allowed for in the computation of total interest payments in cols. (2) and (5). Assumed interest rate is 3½ percent.

Growth of the unfunded liability

[In millions]

Fiscal year	Unfunded liability as of June 30	Includes increase—		Remarks
		Due to act of—	Due to act of—	
		Amount	Amount	
1921.....	*\$249			*Initial unfunded liability.
1922.....				
1923.....				
1924.....				
1925.....	*287	(?)	P Mar. 4, 1923.....	*Same valuation assumptions as in 1921.
1926.....	355	\$50	R, I July 3, 1926.....	
1927.....	393			
1928.....	406			
1929.....	404			
1930.....	*730	*327	R, I May 29, 1930.....	*Also includes effect of revised valuation assumptions.
1931.....				
1932.....				
1933.....				
1934.....	1,069	94	R June 16, 1933.....	*Same valuation assumptions as in 1930.
1935.....	*1,174			
1936.....				
1937.....				
1938.....				
1939.....				
1940.....	*1,573			*Reflects changes in valuation assumptions.
1941.....				
1942.....				
1943.....	*2,021			
1944.....	3,083	(?)	R, E Jan. 24, 1942.....	*Estimates for 1943-46 were overstated in view of later cutback of employment from World War II levels.
1945.....	3,314			
1946.....	3,516			
1947.....	*2,866	1,238	I Feb. 28, 1948.....	*Act of Sept. 30, 1947, based on 1940 valuation assumptions.
1948.....	4,328			
1949.....				
1950.....	4,839	130	I July 6, 1950.....	
1951.....	4,875			
1952.....	4,938	28	I July 16, 1952.....	*Reflects changes in valuation assumptions, including reduction of interest rate from 4 to 3 percent.
1953.....	*9,912			
1954.....	10,583			
1955.....	11,971	223	E (*) Aug. 31, 1954.....	
1956.....	13,588	821	I Aug. 11, 1955.....	*Career-conditional appointment system.
1957.....	17,951	3,565	R July 31, 1956.....	

* Reflects revised assumptions in 1958 valuation which fully took into account liberalizations pay increases, and other factors affecting unfunded liability since prior valuation in 1953.

* Reflects change in valuation interest rate from 3 to 3½ percent.

Year	1958	1959	1960	1961	1962	1963
Valuation	\$27,451	28,363	31,143	32,547	33,660	38,681
Act	P	P	I	I	{P {R	*34,060
Date	May 27, 1958. June 20, 1958.	July 1, 1960.	July 31, 1961.	Oct. 11, 1962.	Oct. 11, 1962.	
Category	I	E	I	I		
Value	1,841	1,700	1,330	2,125	1,100	
Liability	104	100	575			

Source: U.S. Civil Service Commission, Bureau of Retirement and Insurance, July 10, 1963.

1 See below:
 R = Retirement Act liberalizations.
 I = Increases in existing annuities.
 E = Extensions of coverage.
 P = Pay acts (classified and postad).

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., September 24, 1963.

HON. OLIN D. JOHNSTON,
Chairman, Committee on Post Office and Civil Service,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the hearing on S. 1562, a bill to improve the financing of the civil service retirement system, I was asked to comment on your proposed amendment regarding reimbursement for military service.

The Bureau of the Budget, in the process of formulating an executive branch policy position, submitted the proposed amendment to the Department of Defense and the Department of the Treasury. The comments of these two Departments are attached.

The Bureau of the Budget advises that subject to consideration of the comments in the attached letters, there would be no objection from the standpoint of the administration's program to enactment of the amendment.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

THE SECRETARY OF DEFENSE,
Washington, D.C., September 13, 1963.

HON. KERMIT GORDON,
Director, Bureau of the Budget,
Washington, D.C.

DEAR KERMIT: Reference is made to your request for the views of the Department of Defense with respect to Senator Johnston's proposed amendment to S. 1562.

As drafted, the amendment would require the Secretary of Defense, out of appropriations available for pay and allowances of members of the Armed Forces, to reimburse the civil service retirement fund, for fiscal year 1965 and each succeeding fiscal year, for that part of the annuity disbursement during the fiscal year estimated by the Commission to be attributable to credit allowed for service in the Army, Navy, Air Force, Marine Corps, or Coast Guard.

We have the following comments on the proposal:

1. Passage of the amendment would clearly cause an increased cost in the administration of the program by the Civil Service Commission to determine periods of military service and to determine the amounts required as reimbursements from the Department of Defense.

2. The amendment covers service in the Coast Guard as well as the four services. It is proposed that the responsibility of the Department of Defense related to credit for military service in the Coast Guard be limited to those periods when the Coast Guard was on active duty and a part of the Navy. Other periods should be the responsibility of the Treasury Department.

3. As indicated above, the amendment provides that reimbursements will be made to the civil service retirement fund annually out of "appropriations available for the pay and allowances of members of the Armed Forces." It is the opinion of this office that the amendment should be revised to provide that such payments be identified as payments made to retired civilian employees and that the entry be carried as a line item under "Retired pay, Defense." Any such payments by Defense would reduce the amount the Commission now estimates it would have to collect from the departments and agencies.

Subject to the changes indicated above, the Department of Defense would not object to the concept of the proposed amendment.

Sincerely,

ROBERT S. McNAMARA.

THE GENERAL COUNCIL OF THE TREASURY,
Washington, D.C., September 12, 1963.

The DIRECTOR,
Bureau of the Budget.

SIR: Reference is made to your request for the views of this Department on a proposed amendment to S. 1562, prepared by the Civil Service Commission, which would require the Secretary of Defense to pay contributions to the civil service retirement and disability fund to reimburse the fund for the portion of annuities attributable to credit for military service.

The proposed amendment raises the fundamental question of whether one of the costs of past and future wars, i.e., credit for military service for retirement purposes, should continue to be borne by the various retirement systems, both public and private, or borne by the military services. If the Department of Defense is required to reimburse the civil service retirement fund for annuity disbursements attributable to military service, it would seem to follow that a precedent would be established for granting similar reimbursement to other federally established retirement systems, such as the social security, Foreign Service, and District of Columbia retirement systems. Further, demands could be made, once the precedent is established, by States and local public bodies and private industry for legislation to accord their retirement systems the same treatment. This would represent a basic change in the past philosophy underlying the financing of increased annuity costs due to credit for military service and could have a highly significant impact on the Federal budget.

Should the proposed amendment be favorably considered, however, it should be revised to provide for payments with respect to Coast Guard military personnel by the Secretary of the Treasury when the Coast Guard is operating as a part of the Treasury.

Sincerely yours,

G. D'ANDELOT BELIN,
General Counsel.

Senator MCGEE. The next witness is the Honorable Philip S. Hughes, Bureau of the Budget, who is accompanied by Mr. McAfee.

Before you begin, the chairman has a very sacred commitment at high noon. I wonder, Senator Brewster, you could act as chairman if we overlap just a brief interval so we can get started on this. The commitment involves only a picture over in the Capitol but because of the people involved it is an irrevocable commitment.

**STATEMENT OF HON. PHILIP S. HUGHES, ASSISTANT DIRECTOR
FOR LEGISLATIVE REFERENCE, BUREAU OF THE BUDGET; AC-
COMPANIED BY DAVID McAFEE, PERSONNEL MANAGEMENT
BRANCH**

Mr. HUGHES. I certainly understand, Mr. Chairman.

I have a short statement here and I think, at the risk of lousing up an effective presentation by Chairman Macy, I would like to read it to emphasize certain points.

Senator MCGEE. You may do so.

Mr. HUGHES. I appreciate this opportunity to appear before your committee to give you the views of the Bureau of the Budget respecting S. 1562, a bill to improve the financing of the civil service retirement system.

The benefits provided for Federal employees and their dependents by the civil service retirement system constitute one of the most valuable assets earned through Federal service. Not only is assurance provided the career employee of an adequate retirement income for the remainder of his life, but he is also assured that in the event of his premature death his dependents will continue to receive an income equivalent to a significant part of his salary. The system benefits the Government by enabling it to attract and retain capable employees interested in making a full career of Government service. The financial condition of the system, therefore, is of great concern to Government and to all employees covered by the system.

The Chairman of the Civil Service Commission, in his testimony before this committee, presented the facts relative to the condition of

the retirement system. The unfunded liability has grown to an estimated \$34 billion as of June 30, 1963. Unless a more adequate financing plan is adopted, this unfunded liability, which is currently increasing at the annual rate of \$1.1 billion, will rise ultimately to nearly \$90 billion—even if there is no further liberalization in benefits or increases in salaries.

In the next 6 years benefits will total \$9.8 billion—more than was paid out over the entire period of the fund's existence (1921–62). By 1967 annual benefit payments (\$1.9 billion) will exceed annual employee-agency contributions at current rates. By 1972 annual benefit payments (\$2.5 billion) will be greater than total receipts (contributions plus interest) which will result in a decline in the fund. By 1990 the fund will be exhausted and employee-agency contributions will fall \$2 to \$3 billion short of the amount needed to meet annual benefit payments.

There is no single factor which led to the present condition of the system. The retirement system started off with an unfunded liability of one-quarter of a billion dollars because full credit was given for all years of service prior to 1921. In a number of years the Government made no contribution to the fund; in other years, less than the actuaries recommended. By 1947, the unfunded liability had risen to approximately \$4.3 billion.

During the postwar years a whole series of amendments liberalized benefits, not only for active employees, but retroactively for annuitants already on the rolls. Usually, these liberalizing amendments provided for increases in employee contributions so that active employees continued to pay approximately half of the normal costs of the benefits currently accrued. But the effect of the amendments was to sharply increase past service liability. As a result of all these factors, the unfunded liability rose to \$10.7 billion in 1954, \$20.4 billion in 1958, and to \$34 billion at the end of fiscal 1963.

In the opinion of the Bureau of the Budget, the present condition of the retirement system calls for two actions: First, the adoption of a sound financing plan; and, second, a statutory prohibition against inadequately funded new or increased benefits.

As the Chairman of the Civil Service Commission has pointed out, there is no cheap or easy way to remedy the situation. Several of the alternatives—such as appropriating \$35 billion right now or even immediately increasing annual appropriations by \$1.1 billion—are obviously impractical. However, the schedule of gradually increasing agency contributions proposed by S. 1562 could be adopted without serious budgetary impact. The effect of such a schedule would be to slow down the growth of the unfunded liability and within 21 years to stabilize it at a manageable figure. At that time the financing of the system would be on a true normal cost-plus-interest basis—a principle long advocated by the actuaries and one endorsed by Congress in 1956.

Adoption of this sound financing plan for the retirement system would assure past, present, and future employees that the funds to pay their promised benefits would always be available. It would also reduce the future appropriation requirements to meet past retirement system commitments.

Section 4 of the bill, which would prohibit the payment of new or increased benefits until there has been appropriated an amount equal to the past service liability, is a vital and inseparable part of the proposal. It would be futile to adopt a plan designed to meet the existing unfunded liability of the system without taking steps to prevent increases in this unfunded liability.

This provision would not prevent future improvements in the retirement system, but it would require careful evaluation of each proposed improvement in relation to its full cost.

The Bureau of the Budget endorses the enactment of S. 1562 and hopes that this committee will act upon it favorably.

Thank you, Mr. Chairman. We will be glad to answer questions to the best of our ability.

Senator MCGEE. You heard the colloquy here with the Chairman of the Civil Service Commission earlier. Could your Bureau give us its calculation what the cost differential would be if we appropriated the \$35 billion lump-sum payment now, as opposed to the approach contained in this bill. What would be the difference in cost, let us say, for the period of time envisaged in this legislation? If you could give us a hard reading on that it would be very helpful.

Mr. HUGHES. We would be glad to work with the Commission and I think we can certainly agree with them on a figure and a differential.

If I could just comment briefly, I think it is important to emphasize that there is no magic here in any given method of payment. In round numbers, at least, the value of \$35 billion deposited now is not different from the same amounts necessary over a period of years extending far into the future.

In other words, the interest rate on money is the important consideration here, and the value to be placed on future contributions at the present time would approximate the \$35 billion figure we are talking about. Again, there is not any good, easy way out of this problem, as we see it.

Senator MCGEE. You mentioned in your statement that the effect of such a schedule would be to slow down the growth of the unfunded liability and within 21 years to stabilize it at a manageable figure.

Could you supply for the record the dimensions of the figures at stake there? You leave the suggestion that you will slow it down and stabilize it, which does not mean that it will not continue to exist.

