

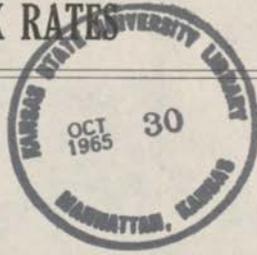
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89-21 RAILROAD RETIREMENT ACT AMENDMENTS—SPOUSE
BENEFITS, WAGE BASE, TAX RATES

GOVERNMENT
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HEARING
BEFORE THE
COMMITTEE ON
INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 10874

A BILL TO AMEND THE RAILROAD RETIREMENT ACT OF 1937 TO ELIMINATE THE PROVISIONS WHICH REDUCE SPOUSES' ANNUITIES BY THE AMOUNT OF CERTAIN MONTHLY BENEFITS, TO INCREASE THE BASE ON WHICH RAILROAD RETIREMENT BENEFITS AND TAXES ARE COMPUTED, AND TO CHANGE THE RATES OF TAX UNDER THE RAILROAD RETIREMENT TAX ACT

SEPTEMBER 8, 1965

Serial No. 89-21

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CONTENTS

	Page
Text of H. R. 10874.....	1
Report of the Department of Health, Education and Welfare.....	3
Statement of—	
Beattie, Donald S., executive secretary-treasurer, Railway Labor Executives' Association.....	38
Habermeyer, Hon. Howard W., Chairman, Railroad Retirement Board.....	6
Healy, Thomas M., member of the Railroad Retirement Board.....	16
Poff, Hon. Richard H., a Representative in Congress from the State of Virginia.....	5
Prince, Gregory S., vice president and general counsel, Association of American Railroads.....	17
Additional information submitted for the record by—	
Association of American Railroads: Maximum social security and railroad retirement benefits for employees who will retire at age 65 at the end of years 1965-76 after 40 years continuous service (table).....	22
National Railroad Pension Forum, Inc., letter from Geo. Finnigan, president.....	52

RAILROAD RETIREMENT ACT AMENDMENTS—SPOUSE BENEFITS, WAGE BASE, TAX RATES

WEDNESDAY, SEPTEMBER 8, 1965

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The committee met at 10 a.m., pursuant to call, in room 2123, Rayburn House Office Building, Hon. Oren Harris (chairman) presiding.

The CHAIRMAN. The committee will come to order.

Pursuant to previous announcement, the committee is meeting this morning for the purpose of hearings on H.R. 10874. This is a bill that I introduced on Friday of last week in an attempt to resolve certain problems involving the Railroad Retirement System.

(H.R. 10874 follows:)

[H.R. 10874, 89th Cong., 1st sess.]

A BILL To amend the Railroad Retirement Act of 1937 to eliminate the provisions which reduce spouses' annuities by the amount of certain monthly benefits, to increase the base on which railroad retirement benefits and taxes are computed, and to change the rates of tax under the Railroad Retirement Tax Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SPOUSES' ANNUITIES

SECTION 1. Subsection (e) of section 2 of the Railroad Retirement Act of 1937 (45 U.S.C. 228b(e)) is amended by changing the colon before the last proviso to a period and by striking out all that follows down through the period at the end of such subsection.

INCREASE IN BASE FOR BENEFIT COMPUTATION PURPOSES

SEC. 2. (a) Subsection (a) of section 3 of the Railroad Retirement Act of 1937 is amended by striking out "the next \$300" and inserting in lieu thereof the following: "the remainder up to a total of (i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater".

(b) The second sentence of subsection (c) of such section 3 is amended by inserting before "shall be recognized" the following: "and before the calendar month next following the calendar month in which this Act was amended in 1965, or in excess of (i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater, for any calendar month after the month in which this Act was so amended".

(c) Subsection (f) (2) of section 5 of such Act is amended by inserting after "so amended" where it appears the second time in the first parenthetical phrase after clause (vi) the following: "and before the calendar month next following the month in which this Act was amended in 1965, and in excess of (i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable

'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater, for any month after the month in which this Act was so amended".