Mr. HUGHES. Yes, sir; that is correct. I think this is relevant to the discussion which you and the other committee members had with former Commissioner Lawton with regard to why the 17½ percent cannot drop back to the lower 6½-percent figure.

Senator MCGEE. If we could have figures there it would be helpful.

Mr. HUGHES. Yes, sir.

(Subsequently Mr. Hughes supplied the following information:)

The stabilized unfunded liability as of 1985 would be \$47,949 million.

Senator BREWSTER. Could you answer the question, Why couldn't we drop back in the future from that figure of 17½ percent?

Mr. HUGHES. I will try, Senator.

The proposal which is before the committee is a proposal essentially to pay the normal cost plus the interest on the unfunded liability and thereby to stabilize the unfunded liability, not to pay it off.

To expand on that, the present unfunded liability is \$35 billion. If that amount were deposited in the trust fund at the present time, then it would draw interest on Government bonds. Since it is not in the fund it does not draw interest. Therefore, the unfunded liability not only is \$35 billion, but it grows by the amount of interest that that sum would earn—\$1-plus billion a year at the present time.

The proposal which is before you is not to amortize the \$35 billion of unfunded liability but, rather, to build up over a period of years the contributions necessary to stabilize the unfunded liability at a given figure. It is not \$35 billion at the future date, but the scheduled payments do stabilize it in, I believe, 1985. At that point, the level of contributions would be such that the interest on the unfunded liability would be met but they would not be enough so that the unfunded liability would be amortized. Therefore, it would be necessary to continue at the 17½-percent rate in order to prevent the unfunded liability from growing further because of the absence of interest accruals on a deposited amount.

Senator BREWSTER. Thank you, sir.

Senator Boggs?

Senator Boggs. On that point, I am certainly a tough one with figures. I am not very good on them, but if we as was suggested here in just an exploratory way paid the \$35 billion now in the situation we are in, we would have to go out and borrow it and pay interest on it. As it is now, in the unfunded account, we are not paying interest on it, we are just losing the interest we would gain if we had it.

Mr. HUGHES. Yes, sir; that is correct.

Senator BOGGS. So if we borrowed the money to pay it, if that were within the realm of possibility, then we would be where we are right now?

Mr. HUGHES. Yes, sir; that is correct. However, apart from the practical problems here, I point out that the \$35 billion today has the value of a much larger amount which would become available, let us say, over the next 50 years, because you discount money as you go into the future. This is the point I was trying to make earlier.

Certainly in terms of cash disbursements the lowest price for getting out of this would be the \$35 billion. This would be the immediate disbursement.

Senator BOGGS. If we had it without borrowing it?

Mr. HUGHES. Yes, sir.

Senator BOGGS. Which is not the case.

The other question I wanted to ask is this: In this proposed legislation, is it strong enough to require the agencies to request this agency contribution. Their request would go to the Budget Bureau initially.

Mr. HUGHES. Yes, sir.

Senator BOGGS. Is it strong enough to require the Budget Bureau to retain it in the Budget and forward it to the Congress?

Mr. HUGHES. Under the terms of the statute, as I read it, Senator, it would require a request in these amounts. Whether it be strong enough to require the appropriation is another question.

Senator BOGGS. Your interpretation is that the Budget Bureau would feel obligated under this to forward it on to the Congress.

Mr. HUGHES. Certainly this Budget Bureau concurs with the Commission in recommending this legislation.

Senator BREWSTER. Are there any further questions?

Mr. HUGHES. Senator, just for a moment may I comment on the Department of Defense angle of this and the question of defense contribution.

Senator BREWSTER. Please do.

Mr. HUGHES. I think it is important to bear in mind that we are talking about a total sum of dollars here and receiving part of these dollars from Defense rather than from other agency appropriations does not really affect the total. It might affect the timing and certainly it affects the pocket out of which the money comes, but the dollars we are talking about are tax dollars or borrowed dollars in the ultimate and all of them must come through the appropriation process in one way or another. So, our concern here is really which pocket and on the basis of what timing schedule. Again, there is no magic way out of the situation as we see it; or anyway, no easy way to disburse these tremendous sums of money which we are talking about.

Senator BREWSTER. Thank you very much, Mr. Hughes.

The committee will now stand in recess to reconvene again at 2:30 this afternoon.

(Whereupon, at 12:05 p.m. the hearing in the above-entitled matter was recessed, to reconvene at 2:30 p.m. the same day.)

AFTERNOON SESSION

Senator MCGEE. The Retirement Subcommittee will resume its hearings.

The Chair begs your leave for the delay. It is a hazard we run while we are trying to operate while the Senate is in session. We had two rollcalls and we were held on the floor. We may be interrupted by another but we thought we had better get going.

The first witness this afternoon is Mr. Dorrance C. Bronson, member, Board of Actuaries, accompanied by Mr. Maurice S. Brown.

STATEMENT OF DORRANCE C. BRONSON, MEMBER, BOARD OF ACTUARIES, CIVIL SERVICE COMMISSION; ACCOMPANIED BY MAURICE S. BROWN, U.S. CIVIL SERVICE COMMISSION

Mr. BRONSON. Mr. Chairman and gentlemen, I believe a copy of my statement was given you. Other than stating that I am a member of the Board of Actuaries, unless you want me to, I will not go further into my background.

I might also say that Mr. Brown, of the Commission, is sitting here with me not representing teamwork in this statement since this is my own wholly independent statement prepared in the wee hours of last night because I was given such short notice. Mr. Brown is here to help out with details of the operations of the act, which I am not so close to.

I will be quite brief. I am appearing both from personal convictions and as a member of the Board of Actuaries of the civil service retirement system. Regarding the bill before you, S. 1562, I am strongly endorsing its stipulated scheduling of increased contributions by the respective employing agencies. The other two members of our Board join me in this endorsement, as evidenced by our letter to the chairman of the committee, Senator Johnston, dated July 17, 1963. The letter is not lengthy and unless you all have been over it, I will—if no objection—read it at this time.

Senator MCGEE. Could we make the letter a part of the record?

Mr. BRONSON. In any event, I would like to request that our letter be made a part of the record of these hearings, and since the subcommittee is not all here, perhaps you would prefer—

Senator MCGEE. Those members of the subcommittee who are here are “all here.” I wanted to keep the record straight.

Mr. BRONSON. Would you like me to read the letter?

Senator MCGEE. I think it would be just as well if you made the letter a part of the record and you can go on to raise the points which you have.

Mr. BRONSON. The letter states that our Board of Actuaries is wholly unanimous in its opinion on this point.

Senator MCGEE. Yes; you made that point in your opening paragraph.

(The letter referred to follows:)

BOARD OF ACTUARIES,
CIVIL SERVICE RETIREMENT SYSTEM,
July 17, 1963.

HON. OLIN D. JOHNSTON,
*Chairman, Committee on Post Office and Civil Service,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: The Board of Actuaries, civil service retirement system, has been giving careful consideration to the proposal to improve the financing of the system which was submitted to the Congress by the Civil Service Commission on May 9, 1963, and which is now before your committee as S. 1562. At a recent meeting in Washington, D.C., of all three members of the Board, there was unanimous agreement on strongly endorsing the said proposal of the Commission. Pursuant thereto, the Board desires to go on record in favor of the adoption of this clear and orderly means of attaining sounder funding for the civil service retirement system.

The said proposal enunciates a program wholly consistent with the successive recommendations made in the Board's past annual reports over many years—recommendations for a greater recognition by the Government of its financial obligations under the Civil Service Retirement Act. We wholeheartedly agree that a definite schedule of increasing each agency's contributions, fixed by law, offers the best means of attaining this objective.

We also concur in the Commission's recommendation that improved financing be attained without an increase in the present deduction rates of 6½ percent for employees and 7½ percent for Members of Congress. In our experience as consulting actuaries for many and varied governmental and industrial pension programs, we know of few which require employee contributions at such high levels; furthermore, we know of few which, while requiring substantial employee contributions, have deferred employer obligations to the extent heretofore practiced by the Government with respect to the civil service retirement system.

The present need for substantially higher employer contributions is the result of this past policy of deferment. Further postponement will inevitably lead to even higher contributions in the future or reduction in promised benefits.

We have had occasion, from time to time, to observe the role of the civil service retirement system as an important benchmark for comparison with other programs or proposed programs—governmental and industrial, domestic and foreign. So long as the financial core of this “model” remains unsound the more visible

features of such a benchmark convey the illusion of liberal benefits at bargain prices.

In summary, the Board reaffirms its recommendation that the civil service retirement system be financed on the normal cost-plus-interest basis. It considers the proposal now before your committee as a sound and practicable means of attaining this objective, and strongly recommends its adoption.

Sincerely yours,

GEORGE B. BUCK,
R. R. REAGH,
DORRANCE C. BRONSON,

Board of Actuaries, Civil Service Retirement System.

Mr. BRONSON. To comment, first, on that part of the bill (in sec. 4 thereof) which calls for immediate recognition, by overt appropriations to the fund, of the actuarial "past service" costs created by such new or increased benefits as may be adopted in the future, I will only say that this appears to me as a pension actuary, to be proper action for guarding against the sort of hidden and deferred burden assumed by the retirement system so often found in the past. Indeed, under rigorous actuarial criteria, this section 4 omits the complete closing of the cost gap in that it does not establish, for such liberalization, the means of meeting the new annual "normal cost" within the stated framework of the system's funding structure.

Let us turn now to the principal feature proposed by the bill; namely, the stipulated scheduling of future contributions by each employing agency for improving the actuarial position of the fund. While this schedule does not make the actuarial position whole, in the "insurance reserves" or "fully funded" sense (a degree not essential, in my opinion, under a Federal plan which can be deemed perpetual in nature) it will nevertheless enunciate a new principle of governmental responsibility to employees under the system.

For countless years, the Board of Actuaries has patiently carried out its studies and has pleaded in its reports for stepped-up Government contributions. But year after year, the opposite has occurred and, by this erosion, has worn down, lower and lower, the "funded ratio," which is an actuarial measurement of the amount in the fund (assets) relative to the increasing actuarial liability for pension accruals in respect of service already rendered.

Indeed, one reading the past reports, with their futile reiteration of the Board's yearly appeal, might well wonder why the Board continued to exist at all. The instant bill would give new life and optimism to us, the Board, and, I feel sure, to the pension area of the Commission's responsibilities under the act. I understand, furthermore, and we heard this morning, that the Bureau of the Budget would be gratified by this move toward sounder accounting and charging pension costs.

Legislative scheduling of contribution rates over future years, up to an objective plateau, is nothing unique to this bill. It is present in the Social Security and Railroad Retirement Acts, each of which sets increases for employees and employers, for many years ahead. It is present under numerous industrial pension plans for liquidating the past service liability; and note that this sort of liquidation status is not even intended to be within the anticipated reach of the instant bill.

In mentioning industrial plans, I am sure you are cognizant of the fact that neither the present funding of the civil service plan, nor even the scheduled funding set out in this bill prior to its reaching

the objective contribution rate plateau, would be approvable as a "qualified pension plan" under the Internal Revenue Service administration of the employee benefit portions of the Internal Revenue Code.

Steps toward actuarial soundness for employee interests under the civil service system can be found, in my opinion, in no other source than through the overt bolstering of the employer's (Government) contributions.

No added rate burden can be reasonably placed on employees who, out of already taxed money, pay $6\frac{1}{2}$ percent ($7\frac{1}{2}$ percent for Members of Congress). The reverse twist, for this same device, just as distasteful and unfair, of reducing employee benefits, seems equally unthinkable. So either (1) more realistic pension accounting must be squarely faced by charging the employer's share of pension costs more concurrently with the corresponding attributable service rendered, thus openly admitting pension charges to operations as part of the labor cost component, to be met by the present generation of our population receiving those services; or (2) the constantly uphill path leading from the past will result, with only such ad hoc token contributions being made as the economic or budgetary mood of the moment happens to strike some committee of the moment.

You will have noted that my statements have not been set out with the mathematical formula, or technical terminology sometimes expected of an actuary. I have, however, been apprised by the Commission's actuary of the actuarial techniques and assumptions which were used in computing the rate schedule proposed in the bill. The methodology controls and checks they used, based on the latest available employee data, seem entirely appropriate to me.

I will now conclude my brief observations on the proposed rate program in the bill by emphasizing, in repetition, my position, and that of the other two Board members, of strongly endorsing this orderly escalation of employer contribution rates set forth in the bill, up to an ultimate plateau which would achieve substantial actuarial soundness for the employees under a system of this nature and breadth.

I appreciate the chance to make this statement to your subcommittee expressing my views and those of my colleagues on the Board of Actuaries.

Senator McGEE. Thank you very much, Mr. Bronson.

Senator Brewster has asked that we repeat to you, Mr. Brown, a question he asked this morning and which I also asked.

If we schedule this rise of the employer's contribution until we get it to $17\frac{1}{2}$ or $15\frac{1}{2}$ percent, why must it level off; why cannot it begin to cut back? At what point do we fail to increase our tempo sufficiently to put a little extra in the bank, in the reserve?

Mr. BROWN. To begin with, let us bear in mind that this proposal does not contemplate the amortization of \$1 of the unfunded liability. All it proposes to do is to reach the point where currently we will be meeting the normal cost and the full interest on that unfunded liability; something which is not now being done. As Mr. Macy explained this morning, an additional appropriation of $\$1\frac{1}{10}$ billion would be required in order to meet the interest at the present time. So all that this increased schedule does is to bring it to the point where you are fully meeting that interest. You have not wiped out any of the principal of the unfunded liability.

Senator MCGEE. So this means that we would still be running behind at least for the next 25 or 24 years.

Mr. BROWN. Until the point where we have reached the total agency rate of 17½ percent, the unfunded liability would be increasing. We now estimate it at \$34 billion on June 30, 1963. It will have increased to \$48 billion at the time the ultimate contribution rate of 17½ percent is reached. So that is the key point. We are not paying off any of the principal. The debt still remains.

Senator MCGEE. From an actuarial point of view you agree with Mr. Bronson that this is still a sound approach.

Mr. BROWN. I do, sir. If we reach the point where we are fully covering the normal cost and interest that means that benefits could be paid into perpetuity, assuming no change in the benefit structure. They could always be met and you would reach the point where you would have a level fund which produces a constant amount of interest and that, supplemented with employee contributions and the agency payments, would exactly equal the benefit outgo. That is shown on table 2 and I believe Mr. Macy covered that in the booklet this morning. We need this buildup in the contributions from the agencies in order to produce a larger fund that will produce sufficient interest when added to the other two sources of income to meet the annual benefit outlay. This means you would enter the following year with the same amount in the fund, and you would repeat that process indefinitely.

Senator MCGEE. As long as it is not all called in at once.

Mr. BROWN. That is right.

Senator MCGEE. Those are all the questions we will have of either of you at this time.

We thank you very much for your contribution.

Jerry Keating, president of the National Association of Letter Carriers.

STATEMENT OF JEROME KEATING, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS; ACCOMPANIED BY JAMES H. RADEMACHER, VICE PRESIDENT, AND J. DON KERLIN, LEGISLATIVE CONSULTANT

Mr. KEATING. I am pleased to have an opportunity to come before the committee to testify on this legislation. I am accompanied today by vice president, James H. Rademacher, a most capable officer of our association, and our legislative consultant, J. Don Kerlin, who is no stranger to the members of this committee and whose capabilities are thoroughly known.

On behalf of the members of the National Association of Letter Carriers, we want to endorse the purposes of S. 1562. I want to congratulate Chairman John Macy of the Civil Service Commission for the statesmanlike proposals that he has presented.

The story of the civil service retirement fund has been a story of lack of understanding on the one hand and failure to live up to responsibilities on the other. Mistakes have been made on the part of administrators, the Civil Service Commission in some instances, and other agencies which in the past have administered the civil service

retirement fund. Mistakes have been made in recommendations on the part of the Bureau of the Budget. Mistakes have been made by the Congress. Budget convenience has too often been the dictator of procedures.

Retirement was new in the Nation in 1921, and the first administrator of the act believed that the contributions of the employees were and would be sufficient to maintain the fund. As a result, no recommendations were made for contributions for the first 8 years. After that, Government contributions were sporadic and they seldom equaled the recommendations made by the actuaries. During the many years of operation, the interest income of the fund was far below what it should have been because of a too low, arbitrary interest rate. Failure to properly appropriate funds also resulted in loss of earnings on money that should have been there but was not there.

It was not until the committee, under the present able chairman, Senator Olin D. Johnston, sponsored legislation that required agencies to make contributions equal to that made by the employees that stability came to Government appropriations for the retirement fund. Up until that time, it was largely a matter of budgetary expediency. The story is briefly and graphically told in the summary of contributions made from the time of the inception of the fund through 1962. During that period, the employees contributed \$10,117,436,600; and the Government contributed \$8,037,843,929. The contributions on the part of the employees were more than \$2 billion greater than those made by the Government.

I want to emphasize one most important point about our civil service retirement fund. Even at its present level, it is the best financed plan of any plan operated by the Federal Government—some plans have no reserves. The civil service employees make the largest contribution of any group of employees; the reserves of the fund are superior, with relationship to the responsibility, of any other Government fund. Up until 1958, employee contributions exceeded the total expenditures of the fund.

The Civil Service Commission has been most zealous and prudent in looking toward the future and proposing steps that will avoid fiduciary problems in the years to come. Perhaps the pitfalls the actuaries point out may come 20 years later than the present predictions. Actuaries, by nature of their calling, should be cautious and conservative. We do not look for, expect, or desire a "Bet-a-Million Gates" in the actuarial profession. We agree with the statesmanlike proposal presented here today. With one major disagreement on one section: We do not agree with section 4 as provided in this bill. Section 4 is nothing new. As a matter of fact, it is what has been known as the Thomas rider which was an amendment to the Independent Office Appropriation Act in 1959. It was the Thomas rider that last year was principally responsible for holding up the 5-percent increase in annuity for the retirees. Actually there were other points involved such as the Senate inaugurating appropriations on legislative bills. The reasoning back of the original protest was that by setting aside the Thomas rider the House concluded that the Senate was inaugurating appropriations. The provisions of section 4 are not new, but they are not fair. I think fundamentally they are entirely wrong because the section gives the authority to the Appropriations Committee to

veto action taken by a legislative committee. The law in effect provides that a legislative committee cannot proceed and pass any act without the action of the Appropriations Committee. I think fundamentally that that procedure is wrong.

Legislation can be passed carrying a simple provision that sets aside that particular provision of section 4 in the passage of a bill. If that is not done, some important legislation that deals with an important correction in the law that is vitally necessary cannot be passed. Section 4 may prevent important legislation from being enacted into law. So we are totally in disagreement with section 4 and thinking that that should be removed from the act.

We do think, however, that the recommendation made by Senator Olin D. Johnston this morning has not only merit but it possesses intrinsic basic justice.

There are several factors that have created, increased, and expanded the unfunded liability of the civil service retirement fund. One that has much to commend it, on the basis of fundamental right and Government obligation, is the practice of crediting employees with service in the military.

Senator McGEE. I hesitate to interrupt you but I am told this roll-call is running rather fast and if I am going to make it I had better move rather quickly. I will be right back.

Jerry, you may proceed.

Mr. KEATING. The 1954 study, known as the Kaplan report, found that 47 percent of all civilian employees had some military service. Since that time, if there has been a change, it has been in the nature of an increase. In the postal service, where the employees are predominantly male, the percentage would be much higher. We do not believe that the postal service, Small Business Administration, the Commerce Department, or the Bureau of Indian Affairs should be required to assume this liability. In the case of social security, the military service credited to the individual is charged to the military. We believe that the same thing should apply in the case of civil service retirement. We believe that the Defense Department should pay the civil service retirement fund the money for the military service that is credited to the individual. We suggest that this matter be explored by the staff and the Civil Service Commission and the best method of procedure be provided in an amendment to S. 1562. This amendment would have the wholesome effect of placing the civil service retirement fund on a better basis and it will place the responsibility where it belongs; it will materially reduce the percentage increase in contributions that will be required on the part of the various agencies.

We earnestly recommend the adoption of this amendment and the passage of S. 1562. We appreciate greatly having this opportunity of presenting our views on this most important subject.

I noticed in its testimony this morning the Civil Service Commission indicated that the Johnston amendment would probably cut down percentage contributions that would be necessary by about 2.3. The statement was made that that was a preliminary and rough calculation. Our preliminary calculations may be a little rougher and instead of increasing it to 11 percent, perhaps if the military amendment is added, perhaps the increase would only have to go to 7 percent rather than 11.

Senator MCGEE. In terms of the amendments proposed this morning, reducing it to 9, it might be possible to reduce it another 2 from the 11 to 9.

Mr. KEATING. I think the Commission's figure was 8.8 but I think the amendment would reduce it by 4, which would be 11 to 7.

We have made some little explorations. Our sources are fairly good, but not totally adequate. Actuarial assumptions are always difficult when one must look into the future. You have to assume what is going to happen to the military and how long are we going to continue to keep a lot of people in the Army? Of course, if we have compulsory military service for the next 50 years, then the contribution becomes a larger amount than if we do not have. Those are only estimates, but we believe it would be about 4 percent rather than $2\frac{2}{10}$ percent on the basis of the number of people who presently have had military service.

Senator MCGEE. You say mistakes have been made by the Congress and budget convenience has too often been the dictator of procedure. Is that what you attribute the mistake of Congress?

Mr. KEATING. That is right. On some occasions actually the Appropriations Committee did not include any money for the fund. One time the committee had a provision only providing for an annuity increase. The committee allowed \$30 million for that, but it allowed nothing else. The amount of money appropriated by the Congress has almost always been less than that recommended. It has been materially cut down. This chart which the Commission furnished this morning showed the recommendations of the actuaries and the amount actually appropriated. That is what I mean by the mistakes of Congress.

Senator MCGEE. That is almost a professional sickness of the Congress. Somehow I think they are fooling the taxpayer or the constituent back home when they do it that way. I think it is also partly the fault of the taxpayer back home. I don't suppose they write more letters on any question than this one—cut the spending, cut the taxes. If you can make it appear that you are cutting it somehow this is to bring approval. I think it is this kind of hypocrisy or dishonesty that the Congress may reflect, but that the citizen back home produces by this false pressure that he intensifies every year and particularly every other year that gets us into this kind of trouble. I think it is time we faced up to our honorable fiscal responsibilities, telling the people the truth and expect them to act in responsible terms to that. That is the reason why I asked you to spell that out.

Mr. KEATING. I think the people are more understanding than they are sometimes given credit for if the full story is told to them.

Senator MCGEE. Our people have told in the past that even if you tell them all the facts, and even if it adds up to the bad news, they are capable of rising with it. It is these half-truths and innuendoes that mislead them, and I think one of those things being dished out at the present time is somehow we are going to get better Government out of some kind of bargain basement economics.

Mr. KEATING. I think the fireside chats of the 1930's proved that American people are understanding more than anything else that has happened in my judgment.

Senator McGEE. I think now we need an adult education course in Government financing. There are too many people in our country trying to finance the 1960's with a 1930 mind, and they have not yet broken out of this prison of the pre-World War II days. This is where the Congressmen get into trouble back home. Perhaps they are afraid to educate them. They like to tell the people what they like to hear or they just cannot get through to them in kind. It takes a long, eroding assault on the public mind to get across the hard facts on taxes and services demanded by the people.

Mr. KEATING. The people as far as their own personal expenditures are concerned have accepted the modern way of doing business, corporations have accepted it, and what is referred to as deficit financing in Government is practiced by each individual in their own personal life. They buy their homes, their furniture, their cars, practically everything they get on the basis of deficit financing. Corporations are financed in exactly the same manner.

The issue of stock is essentially deficit financing and Government is compelled to go along with the trend of the times in this regard because of the huge expenditures we have to make.

Senator McGEE. I think we owe it to ourselves to be honest first of all to us. Somehow we think we are fooling somebody but we are just fooling each other.

Thank you very much, Jerry.

John O'Connor is our next witness.

You may proceed, John.

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

Mr. O'CONNOR. Mr. Chairman and members of the committee, I am John F. O'Connor, legislative director of the United Federation of Postal Clerks, an organization with approximately 160,000 members throughout the United States. Our offices are located at 817 14th Street NW., Washington, D.C.

Our entire membership is vitally interested in the U.S. civil service system. We believe that S. 1562 is, without question, a worthwhile piece of legislation designed to improve the financing of the U.S. civil service retirement system. We desire to commend the Civil Service Commission for making the recommendation, and Senator Johnston for introducing S. 1562.

Without doubt the finances of the U.S. civil service retirement system are in jeopardy. This, we believe, is largely due to the fact that the Federal Government has neglected to make necessary contributions over a long period of time. It is laudable that the Civil Service Commission has seen fit to recommend a fine system of financing that, in the years to come, will provide for the fiscal integrity of the retirement system. We, as an organization, are wholeheartedly in support of this legislation.