(d) Subsection (1) (9) of section 5 of such Act is amended—

(1) by striking out "and" where it appears the fourth time and inserting in lieu thereof a comma;

(2) by inserting after "so amended" where it appears the second time the following: "and before the calendar month next following the calendar month in which this Act was amended in 1965, and any excess over (i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater, for any calendar month after the month in which this Act was so amended";

(3) by striking out "\$6,600" both times it appears in such subsection and inserting in lieu thereof "an amount equal to the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954"; and

(4) by striking out "\$450" where it appears the second time and inserting in lieu thereof "(i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater,".

(e) Subsection (1) (10) of section 5 of such Act is amended by striking out "\$450" and inserting in lieu thereof "(i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater".

INCREASE IN BASE FOR TAX PURPOSES

SEC. 3. Sections 3201, 3202, 3211, and 3221 of the Internal Revenue Code of 1954 (relating to taxes under the Railroad Retirement Tax Act) are each amended by inserting after the phrase "or \$450 for any calendar month after the month in which this provision was so amended", wherever such phrase appears in such sections, the following: "and before the calendar month next following the calendar month in which this provision was amended in 1965, or (i) \$450, or (ii) an amount equal to one-twelfth of the current maximum annual taxable 'wages' as defined in section 3121 of the Internal Revenue Code of 1954, whichever is greater, for any month after the month in which this provision was so amended".

CHANGES IN TAX RATES

SEC. 4. (a) Section 3201 of the Internal Revenue Code of 1954 (relating to rate of tax on employees under the Railroad Retirement Tax Act) is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) 6¼ percent of so much of the compensation paid to such employee for services rendered by him after September 30, 1965,

"(2) 6½ percent of so much of the compensation paid to such employee for services rendered by him after December 31, 1965,

"(3) 6¾ percent of so much of the compensation paid to such employee for services rendered by him after December 31, 1966,

"(4) 7 percent of so much of the compensation paid to such employee for services rendered by him after December 31, 1967, and

"(5) 7¼ percent of so much of the compensation paid to such employee for services rendered by him after December 31, 1968,".

(b) Section 3211 of such Code (relating to rate of tax on employee representatives under the Railroad Retirement Tax Act) is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) 12½ percent of so much of the compensation paid to such employee representative for services rendered by him after September 30, 1965,

"(2) 13 percent of so much of the compensation paid to such employee representative for services rendered by him after December 31, 1965,

"(3) 13½ percent of so much of the compensation paid to such employee representative for services rendered by him after December 31, 1966,

"(4) 14 percent of so much of the compensation paid to such employee representative for services rendered by him after December 31, 1967, and

"(5) 14½ percent of so much of the compensation paid to such employee representative for services rendered by him after December 31, 1968,".

(c) Section 3221 of such Code (relating to rate of tax on employers under the Railroad Retirement Tax Act) is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) 6¼ percent of so much of the compensation paid by such employer for services rendered to him after September 30, 1965,

"(2) 6½ percent of so much of the compensation paid by such employer for services rendered to him after December 31, 1965,

"(3) 6¾ percent of so much of the compensation paid by such employer for services rendered to him after December 31, 1966,

"(4) 7 percent of so much of the compensation paid by such employer for services rendered to him after December 31, 1967, and

"(5) 7¼ percent of so much of the compensation paid by such employer for services rendered to him after December 31, 1968."

EFFECTIVE DATES

SEC. 5. The amendments made by the first two sections of this Act shall take effect with respect to annuities accruing and deaths occurring in months after the month in which this Act is enacted, and shall apply also to annuities paid in lump sums equal to their commuted value because of a reduction in such annuities under section 2(e) of the Railroad Retirement Act of 1937, as in effect before the amendments made by this Act, as if such annuities had not been paid in such lump sums: *Provided, however*, That the amounts of such annuities which were paid in lump sums equal to their commuted value shall not be included in the amount of annuities which become payable by reason of section 1 of this Act. The amendments made by section 3 of this Act shall take effect with respect to calendar months after the month in which this Act is enacted. The amendments made by section 4 of this Act shall take effect with respect to compensation paid for services rendered after September 30, 1965.

(The report of the Department of Health, Education, and Welfare follows:)

THE UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, D.C., September 9, 1965.

MR. W. E. WILLIAMSON,
*Clerk, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D.C.*

DEAR MR. WILLIAMSON: We have just received your notice of public hearings on H.R. 10874, to amend the Railroad Retirement Act.