We would, however, suggest one amendment, and that would be that a method be devised to provide that contributions be made, possibly by the Department of Defense, for military time credit now being given to Federal and postal employees under the Civil Service Retirement Act.

This amendment is offered for the reason that under the present system, and under this bill, there is no provision made to take care of the financing necessary to give employees this credit for military service when they retire under the Civil Service Retirement Act.

We would further suggest the elimination of that section of the bill continuing the Thomas rider, inasmuch as this rider prohibits worthwhile amendments to the law.

We thank the committee for the opportunity of appearing and urge an early report on this legislation.

Senator McGEE. Thank you, Mr. O'Connor.

Mr. Greiner, on behalf of American Federation of Government Employees.

STATEMENT OF JOHN F. GREINER, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; ACCOMPANIED BY W. J. VOSS, DIRECTOR OF RESEARCH

Mr. GREINER. For the matter of the record, I would like to state that my name is John F. Greiner. I am national president of the National Federation of Government Employees.

To my left is Mr. W. J. Voss, our director of research.

Mr. Chairman, we would like to congratulate Chairman Macy of the Civil Service Commission for his position with respect to this particular piece of legislation. We should also like to thank Senator Johnston, who introduced this bill, and the members of this committee who are affording us an opportunity to testify in connection therewith.

I have a statement which I should like to introduce into the record.

Senator McGEE. You may proceed.

Mr. GREINER. Liquidation of the unfunded liability of the civil service retirement and disability fund is basic to the soundness and protection of the civil service retirement system. The proposal in S. 1562 to accomplish this objective has the support of the American Federation of Government Employees.

The need for this legislative enactment has accumulated over the years. During the first 8 years after the system was established in 1920 no contribution was made by the Government. During that time, Federal employees contributed in excess of \$142 million and those contributions earned an additional \$13 million in interest.

By the end of fiscal year 1962 employee contributions totaled slightly more than \$10 billion. Government appropriations and, in later years, agency contributions amounted to \$8 billion. Thus, Federal employees have put more than \$2 billion into the retirement fund over and above the amount contributed by the Government.

The Civil Service Commission has estimated that, if matching of employee contributions by the Government had been practiced from the beginning of the retirement system, there would have been today an additional \$2,795 million in the retirement fund. However, this would still not have been quite enough to place the fund on the fully funded basis which is contemplated by this bill. Some such policy as that provided in S. 1562 would have been needed. This fact indicates how necessary enactment of this bill is at this time.

It was in these years that the problem this bill is designed to solve originated. Despite later appropriations which were still inadequate

to maintain the fund on a completely funded basis, the growing liability accumulated to the present amount of more than \$1 billion a year, according to Civil Service Commission estimates.

It is our belief that the proposal made by the Commission and formulated into S. 1562 for consideration by Congress is sound. It would accomplish the gradual funding objective with an annual appropriation equal to one-half of 1 percent of the Federal payroll, beginning in fiscal year 1965. As the Commission has indicated, this approach would not have the budgetary and fiscal impact of a sudden increase of \$1 billion which would need to be appropriated annually if an immediate effort were made to offset each year's increase of liability.

The matching contribution of Government on the one hand and Federal employees and Members of Congress on the other is insufficient to make up the deficit represented by the unfunded liability and the interest on that liability. The forecast of depletion of the retirement fund before the end of this century is a sobering thought for anyone who has the welfare of the civil service at heart. Whether this occurs by the year 1990 or some years later is beside the point. We must not allow it to happen at any time.

Beside making specific provision for a gradual reduction of the unfunded liability, the bill would accomplish another important purpose of guaranteeing adequate appropriations for the Government share of the cost of maintaining the retirement system.

Section 4 of the bill would permit any future liberalization of the retirement law to become effective only if sufficient funds were provided to cover past service liability thereby created. We are unalterably opposed to this provision and recommend its deletion. While we agree that money should be provided for future changes in benefits, we do not believe that there should be such a restriction on future liberalization, despite the fact that it is presently in the retirement law. The bill otherwise establishes a policy of making certain that there will be a sufficiency of funds for the operation of the retirement system.

We support the agency contribution as a means of providing the money to reduce the liability. As the Civil Service Commission Chairman has stated, it provides an explicit schedule of contributions. It would also provide a continuing measure of increased payments to be made annually rather than to depend on appropriations which may vary in amount.

I think that we all have had enough experience with the appropriations which have been made for this purpose from year to year, and which have been dependent upon the whims of Congress and upon the money available, to know that we need some schedule which is a must schedule in order to meet these appropriations which are needed at the time they become due.

We note with satisfaction that in justifying the need for this legislation the Commission made this commendatory appraisal of the retirement system:

It is a powerful tool in our personnel program, serving to attract and retain employees of the caliber required to conduct the complex business of Government. It contributes toward national security for millions of past, present, and future Government employees and their dependents. There should never exist the slightest doubt of the system's ability to meet these promises.

Mr. Chairman, we also endorse Senator Johnston's proposed amendment, which he introduced this morning. We believe that the military should pay its part of the cost.

Taking the estimate as given to us by the Civil Service Commission of approximately \$2.2 billion—and frankly I think that estimate is entirely too low. Of course, at this point none of us can do more than estimate the amount of the cost which might be involved in military service, because none of us knows what size the military will be in future years. But we do know that based on the last 20 years that it is going to be very important that this Government maintain a sizable military force in order to maintain the protection that is needed for this country.

I want it understood that we are not against the military receiving credit for retirement under the civil service retirement system, but we do believe that they should pay their share and the burden of the cost should not be placed upon the civilian employees.

There is a lot of difference between a maximum of 11 percent additional of payroll as prescribed by the formula outlined by the Civil Service Commission and a maximum of 8.2 percent. We would meet that maximum several years before we meet the maximum as outlined by the Commission. Of course, if the percentage is more, than it would cut down on the maximum that is necessary for the agencies or for the Government to contribute in order to keep this fund on a sound and solvent basis.

Retirement systems in this country are a way of life. Our civil service retirement system was the first national retirement system. Since that time, of course, we have the Social Security Administration and we have the Railroad Retirement Board which provides retirement for railroad employees and other industrial workers and practically all of the workers throughout the country.

We feel that the civil service retirement system should continue to be the leader of all retirement systems. We operate the greatest business on God's green earth. We employ the most people of any business. We should afford them the best working conditions, the most incentives of any other groups.

In conclusion, Mr. Chairman, I want to thank you, your committee for the opportunity of appearing before you and presenting our views.

Senator McGEE. Thank you very much, John.

That will be all.

John MacKay.

STATEMENT OF JOHN W. MacKAY, PRESIDENT, NATIONAL POSTAL UNION; ACCOMPANIED BY DAVID SILVERGLEID, SECRETARY-TREASURER

Mr. MacKAY. Mr. Chairman and members of the subcommittee, my name is John W. MacKay. As president of the National Postal Union, 509, 14th Street NW., Washington, D.C., I am privileged to represent approximately 43,000 postal workers affiliated in over 375 local unions in 43 States, the Island of Puerto Rico, and the District of Columbia. I am accompanied here today by our secretary-treasurer Mr. David Silvergleid.

We are grateful, Mr. Chairman and members of this subcommittee, for these hearings on S. 1562, a bill to improve financing of the civil service retirement system of the U.S. Government. We appreciate the considerate interest evidenced by the Honorable Olin D. Johnston, the chairman of the Senate committee, in sponsoring this long-sought program for establishing a fully funded retirement reserve.

EMPLOYEE INTEREST IN RETIREMENT SOLVENCY

We would like to go on record in support of the principles embodied in S. 1562 but not exactly as written. In its annual report for fiscal 1962, the Civil Service Commission listed receipts, disbursements, and balances in the retirement fund for the fiscal years 1921 to 1962. During this 41-year span the fund reportedly received a total of \$21.8 billion, disbursed \$9.658 billion, and wound up with a balance of \$12.166 billion. This achievement occurred despite the failure of the Government to make any appropriation to the fund from the period 1921 to 1928. During the period 1929 through 1940, 11 years, it contributed but approximately \$467 million. The record further reveals that during the 41-year period employees contributed \$10.117 billion as compared to the Government contribution of \$8.037 billion. During this time the balance in the fund continued to increase year by year until it now stands at a record \$12.166 billion as cited above.

On May 9, 1963, Chairman John W. Macy, Jr., of the Commission, submitted a lengthy statement to the Congress to improve financing of the civil service retirement system. He predicted that unless steps were taken to increase the present level of contributions, the civil service retirement and disability fund "would vanish by the year 1990." The Chairman, in an effort to eliminate unfunded liability of the system that has grown to an estimated \$34 billion as of June 30, 1963, proposed the following three-point program:

1. The present contributions of 6½ percent of pay by employees and the matching contributions by the agencies would be continued. These regular contributions together approximately cover currently accruing or normal cost of the system.
2. Each agency would be required to make supplemental contributions to help arrest the growth of the unfunded past service liability of the system and to preserve the integrity of the fund. To ease the budgetary impact, this would be accomplished by starting these supplemental contributions at one-half of 1 percent of payroll in fiscal year 1965 and increasing them by one-half of 1 percent annually for 21 years so that by fiscal year 1986 they would reach 11 percent of payroll and remain at that level thereafter. Based on our present estimates, this supplementary contribution schedule, together with the regular matching contributions, would stabilize the growth of the unfunded liability in 1986 and thereafter permanently finance the system on a normal cost-plus-interest basis.
3. Any new or increased benefits resulting from future changes in the Civil Service Retirement Act would not become effective, and no benefits would accrue until the full estimated increase in unfunded liability for past service, which would otherwise result from such change in the act had been appropriated to the fund. This would avoid the escalation of unfunded liabilities because of benefit or coverage liberalizations.

While we appreciate the concern evidenced by the Commission over the "unfunded liability" we contend that, with the balance in the fund now at \$12 billion and increasing yearly, there still is no specific evidence that the retirement system is insolvent nor in jeopardy. While actuarial predictions may conjure up alarming possibilities, should the fund have to pay off its current and anticipated obliga-

tions at a precise date, there exists little or no reason to become apprehensive; to close the door on any further retirement improvement until all "unfunded liability for past service" has been appropriated.

In the final analysis, should the retirement fund begin to reverse its present trend, in the ever-increasing balance it has accumulated, there will then be ample time and opportunity for the Government to promptly pay up its previous indebtedness. In the second phase of the three-point program mentioned above this would be undertaken gradually so as to eliminate any disconcerting budgetary impact. We believe parts 1 and 2 of the Commission's proposal on financing are steps in the right direction. However, we must vigorously object to part 3 that would, in effect, prevent any liberalized amendments to the present retirement program until such time as sufficient funds have been appropriated to equal the "estimated increase in part service liability accruing because of the new legislation."

We wish to go on record as opposed to section 4 of S. 1562 in its entirety. As presently worded, there could be no further liberalization of the Civil Service Retirement Act unless accompanied by an appropriation in an amount, as estimated by the Commission, equal to the excess of the total present value of such benefits over the present value of their normal cost. In addition, no new benefits could accrue and no payments could be made with respect to such new benefits for any period prior to the date of enactment of such appropriations. In effect, two separate acts of Congress would generally be required to render effective any liberalization of the Civil Service Retirement Act. For instance, liberalization such as optional retirement after 30 years of service could be enacted during September of 1963 and not become effective for years unless an appropriation therefor was approved by Congress.

We believe the current balance of \$12.166 billion in the retirement fund, plus the augmented reserves that will be made possible under section 1 of S. 1562 will ultimately prove sufficient to adequately finance liberalized retirement benefits now under consideration by this 88th Congress.

We appreciate the opportunity of submitting our statement on this very important bill which we hope will be approved as we have respectfully recommended above.

Mr. Chairman, if I may, we would like to comment briefly on the testimony that was presented here this morning, and I have an extra copy of this that I would like to submit for your consideration, if I may.

This morning we witnessed the very extended and significant presentation made to you by the Chairman of the Civil Service Commission as well as the Assistant Director for Legislative Reference of the Bureau of the Budget. Because of our longstanding interest in the subject matter of this legislation, we could not help but evidence more than passing interest in this testimony.

As we have indicated in our statement, we thoroughly concur in any program that would have for its purpose an accelerated schedule of payments by the Federal Government to establish solvency in the Federal fund. However, we believe, Mr. Chairman, that the time has long passed when this obvious deficiency should have been remedied. The remedy of the Commission to delay further benefits and

liberalizations of the Retirement Act until such time as the lag in governmental appropriations becomes paid up in full, or in part, is unfair and inconsiderate as far as Federal and postal workers are concerned.

We sincerely believe that had the Federal Government maintained its proper share of the contributions since inception of the Retirement Act, had adequate interest been paid on the use of the retirement funds, and had prior improvements been properly offset by corresponding adjustments in the Government's share of the cost that there would be no further need for delay in further liberalization.

Mr. Chairman, in his testimony this date, Chairman Macy described that as "self-discipline," and that is section 4 of S. 1562 that would prevent further liberalization unless accompanied by appropriations to offset their cost.

We contend, Mr. Chairman, in the actual analysis, any such discipline would be exacted at the expense of the Federal and the postal workers themselves that have consistently paid their retirement contributions, and at the same time provided the Government with a source of revenue that it apparently has utilized since the fund came into being.

Mr. Chairman, we sincerely hope that this committee will see fit to adopt and recommend approval of S. 1562 without that provision contained in section 4.

Senator McGEE. What you are saying is that you don't believe that the dereliction of Government responsibility should be taken out of the hides of the Federal employees who have lived up to their responsibilities?

Mr. MacKAY. You said it far better than I could, Mr. Chairman, and I agree with you thoroughly.

Our secretary-treasurer would like to have a few minutes of his own. We are quite worked up about this and we hope this phase of our testimony will be given careful consideration.

STATEMENT OF DAVID SILVERGLEID, SECRETARY-TREASURER, NATIONAL POSTAL UNION

Mr. SILVERGLEID. S. 1562 proposes to repeal the Thomas rider and in lieu thereof, of course, suggests adoption of section 4. The last sentence of section 4 of S. 1562 goes far beyond the purview of the Thomas rider. You may recall at the last session, when the pay reform bill was passed, including provision for increase of annuities of retirees, action on that payment was deferred until an appropriation bill was passed this June. However, the moneys were retroactive to January 1, 1963, under the last sentence of this proposed section 4, retroactive of any provision dealing with liberalization of retirement benefits would be out of the window in the future. No payments could be made for any past period prior to the time of the appropriation.

We believe that the Commission is asking for just a little too much in this instance.

Senator McGEE. Thank you for appending that observation.

That is all, thank you very much.

Mr. Owen.

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

Mr. OWEN. Mr. Chairman, I have a very brief statement. I should like to read it.

My name is Vaux Owen. I am president of the National Federation of Federal Employees. Our organization has members in almost all categories of positions under both the Wage Board and Classification Act systems and in practically all departments and agencies of the Federal Government in the various States and overseas. We have a great number of highly responsible members who are very influential in the various communities and States in which they live.

We strongly endorse the purposes of S. 1562. By action of the delegates at our last national convention, legislation for the purpose of assuring the financial stability of the retirement fund was given top priority among our legislative objectives.

The following is the resolution which was adopted by delegates coming from all parts of the United States:

Whereas most Federal employees look toward their civil service annuity as a means of livelihood after they retire from the Federal service; and

Whereas the original civil service annuity retirement bill was passed in 1920 and has since been modified many times; and

Whereas the last report of the Board of Actuaries of the civil service retirement fund shows the unfunded accrued liability or deficiency was \$32,546,939,000 of this fund; and

Whereas this fund is not actuarially sound as of the last report and poses a threat of great potential for all future annuitants; and

Whereas we believe that this annuity fund should be actuarially sound at all times; thus to guarantee annuities to all future civilian employees; Now, therefore, be it

Resolved, That the national office of the National Federation of Federal Employees shall do all in their power to get a bill passed by Congress providing for annual appropriations to this fund until the fund shall have been increased to the point where it is actuarially sound; and be it further

Resolved, That this matter shall be given priority by the national office.

Mr. Chairman, many of our members and many Federal employees who are not members are deeply concerned about the financial stability of the retirement and disability fund. Federal employees have made their contributions to the fund. The Federal Government did not make the contributions it should have made. This failure to make the appropriations necessary to keep the fund sound now places upon the Government the obligation to make supplemental appropriations to take care of past service liability.

Already the unfunded liability of the civil service retirement and disability fund has grown to an estimated \$34 billion as of June 30, 1963, and this unfunded liability will increase rapidly unless supplemental payments are made into the fund. The Civil Service Commission has indicated that the unfunded liability is now increasing at the rate of about \$1.1 billion a year.

The conclusion is inescapable that the time will eventually come when there will be no money in the fund out of which annuities can be paid. This does not present an inviting vision for the future annuitants who will retire 15 or 20 years from now.

We strongly support also the soundness of the provision in the bill that increased benefits shall not become effective until an appropriation has been made to make the fund sound with respect to them. In other words, we support section 4 of the bill.

At our last national convention in September 1962 the following resolution was adopted :

Whereas no reference has been made in prior reports of the Board of Actuaries concerning civil service fund investments and/or interest rates: Be it

Resolved, That the Congress be petitioned to insure that all future Board of Actuaries reports reflect civil service retirement fund investments, their status, interest rates, and total income and that copies of the report be made available to the Federal employee unions.

In conformity with the foregoing resolution, it is urged that S. 1562 be amended by adding thereto the following new section :

Section 5. Section 16 of the Civil Service Retirement Act, as amended, is amended by adding at the end thereof the following new subsection :

"(h) The Board of Actuaries shall include in its annual report civil service retirement fund investments, the status of such investments, the interest rates, and the total income on said investments. The Commission shall make copies of the annual report of the Board of Actuaries available to Federal employee organizations."

Mr. Chairman, that proposed amendment is made in conformity with the language of the resolution passed at our convention. We would have no objection, and I am sure the members of our organization would have no objection, if the Civil Service Commission and the Board of Actuaries, and this committee should think it more appropriate that this information regarding the investments be included in the annual report of the Civil Service Commission. If that should be the view that would prevail, then this proposed amendment might be reworded to read somewhat as follows :

The Civil Service Commission shall include the investment for civil service retirement funds in its annual reports, the status of such investments, the interest rate and the total income and such investment. The Chairman shall make copies of the annual report available to Federal employee organizations.

Either one of those amendments, I think, would take care of the views that our delegates had at our convention.

Mr. Chairman, in that connection I should like to point out to the chairman that the investments are shown in the annual report of the Secretary of the Treasury, and those investments were shown in the last report for the fiscal year 1962, at pages 764, 765, and 766. This is a public document. I do not have a copy of the report in front of me. I should like to ask, Mr. Chairman, that those tables on those pages be made a part of the record for the information of the committee.

Senator MCGEE. Without objection, that will be done.

(The tables referred to follow :)

64 SOUNDNESS OF THE CIVIL SERVICE RETIREMENT SYSTEM

TABLE 69.—Civil service retirement and disability fund, June 30, 1962

[On basis of daily Treasury statements prior to June 30, 1953, thereafter on basis of the "Monthly Statement of Receipts and Expenditures of the United States Government." This trust fund was established in accordance with the provisions of the act of May 22, 1920, as amended (5 U.S.C. 2267). For further details see annual report of the Secretary for 1941, p. 136]

I. RECEIPTS AND EXPENDITURES (EXCLUDING INVESTMENT TRANSACTIONS)

	Cumulative through June 30, 1961	Fiscal year 1962	Cumulative through June 30, 1962
Receipts:			
Deductions from salaries, service credit payments, and voluntary contributions of employees subject to retirement act ¹	\$9,315,692,024.67	\$863,520,717.46	\$10,179,212,742.13
Federal contributions ²	4,187,715,923.21	44,637,000.00	4,232,352,923.21
Payments by employing agencies ²	2,926,166,693.83	851,250,975.04	3,777,417,668.87
Interest and profits on investments.....	3,323,648,606.48	315,847,525.27	3,644,496,131.75
Transfer from the Comptroller of the Currency retirement fund ³	5,050,000.00	-----	5,050,000.00
Total receipts.....	19,763,273,248.19	2,075,256,217.77	21,838,529,465.96
Expenditures:			
Annuity payments, refunds, etc.....	8,604,101,959.13	1,057,622,989.53	9,661,724,948.66
Transfers to policemen's and firemen's relief fund, D.C., deductions and accrued interest thereon.....	192,904.95	20,771.89	213,676.84
Total expenditures.....	8,604,294,864.08	1,057,643,761.42	9,661,938,625.50
Balance.....	11,158,978,384.11	1,017,612,456.35	12,176,590,840.46

II. ASSETS HELD BY THE TREASURY DEPARTMENT

Assets	June 30, 1961	Fiscal year 1962, increase, or decrease (-)	June 30, 1962
Investments in public debt securities:			
Special issues, civil service retirement fund series maturing June 30:			
Treasury certificates of indebtedness:			
2 3/4% of 1962.....	\$169,697,000.00	-\$169,697,000.00	-----
3 3/4% of 1963.....	-----	210,441,000.00	\$210,441,000.00
Treasury notes:			
2 1/4% of 1962.....	385,000,000.00	-385,000,000.00	-----
2 5/8% of 1962.....	230,527,000.00	-230,527,000.00	-----
2 1/4% of 1963.....	200,000,000.00	-----	200,000,000.00
2 5/8% of 1963.....	230,527,000.00	-----	230,527,000.00
2 7/8% of 1963.....	69,913,000.00	-----	69,913,000.00
2 5/8% of 1964.....	230,527,000.00	-----	230,527,000.00
2 7/8% of 1964.....	69,913,000.00	-----	69,913,000.00
3 3/4% of 1964.....	-----	60,976,000.00	60,976,000.00
2 5/8% of 1965.....	51,816,000.00	-----	51,816,000.00
2 7/8% of 1965.....	69,913,000.00	-----	69,913,000.00
3 3/4% of 1965.....	-----	60,976,000.00	60,976,000.00
2 7/8% of 1966.....	69,913,000.00	-----	69,913,000.00
3 3/4% of 1966.....	-----	60,976,000.00	60,976,000.00
3 3/4% of 1967.....	-----	60,976,000.00	60,976,000.00
Treasury bonds:			
2 1/4% of 1963.....	185,000,000.00	-----	185,000,000.00
2 1/4% of 1964.....	385,000,000.00	-----	385,000,000.00
2 1/4% of 1965.....	385,000,000.00	-----	385,000,000.00
2 5/8% of 1965.....	179,211,000.00	-----	179,211,000.00
2 1/4% of 1966.....	385,000,000.00	-----	385,000,000.00
2 5/8% of 1966.....	230,527,000.00	-----	230,527,000.00
2 1/4% of 1967.....	385,000,000.00	-----	385,000,000.00
2 5/8% of 1967.....	230,527,000.00	-----	230,527,000.00
2 7/8% of 1967.....	69,913,000.00	-----	69,913,000.00
2 1/4% of 1968.....	200,000,000.00	-----	200,000,000.00
2 5/8% of 1968.....	415,527,000.00	-----	415,527,000.00
2 7/8% of 1968.....	69,913,000.00	-----	69,913,000.00
3 3/4% of 1968.....	-----	60,976,000.00	60,976,000.00
2 5/8% of 1969.....	615,527,000.00	-----	615,527,000.00
2 7/8% of 1969.....	69,913,000.00	-----	69,913,000.00

Footnotes at end of table, p. 65.

SOUNDNESS OF THE CIVIL SERVICE RETIREMENT SYSTEM. 65

II. ASSETS HELD BY THE TREASURY DEPARTMENT—Continued

Assets	June 30, 1961	Fiscal year 1962, increase, or decrease (-)	June 30, 1962
Investments in public debt securities—Con. Special issues, civil service retirement fund series maturing June 30—Con.			
Treasury bonds—Continued			
3¾% of 1969		\$60,976,000.00	\$60,976,000.00
2½% of 1970	\$615,527,000.00		615,527,000.00
2½% of 1970	69,913,000.00		69,913,000.00
3¾% of 1970		60,976,000.00	60,976,000.00
2½% of 1971	615,527,000.00		615,527,000.00
2½% of 1971	69,913,000.00		69,913,000.00
3¾% of 1971		60,976,000.00	60,976,000.00
2½% of 1972	615,527,000.00		615,527,000.00
2½% of 1972	69,913,000.00		69,913,000.00
3¾% of 1972		60,976,000.00	60,976,000.00
2½% of 1973	615,527,000.00		615,527,000.00
2½% of 1973	69,913,000.00		69,913,000.00
3¾% of 1973		60,976,000.00	60,976,000.00
2½% of 1974	615,527,000.00		615,527,000.00
2½% of 1974	69,913,000.00		69,913,000.00
3¾% of 1974		60,976,000.00	60,976,000.00
2½% of 1975	615,527,000.00		615,527,000.00
2½% of 1975	69,913,000.00		69,913,000.00
3¾% of 1975		60,976,000.00	60,976,000.00
2½% of 1976	685,440,000.00		685,440,000.00
3¾% of 1976		60,976,000.00	60,976,000.00
3¾% of 1977		746,416,000.00	746,416,000.00
Total special issues	10,381,384,000.00	964,321,000.00	11,345,705,000.00
Public issues:			
Treasury notes:			
4½% Series C-1963	\$23,500,000.00		\$23,500,000.00
3¼% Series D-1963		\$25,000,000.00	25,000,000.00
4¾% Series A-1964	12,550,000.00	-2,000,000.00	10,550,000.00
5% Series B-1964	19,937,000.00		19,937,000.00
4½% Series C-1964	23,550,000.00	-8,500,000.00	15,050,000.00
4½% Series A-1965	3,700,000.00		3,700,000.00
Treasury bonds:			
2½% of 1964-69 (Apr. 15, 1943)	8,500,000.00	1,500,000.00	10,000,000.00
2½% of 1964-69 (Sept. 15, 1943)	13,400,000.00	3,000,000.00	16,400,000.00
2½% of 1965	21,500,000.00	-21,500,000.00	
2½% of 1965-70	3,000,000.00	-3,000,000.00	
3% of 1966	25,000,000.00		25,000,000.00
2½% of 1966-71	4,000,000.00	-4,000,000.00	
3½% of 1967	48,400,000.00		48,400,000.00
2½% of 1967-72 (June 1, 1945)	4,600,000.00	-4,600,000.00	
2½% of 1967-72 (Oct. 20, 1941)	22,800,000.00	-22,800,000.00	
2½% of 1967-72 (Nov. 15, 1945)	9,500,000.00	-9,500,000.00	
3½% of 1968	11,400,000.00		11,400,000.00
3¾% of 1968		2,800,000.00	2,800,000.00
4% of 1969	40,800,000.00	18,600,000.00	59,400,000.00
3½% of 1974	45,150,000.00	1,500,000.00	46,650,000.00
3¾% of 1974	32,500,000.00		32,500,000.00
4¼% of 1975-85	5,100,000.00	500,000.00	5,600,000.00
3¼% of 1978-83	9,000,000.00		9,000,000.00
3½% of 1980	46,744,000.00	23,650,000.00	70,394,000.00
4% of 1980	76,400,000.00	1,500,000.00	77,900,000.00
3¼% of 1985	74,100,000.00	9,300,000.00	83,400,000.00
3¼% of 1990	55,205,000.00		55,205,000.00
3% of 1995	29,294,000.00	53,975,000.00	83,269,000.00
3½% of 1998			
Total public issues	669,630,000.00	65,425,000.00	735,055,000.00
Total investments	11,051,014,000.00	1,029,746,000.00	12,080,760,000.00
Undisbursed balance	107,964,384.11	-12,133,543.65	95,830,840.46
Total assets	11,158,978,384.11	1,017,612,456.35	12,176,590,840.46

¹ Basic compensation deductions were at the rate of 2½ percent from Aug. 1, 1920, to June 30, 1926; 3½ percent from July 1, 1926, to June 30, 1942; 5 percent from July 1, 1942, to the day before the 1st pay period which began after June 30, 1948; 6 percent thereafter to the day before the 1st pay period which began after Sept. 30, 1956; and 6½ percent thereafter. Also includes District of Columbia and Government corporations' contributions through 1957. Beginning with 1958 they are included with contributions from agency salary funds.

² Beginning July 1, 1957, appropriations are not made directly to the fund. Instead, in accordance with the act approved July 31, 1956 (5 U.S.C. 2254(a)), the employing agency contributes (from appropriations or funds from which the salaries are paid) amounts equal to the deductions from employees' salaries.

³ The act of June 30, 1948, as amended (5 U.S.C. 739(a)(b)), abolished the separate retirement fund for employees of the Office of the Comptroller of the Currency and directed transfer of its assets to the civil service retirement and disability fund. A amount comprises cash derived from sale of securities.

Mr. OWEN. The Commission itself makes an annual report and its table gives the receipts and disbursements for the civil service retirement fund at page 36 of the Civil Service Commission's annual report.

In checking the tables presented by the Secretary of the Treasury and the tables presented in the Civil Service Commission's annual report, I discovered a discrepancy in the amount of the funds on hand on June 30, 1962. I am not critical of either report and I am satisfied that there is something about the two reports that I do not fully understand that account for the discrepancy or the difference, but I should like to call it to the attention of the Chairman in order that an explanation of it might be sought from the Civil Service Commission or the Treasury Department.

The Civil Service annual report does not show the list of the investments. The Treasury Department does show them and it shows that these investments as of June 30, 1962, totaled \$12,080,760,000, and that in addition to that there was a nondisbursed balance of \$95,830,840.46, which makes total assets, according to the Treasury Department table, as of June 30, 1962, in the amount of \$12,176,590,840.46.

In the Civil Service Commission's annual report it shows the balance on hand as of June 30, 1962, in the fund as being \$12,166,268,596 or a difference of \$10,122,244.

I point out, of course, that the Treasury Department's table is a table of investments. The Civil Service Commission's report is a report on receipts and disbursements. But if there is \$10 million more in the investments' account, then it seems to me reasonable to expect that in the Civil Service Commission balance as of June 30, 1962, that balance should be at least equal to what the Treasury has and presumably could be more. But my reasoning on that might be offset by the manner in which these reports are prepared, and what uninvested funds were taken into account by the Civil Service Commission or the Department of the Treasury.

Mr. Chairman, on behalf of our organization I express the appreciation of our members for the action of the Civil Service Commission in proposing this major step in the long-range financing of the civil service retirement system. We acknowledge our indebtedness to Senator Olin D. Johnston, chairman of the Senate Post Office and Civil Service Committee, for having introduced S. 1562 and to the members of the committee for having given attention to this very important piece of legislation.

We strongly and earnestly urge a favorable report on this proposed legislation.

Senator McGEE. Thank you very much, Mr. Owen, for your contribution and testimony.

Mr. Jaspán.

**STATEMENT OF DAN JASPAN, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

Mr. JASPAN. Mr. Chairman, my name is Daniel Jaspán. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 26,000 supervisors in the postal field

service, including supervisors in the maintenance and motor vehicle service. We have members in each of the 50 States as well as Puerto Rico.

Our association has passed resolutions at practically each convention asking that the Government contributions to the retirement fund be increased so that the fund can become solvent. There were no contributions by the Government during the years 1921 through 1928. Although the Government began making contributions in 1929, there were many years when these amounts were only token contributions and did not add measurably to the fund.

Through fiscal 1962 the employee contributions have not only been considerably more than the Government appropriations, but the employees had paid more than enough into the fund to cover the total disbursements made to that date.

We are in perfect agreement with those sections of S. 1562 under which the Government appropriations to the fund would be increased until the supplemental contribution rate leads to solvency, and eliminates the "unfunded liability."

We are opposed to section 4 of S. 1562 because there is possibility of any future benefits being denied to Federal employees on account of this section. If this section remains in the bill, Federal employees will probably find that there will be no liberalization of the retirement fund for many years.

The members of this committee are well aware of the fact that fringe benefits in industry, including retirement benefits, are constantly liberalized. There was a period of time during which the so-called fringe benefits for Federal employees were considerably more than the fringe benefits in industry. Chairman John W. Macy, Jr., of the Civil Service Commission, testified on August 13—before the House Committee on Post Office and Civil Service—that the advantage in fringe benefits paid by the Government has now leveled off, and that they are just about equal in Government and industry. It is our contention that if section 4 remains as part of this bill and it is thus passed by the Congress, the time will not be too far distant when fringe benefits in industry, especially retirement benefits, will outdistance the benefits received by Government employees. We firmly believe that the Government should lead the way in improved working conditions and benefits. We respectfully request this committee to delete section 4 from the bill.

We thank you for the opportunity of presenting our views before this subcommittee, and we hope that the first three sections of S. 1562 will be enacted into law in the very near future.

Senator McGEE. Thank you very much, Mr. Jaspan, for your comments.

Mr. Dorson is the next witness.

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

Mr. DORSON. Mr. Chairman, I have only a brief statement and with your permission I will read it.

Senator McGEE. You may proceed.

Mr. DORSON. Mr. Chairman, my name is C. L. Dorson. I am president of the Retirement Federation of Civil Service Employees, a national organization of Federal employees, with offices in this city.

The subject of S. 1562 is a matter which has long needed some serious attention and concrete action by the Congress. We are grateful to you for the time and attention you are giving it, and to the Civil Service Commission for their efforts in seeking a solution.

For many years, the funding of the civil service retirement system has been the subject of much conversation, many reports and recommendations, but no permanent solution. The Board of Actuaries of the civil service retirement system has, in its annual reports, for about 30 years, called attention to the unfunded liability and the need for action.

More than 9 years ago, on June 29, 1954, the Committee on Retirement Policy for Federal Personnel, created pursuant to Public Law 555, 82d Congress, whose distinguished membership included H. Eliot Kaplan as chairman, the Secretaries of the Treasury and Defense, the Chairmen of the Board of Governors of the Federal Reserve System and the Civil Service Commission, and the Director of the Bureau of the Budget, after much study and debate submitted a report which recommended the "normal-cost-plus interest" method for funding the civil service retirement system. Finally, in 1956, approval of this method of funding was implied by the enactment of section 17(e) of the Civil Service Retirement Act, which requires the Civil Service Commission to submit estimates of the appropriations necessary to finance the fund on this basis. Despite this provision of law, however, appropriations to cover such estimates have not been enacted nor have they been requested in the Budget.

We are concerned by the rapidly increasing unfunded liability of the system, reported by the Board of Actuaries to be about \$37 billion, not because we question the faith and credit of the United States but because we question the soundness of allowing this to continue and fear the possible consequences. Therefore, while there may be better ways, we endorse the method of funding proposed in section 1 of S. 1562 and urge its enactment.

We also endorse sections 2 and 3 of S. 1562 and request their enactment. While they were, no doubt, well intended, the provisions of Public Law 85-844 which would be repealed by section 3(a) have created much confusion and misunderstanding while serving little, if any, useful purpose.

We wish we could endorse section 4 of S. 1562 as we have its first three sections, but we can see nothing to be gained by enacting both sections 3(a) and 4. Such action, in our opinion, merely serves to transfer the source of past and potential headaches from Public Law 85-844 to the Civil Service Retirement Act. It appears that only the symptoms and the degree of the headache would be effected by the proposed change in source and language. Therefore, we respectfully recommend that S. 1562 be amended by striking out section 4 in its entirety.

Mr. Chairman, we sincerely appreciate the opportunity afforded us to express our views on this important legislation.

Senator McGEE. Thank you very much, Mr. Dorson.

Mr. Simcox.

STATEMENT OF GLENN R. SIMCOX, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES; ACCOMPANIED BY GEORGE L. NICHOLS, NARCE VICE PRESIDENT

Mr. SIMCOX. Mr. Chairman and members of the subcommittee.

My name is Glenn R. Simcox. I am president of the National Association of Retired Civil Employees, an organization with over 196,000 paid-up members who are either retired Federal employees or the survivors of beneficiaries of former Federal employees. Our association has 865 chapters scattered throughout the United States, and has 35 State federations.

I am accompanied by Vice President George L. Nichols.

The original Federal Employees Retirement Act was created on May 22, 1920. The next day, May 23, the "acturial deficiency" or "unfunded liability," as it is now being referred to, and we like the latter phrase better, in the retirement fund, began to build until presently it has reached an estimated total of \$34 billion.

There are many reasons for this unfunded liability,

(1) Credit was given for service prior to the beginning of the system without contribution by the employee.

(2) Credit was given for military service with no compensating contribution to the fund.

(3) Credit was given for civilian service (such as temporary appointment) performed prior to an appointment conferring Retirement Act coverage.

(4) There was no appropriation by the Government during the first 8 years of operation of the fund until 1957 appropriations lagged seriously. Between fiscal years 1921 and 1956 congressional appropriations totaled \$3,633,551,350 as compared with salary deductions of \$5,560,744,214. With the enactment of Public Law 84-854, approved July 31, 1956, Government agency contributions have matched the employee contributions, effective with the fiscal year 1958.

(5) Benefit provisions have been liberalized for employees then in active service but made applicable to prior service without compensating contributions.

(6) With general pay increases, benefits have been based on the higher average salaries and applied to prior service, when contributions were also at a lower level.

(7) Retired employees and survivor annuitants have had increases over the original rates earned by their service, without compensating contributions.

(8) Provisions have been made for survivor annuities which were not in effect during the employees' active service, such as the provisions established in 1948 and 1950 for widows and widowers of employees and annuitants who had died prior to February 29, 1948.

(9) Because of general improvement in living standards and medical science, retirees and survivors have longer retirement life expectations than earlier and thus draw upon the fund for longer periods.

(10) Interest rates paid by the Government were not realistic, particularly between 1956 and 1960. In 1961, the interest rate was increased by about 1 percent but this will not become fully operative until 1971, one-tenth each year.

While the retirement fund is sufficient to pay all retirees and survivors for many years, the "unfunded liability" does exist and will continue to grow under the present arrangement. The Civil Service Commission has proposed a solution and we strongly urge that this committee review their recommendation with a view toward taking corrective action at an early date.

Since the enactment of the 1956 act whereby the employee and Government agency jointly contribute 13 percent the normal cost of operation is approximate to receipts. The huge "unfunded liability" is largely a result of the earlier years when congressional appropriations were inadequate, and it is proper that Congress should now set up a system whereby this situation may be corrected.

We do take exception to "element 3"—section 4 of the bill—of their proposal, that—

Any new or increased benefits resulting from future changes in the Civil Service Retirement Act would become effective and no benefits would accrue until the full estimated increase in "unfunded liability" for past service which would otherwise result from such change in the act had been appropriated to the fund. This would avoid the escalation of unfunded liabilities because of benefit or coverage liberalizations.

This would put a "freeze" on legislation, however small but justified, and this is unwarranted. It would seem to be better practice for the Congress to reserve its own judgment on the inclusion of such a restriction just as is now normally done in providing in a legislative proposal that an annuity check be carried to the nearest even dollar and that "notwithstanding any other provision of law, benefits under the Civil Service Retirement Act resulting from the enactment of this act shall be paid from the civil service retirement and disability fund."

When I retired in 1945 the fund total was approximately \$1.8 billion. Presently, it is well in excess of \$12 billion and is steadily growing, and, as it grows, the interest item correspondingly increases. For fiscal year 1962 the interest alone totaled \$322,888,251. The Civil Service Commission states that under the present system the fund will be exhausted by 1990. If so, and we have no desire to appear to question their statement, this committee might well initiate corrective legislative action.

Our association certainly does not oppose any legislation which would strengthen the fund.

Senator McGEE. Thank you very much, Mr. Simcox.

Mr. McCart.

STATEMENT OF JOHN McCART, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES COUNCIL

Mr. McCART. Mr. Chairman, and members of the subcommittee, the Government Employees' Council, representing 25 AFL-CIO unions with wage board, classified, and postal employees in Federal agencies, supports the measure under consideration with one exception and with an amendment.

We desire to extend our appreciation to you and your colleagues on the subcommittee for arranging this hearing and to the author of S. 1562, Senator Olin D. Johnston, chairman of the full committee, for his interest in solving a persistent and complex problem.

For many years concern has been expressed about the increasing unfunded liability of the civil service retirement fund. During a large portion of this time, the Board of Actuaries of the civil service retirement system felt that the program should be "actuarially sound." Under this theory the retirement fund would be able on any given date to meet all of the demands which could legitimately be made upon it. We have not subscribed to this theory because it simply is unrealistic to assume that all possible claims would be asserted on a particular date.

On the other hand our unions have recognized that good business acumen demands that some method be devised to achieve a certain level of fiscal soundness in the fund and to maintain it at that point to assure employees and their beneficiaries the program will be able to meet its obligations to them.

If the present policy of financing the system is maintained, there is a serious possibility that no money will remain in the fund by 1990, and after the year 2000 Congress will have to appropriate directly approximately \$3 billion each year to meet the obligations of the system. In addition to this disadvantage, the contributions of employees, which they have been assured will be available at all times, will have been used to pay benefits to retired workers. It is imperative, therefore, that steps be taken now to provide an orderly method of achieving a certain level of stability in the retirement fund and maintaining it once it is attained.

The question of the financial status of the system has arisen each time improvement is sought in future benefits for active workers or the benefits to retired Federal workers. Its chief use has been negative—to insist that a specific piece of legislation should not be approved because of the additional financial strain it will place on already inadequate reserves. Consequently justified improvements in the Retirement Act have been made more difficult.

The basic problem has been absence of a consistent policy on replenishing the fund to meet current requirements and needed improvements.

Forty-three years ago, Congress enacted the original Civil Service Retirement Act. From 1920 through 1928 no appropriations were requested or approved to cover the Government's contribution to the program. During the following 20 years, 1929 through 1949, the executive branch recommended congressional approval of funds to satisfy the normal costs and to eliminate the unfunded liability by 1999. Congress approved these requests.

The period 1950 through 1957 witnessed a variety of actions by the House and Senate on retirement appropriations. On five occasions, the amounts requested were reduced before enactment. Twice Congress increased the budget requests for the retirement fund. And once the budget recommendation was accepted as proposed.

Beginning with fiscal 1958 a change in securing appropriations for the Government's contribution to the fund occurred. In enacting comprehensive amendments to the retirement program in 1956, Congress accepted a proposal that employing agencies contribute to the fund from their appropriations amounts necessary to equal the payroll deductions of the employees. The employees' payment was fixed at $6\frac{1}{2}$ percent of salary under the 1956 Retirement Act revisions. The

purpose of this action was to insure annual income into the fund to approximate the normal cost.

While that effect was achieved, no provision was made for reducing the basic unfunded liability or even the interest on the liability.

The underlying concept of the original Retirement Act was that contributions by employees and employer would give each an important stake in preserving the system as an effective staff annuity plan. From its inception in 1920, the employees' share has increased by law from 2½ to 6½ percent of base salary. There has been no question about the individual's convenience or ability to pay. Deductions of these amounts have been made from his or her wages before take-home pay is received.

Whether national fiscal policy or other considerations are the cause, the simple fact is that the Federal Government has not contributed over the years its share of the cost of current and future benefits.

It is this deficiency that S. 1562 is designed to remedy.

The bill provides a gradual, rational method of attaining financial stability in the retirement fund over a lengthy period. Under the proposal, huge appropriations in a lump sum will not be required. Briefly, S. 1562 provides that beginning in fiscal 1956 agency contributions to the retirement fund will be increased one-half of 1 percent of basic payroll each year until the total contributions reach 11 percent in 1986.

In its 42d annual report, for the period ending June 30, 1962 (H. Doc. No. 140), the Board of Actuaries of the civil service retirement system, asserted that the deficiency in the fund had increased to \$33,660 million. As of May 9, 1963, the Civil Service Commission estimated the unfunded liability at \$34 billion.

The actuaries suggested also that more conservative mortality tables should be adopted, presumably because civil service annuitants just as other older citizens are living longer. Acceptance of this proposal would, of course, increase the deficiency in the fund.

However, these comments on the status of the fund are most pertinent:

The Board wishes to restate—and again emphasize—the recommendation given in previous reports for action; namely, that the Government make direct appropriations equal to the amount necessary in addition to the contributions of employees and employing agencies to meet the full normal cost and the amount of accruing interest on the deficiency or that preferably it adopt a definite revision of the act which will accomplish this purpose.

For these reasons, the council urges the subcommittee to prepare favorable recommendations on the necessary legislative remedy without delay. We favor enactment of the principal features of S. 1562.

However, we have reservations about the desirability of section 4 of the bill.

It requires that appropriations be made before any new retirement benefits or increase in benefits takes effect. The purported purpose of this language is to prevent any further increase in the unfunded liability while other sections of the bill operate to reduce the current deficiency.

Section 3 of the bill repeals certain existing provisions in law which limit the use of the fund for benefit payments and require appropriations before benefits previously approved by Congress could be placed in operation.

We concur with the desirability of rescinding these provisions.

However, section 4 appears to reinstate the same basic philosophy in the restrictions covered by the statutes cited in section 3; namely, that money in the fund should not be available for retirement improvements until Congress appropriates the amounts necessary to cover the cost of new benefits.

In our view the language in section 4 places an undue restriction on the use of the retirement fund. In the recent past, we have witnessed situations where Federal retirees, whose economic need was acute, were required to wait many months until Congress appropriated funds to finance annuity increases approved earlier by the House and the Senate.

Retention of section 4 could very well serve to impede progress in improving the Federal retirement program when a clear case can be made for justified adjustments in benefits for current or future retirees.

We recommend, therefore, that section 3 of the S. 1562 be retained, and that section 4 be deleted.

In addition, the council proposes an amendment to the bill by adding a new section.

Under the present Civil Service Retirement Act, Federal employees with military service are entitled to have such service credited toward their civilian retirement. The provision applies without reservation for military service prior to January 1, 1957, and for military service which is not credited for social security purposes subsequent to that date.

We are in full accord that periods in the armed services should be recognized in computing civil service retirement. It represents small recompense for the contribution made by those who serve their country as an officer or enlisted personnel.

Full civil service retirement credit is granted for this service without any deposit to the retirement fund. That is as it should be.

Nevertheless, because approximately 51 percent of Federal employees are veterans, the retirement contributions represented by their military service is a considerable sum. If at the time of civilian retirement the respective military departments were to begin reimbursing to the civil service retirement fund for the portion of retirement payments attributable to service in the Armed Forces, there would be considerable alleviation of the impact on the fund itself.

On the basis of certain necessary assumptions, this reimbursable cost in the first year would amount to about \$62 million. Because of probable longer military service in the future and greater longevity and increased retirement benefits, the reimbursement would increase until it attains a static figure of \$230 million by the year 2000.

You will recall that the bill requires an increase of agency contributions by one-half of 1 percent annually until contributions reach 11 percent in 1986. The effect of having the military agencies reimburse the fund for creditable retirement service would be to attain the desired goal by 1982 at 8.8 percent of payroll, rather than 1986 at 11 percent, and to maintain the agency contribution at the lower rate thereafter.

We feel this proposal represents a desirable, feasible, and reasonable method of achieving the same objectives 4 years earlier at a cost of 2.2 percent less than the bill now provides. The council recommends, therefore, that the measure be amended to permit military agencies to reimburse the retirement fund for annuity payments resulting from service in the Armed Forces.

With these two changes, Mr. Chairman, the Government Employees' Council requests early, favorable action on the pending legislation.

Again, we extend our deep appreciation to the subcommittee for extending this opportunity to voice our reactions to this important legislation.

Again I want to express my appreciation to you for your patience in sitting through this list of 12 witnesses.

Thank you.

Senator MCGEE. The patience for those who testified this afternoon are equal to mine. We have all been here together so that is a two-way expression.

Thank you very much.

Unless I have lost another sheet, that is the last of the official witnesses this afternoon.

We will have statements submitted for the record by John G. Brady, legislative chairman, National Association of Internal Revenue Employees; by Ross Messer, of the National Association of Post Office and General Services Maintenance Employees; by Everett G. Gibson, president, National Federation of Post Office Motor Vehicle Employees, and Charles E. Puskar, National Association of Postmasters.

The record will be kept open for these statements, and if there are others who wish to submit statements for the record they will be so honored. The record will be kept open for 1 week from today at 5 o'clock.

Thank you, gentlemen.

The committee is recessed.

(Whereupon, at 4:40 p.m., the hearing in the above-entitled matter was recessed.)

APPENDIX

(The following statements were received and ordered printed in the record of the hearings:)

STATEMENT OF CHARLES E. PUSKAR, EXECUTIVE SECRETARY-TREASURER, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. Chairman and members of the committee, my name is Charles E. Puskar, postmaster at Imperial, Pa., and I am executive secretary-treasurer of the National Association of Postmasters of the United States. Our association, which accepts only postmasters as members, has a total membership of 33,802, of which 1,315 hold associate membership as retired postmasters. We represent 96 percent of the 34,531 postmasters in our postal service.

Mr. Chairman, we welcome the opportunity of making this statement in support of S. 1562, a measure providing improvement in the financing of the civil service retirement system.

The president of our association, John P. Snyder, postmaster at Oconomowoc, Wis., and Roy M. North, our legislative representative, join me in support of this important legislation.

We appreciate the continuous study of the fiduciary aspects of our retirement system by the Civil Service Commission and their analysis of the situation today which led to this bill providing a much needed larger flow of funds into the system.

It is particularly gratifying to us that the distinguished chairman of our committee, Senator Olin D. Johnston, has always shown a keen interest in the welfare of Federal employees and promptly introduced S. 1562 on May 17, 1963, following request of the Civil Service Commission in letter of May 9, 1963.

At this point, we strongly support the proposed amendment to this measure by Chairman Johnston stipulating that the Secretary of Defense be required to reimburse the fund for that portion of disbursement of annuity attributable to credit allowed for service in the several military services.

A study made in 1954, known as the Kaplan report, found that 47 percent of all civilian employees had some military service and it is reasonable to assume that the percentage will increase as time goes along by reason of compulsory military service.

It seems, therefore, only fair and equitable for the defense agency to bear its proper cost to the civil service retirement system.

The civil service retirement system began in 1921. The employee's contribution at that time was believed to be sufficient to finance the system. For several years, the Government made no contribution. From 1929 through 1940, it contributed less than \$500 million.

However, contributions were increased from time to time, and for the 41 years of the system, the Government has contributed slightly more than \$8 billion, whereas the employees contribution has exceeded \$10 billion.

While the system has a balance in the fund of more than \$12 billion as of June 30, 1963, the Commission estimates there is an "unfunded liability of \$34 billion."

As a protection toward solvency of the system, the Commission proposes a supplemental contribution by the agencies of one-half of 1 percent each year, beginning after June 30, 1964, until the supplemental contributions equal 11 percent of the basic salary of each employee or member.

We do not go into any details of accounting, but accept the projections of the Commission and believe that such an arrangement is needed and it has our strong support.

Conversely, we are strongly opposed to section 4 of this bill providing that an appropriation must first be made before there can be any annuity benefits

or increase in benefits in any way. This provision, as worded, goes much further even than the so-called Thomas rider and we submit that it would be a deterrent to any benefits in the future and is entirely unnecessary. In effect, it would mean that the Legislative Committee would be dependent upon the Appropriation Committee for any changes in retirement benefits whatever.

Otherwise, S. 1562 meets with our approval and we recommend its favorable consideration after deletion of section 4 by this committee.

Again, Mr. Chairman and members of the committee, thanks for the privilege of submitting this statement.

STATEMENT OF DILLARD B. LASSETER, EXECUTIVE OFFICER, ORGANIZATION OF PROFESSIONAL EMPLOYEES OF THE U.S. DEPARTMENT OF AGRICULTURE

WASHINGTON, D.C., August 20, 1963.

HON. OLIN D. JOHNSTON,
Chairman, Committee on Post Office and Civil Service, U.S. Senate.

DEAR SENATOR JOHNSTON: We appreciate this opportunity to go on record on behalf of OPEDA regarding S. 1562, a bill to improve the financing of the civil service retirement system.

We endorse this bill, with the exception of section 4, and recommend its passage with certain amendments to be discussed below. The bill is an affirmation of Government responsibility for the soundness of the retirement fund; it provides a specific program for meeting that responsibility. This is re-assuring to every active employee under the retirement system and to those former employees now retired who are enjoying its benefits.

Our objections to section 4 is that it would, in effect, require enactment of two laws every time a desirable liberalization of the retirement system was made. We have recently seen the practical effect of such dual control which caused a long and pointless delay in effecting the increase in annuities voted by the 87th Congress to those already retired. We are aware, of course, that added benefits cost additional money; however, we have full confidence in the ability of the Congress to protect the integrity of the fund while at the same time granting new benefits that may be desirable from the standpoint of employee welfare or program goals.

We would like to recommend that the bill be amended to provide for (1) the establishment of an advisory council on the fund, and (2) for a system of reports to the Congress regarding the fund. In order to give concrete form to this recommendation we attach a copy of a proposal which was developed in essentially this same form in connection with consideration of S. 739 by the 87th Congress.

We deeply appreciate the courtesy of your committee in inviting and considering our views.

Respectfully yours,

DILLARD B. LASSETER, *Executive Officer.*

SEC. 4. 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 an 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. 5. 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 on or before (date), 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 President's Council of Economic Advisors; two the active Government employees, one the rank and file, the other the professional, scientific, and administrative group; one the retired Government employees; and three 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 \$100 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 (date) 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 (date).

"(e) On or before (five years after date in (b) above), 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."

STATEMENT OF GEORGE D. RILEY, LEGISLATIVE REPRESENTATIVE OF THE INTERNATIONAL ASSOCIATION OF BRIDGE, STRUCTURAL AND ORNAMENTAL IRONWORKERS

This brief statement in support of S. 1562 represents the views expressed in behalf of our membership who are employed in the Federal Government, civilian service. We support the purpose of S. 1562 as a necessary method of providing some degree of solvency for the civil service retirement system, which now is some \$34 billion in the arrears and which deficit is increasing by at least \$1 billion every 12 months.

This is no new issue. As early as 1934, a remedy was offered to bring the fund in line with a degree of soundness. At that time, it was estimated that if the Federal Government should contribute annually \$100 million through the remainder of the 20th century, the total together with its earnings in the form of interest from the Treasury would be sufficient to amortize the arrearage estimated as of that year.

This good counsel was not heeded and with sporadic contributions on the part of the Government together with improvements in benefits have brought the system to the stage where it is today. It is certainly in the running with increased benefits, but the day of reckoning is bound to overtake not only the present annuitants but those who too look forward to the day when they too are beneficiaries. It is not sufficient to dwell upon the timeworn expression "the Government will always meet its obligations."

The fact is that the Government until 1929 never contributed one cent to the fund and all moneys disbursed have been more than balanced off by the compulsory contribution from employees' salaries and wages. It is hardly necessary to call attention of you who are in the legislative branch that your own security under this system also is involved. The retirement plan is not free to employees such as is true for the military services where the Government pays the entire sum, thus it is necessary that the Government also put its chips into the game in order that the ground rules will be equitable. However, improvement in the system has come laboriously. Chiefly because it has been pointed out continuously that changes add further burdens to the fund. There was the time in 1948 when the Langer-Chavez-Stephenson bill constituted a major breakthrough and established family benefits.

This law continues to be a monument to the farsightedness of those in the 80th Congress who supported it. Admittedly while the deduction return loses from 3½ to 5 percent, that law would add to burden the fund while also adding humanitarian aspects. I am pleased to recall that I am one of those draftsmen of that act, although I am not myself personally under the act.

It is hoped, and I believe it is true, the Congress is determined to see this legislation under S. 1562 set in order the retirement plan household. I am convinced that the sincerity noted among your committee is going to bring results. I commend you upon your forthrightness and the time that the bill can be approved by the Senate this year and possibly even the House. Please remember that the liability is increasing by leaps and bounds by at least \$1 billion annually.

STATEMENT OF ROSS A. MESSER, LEGISLATIVE REPRESENTATIVE, NATIONAL ASSOCIATION OF POST OFFICE & GENERAL SERVICES MAINTENANCE EMPLOYEES

Thank you, Mr. Chairman and members of the committee, for this opportunity to present this statement. I am Ross A. Messer, legislative representative of the National Association of Post Office & General Services Maintenance Employees, representing the maintenance employees of the postal field service and General Services Administration, with members in the 50 States, Puerto Rico, the Virgin Islands and the District of Columbia. Our offices are located at 724 Ninth Street NW., Washington, D.C. The financing of the civil service retirement system has been of deep concern to the members of this association for a number of years. It is a pleasure for me to appear before you today to endorse the provisions of S. 1562 providing for an increase of one-half of 1 percent each year from 1965 through 1986 in the Government's contribution to the civil service retirement fund, with the amount remaining at that level thereafter. It is our belief that the approval of this proposal by the administration will place the retirement fund on a firm financial basis, provided certain steps are taken to have contributions made to cover military service that is now "free time" for retirement purposes as no money is transferred to the retirement fund to cover such military service.

It is proposed or suggested that consideration be given to an amendment to provide for a contribution from the Department of Defense to cover any and all military service for which retirement credit is granted, but no deductions are made to cover the service. The number of veterans entering the civilian service is increasing each year. After 5 years of service these employees receive credit for their military service for civil service retirement purposes if it is not creditable for military retirement pay, or creditable for social security if his military service was after January 1, 1957.

This association is opposed to the provisions of section 4 of S. 1562, providing that no future benefits may become effective until such time as funds are approved to pay for such benefits. The approval of benefits is handled by the Post Office and Civil Service Committees; however, the appropriations for the necessary funds are handled by the Appropriations Committee. Under this proposed section 4, it would be possible that benefits could never be liberalized as the authorizing legislation does not appropriate the necessary funds.

It is respectfully requested that section 4 be deleted from the proposal.

STATEMENT OF EVERETT G. GIBSON, PRESIDENT OF THE NATIONAL FEDERATION OF POST OFFICE MOTOR VEHICLE EMPLOYEES, AFL-CIO

Mr. Chairman and members of the committee, my name is Everett G. Gibson. I am the president of the National Federation of Post Office Motor Vehicle Employees, AFL-CIO, with offices at 412 Fifth Street NW., Washington, D.C.

In behalf of our organization, we want to endorse S. 1562, introduced by the chairman of the Senate Post Office and Civil Service Committee, Senator Olin D. Johnston, that will provide to improve the financing of the civil service retirement system, through the scheduling of a gradual increase by Federal contributions as proposed by the enactment of S. 1562. The fact the Civil Service Commission has stated: That the employees' contributions pay approximately half of the normal costs of the benefits and S. 1562 will provide that the Federal Government will then by law be compelled to contribute their percentage as outlined in this bill.

I want to thank you, Mr. Chairman and members of the committee, for allowing me the privilege of expressing our views on this important legislation and we wholeheartedly support S. 1562 and sincerely hope that this committee will report it favorably to the full committee and that it will become law during this session of Congress. Thank you.

STATEMENT OF HAROLD McAVOY, NATIONAL PRESIDENT, NATIONAL ASSOCIATION OF POST OFFICE MAIL HANDLERS, WATCHMEN, MESSENGERS & GROUP LEADERS IN THE BUREAU OF FACILITIES

Mr. Chairman and members of the subcommittee, for the record my name is Harold McAvoy. I am national president of the National Association of Post Office Mail Handlers, Watchmen, Messengers & Group Leaders. Our membership is employed in the mail equipment units in the Bureau of Facilities. We are members of the AFL-CIO and Government Employees Council. Our national office is located at 900 F Street NW., Washington, D.C.

Our national organization has fully endorsed S. 1562, the retirement bill before you and your committee members for consideration. Our thanks to Senator Olin D. Johnston, chairman of the full Senate Post Office and Civil Service Committee.

S. 1562 is designed to improve the financing of the civil service retirement system. There is no doubt in our national organization's mind that the retirement fund is in trouble. Reason for the trouble is the failure of the U.S. Government to make the necessary contributions over the years. We wish to commend the Civil Service Commission for recommending a system of financing the retirement fund for the future.

We would like to offer one amendment that in our opinion if the amendment is accepted by the committee would go a long way in helping to provide that contributions be made, for instance by the Defense Department for military credit now extended to postal employees under the Civil Service Retirement Act.

Thanking you for the privilege of presenting this statement. It is my sincere hope your committee will give early and favorable consideration to S. 1562.

STATEMENT OF MAX JORDAN, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

WASHINGTON, D.C., August 21, 1963.

Senator GALE W. MCGEE,

Chairman, Retirement Subcommittee, Senate Post Office and Civil Service Committee, New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This is to submit a statement on S. 1562 with the request that it be included in the hearing record of your committee on the bill.

Statement of Max H. Jordan, president, National Rural Letter Carriers' Association on S. 1562:

The National Rural Letter Carriers' Association desires to endorse provisions of S. 1562 which would improve the financing of the civil service retirement system. The Civil Service Commission in recommending this legislation to the Congress has detailed the necessity of an increased contribution to the retirement fund in order to provide a systematic method of financing the fund to assure financial stability.

We believe Congress should assume the responsibility for enacting this legislation in order to provide a proper Government contribution to meet the liabilities accruing under the present level of benefits. An improved financing is not only desirable but necessary in order that the payment of subsequent benefits to those who may be eligible will not be jeopardized.

We urge that the committee approve this legislation and trust that it may be enacted into law during the present session.

Sincerely yours,

MAX H. JORDAN, *President.*



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