We are in favor of the objectives of the bill and would defer to the views of the Railroad Retirement Board.

Sincerely,

WILBUR J. COHEN,
Under Secretary.

The CHAIRMAN. Earlier this year, it will be recalled, the committee reported and the House passed H.R. 3157, which proposed to modify existing law to provide that the spouse of a retired railroad employee could draw benefits under the Social Security Act and also benefits under the Railroad Retirement Act as a spouse without reduction in either benefit.

I think it well to remember that the bill passed the House on June 7 unanimously. It was a matter of equity and justice. After the bill had passed the House, and before its consideration in the Senate, there was another fairly well-known bill commonly called medicare that passed the Congress. That program increased the base wage subject to tax under the social security system to \$6,600 a year effective January 1 of next year.

The change in the Social Security Act will, unless appropriate changes are made in the Railroad Retirement Act, cost the railroad retirement system \$28 million a year because of the operation of the financial interchange provision, under which the railroad retirement system pays to social security, with respect to every railroad employee, an amount equal to the social security taxes which would have been paid by that railroad employee had his railroad service been employment covered by the social security system. Also under the financial interchange system, the social security system pays to the railroad

retirement fund each year an amount equal to the social security benefits that would have been paid to railroad employees had their railroad service been social security-covered employment.

There are two ways in which this particular deficit can be financed—an increase in the wages subject to the tax, or an increase in the tax rate itself. Complicating this question is a feature of the medicare law recently passed which provides that the administration of the medicare program for railroad employees shall be vested in the Social Security Administration, except during the periods in which the base wages subject to tax under the railroad retirement system are the same as the wages subject to the tax under the social security system. That is a very important element.

In trying to meet this problem an amendment was added to the bill referred to, H.R. 3157, in the other body. That amendment would change the base wages subject to the Railroad Retirement Act to \$550 per month, which would mean \$6,600 per year. There are some who feel that this method of amending the law is unconstitutional because of the provision in our Constitution which requires that bills for raising revenue must originate in the House.

When this question was presented to the Senate in the form of a point of order made against the amendment, it was brought to a vote and by a vote of 44 to 41 the Senate rejected the point of order.

Under the circumstances, whether there be a contravention of the constitutional provision or not, and it is debatable, the people on the House side having to do with it, including members of this committee, feel that it would be a lot better if not only the letter but the spirit of the constitutional requirement is carried out. Even though there may be some precedents involving the amendment by the Senate of a nonrevenue raising House bill so that, as amended, it would bring about an increase in a tax provision which was not originally included in the bill, it is strongly felt by some that this should not be permitted because one contravention leads to another.

I have tried to meet all of these circumstances and contingencies. It seems to me that the safest course, and the best course, to pursue would be for the House to initiate legislation in this particular area and eliminate any possible question. That explains why I introduced this bill last Friday.

The bill would make precisely the same change in the law with respect to spouses' annuities as provided in H.R. 3157. The bill would also increase the base wage subject to railroad retirement to \$550 per month.

I think it should be remembered that under this proposal the brunt of the increased tax would fall upon those who are in the higher wage category. To minimize the effect which this increase would have on railroad employees, we would propose an immediate reduction in the railroad retirement tax of 1 percent effective October 1.

Then the bill would propose on a gradual basis to increase the tax by one-quarter of 1 percent effective January 1, 1966, another step January 1, 1967, another one-quarter of 1 percent January 1, 1968, and finally go back to the present rate January 1, 1969.

This would leave the railroad retirement system in approximately the same position as it was on January 1 of this year.

That is briefly the situation, and we are trying to expedite consideration of this in view of the present situation. I have asked those who are responsible and interested in it to come to these hear-

ings today with a viewpoint of trying to make a record on it and see what we actually should be doing.

As is the custom, we will first hear from Members of Congress. In that order our first witness will be our colleague from Virginia, the Honorable Richard Poff. Mr. Poff, we will be glad to hear you at this time.

STATEMENT OF HON. RICHARD H. POFF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Poff. Mr. Chairman, as H.R. 3157 passed the House it removed the dual benefits restriction on spouses of railroad workers so that they would be eligible to draw both railroad retirement spouses' benefits and social security benefits earned in their own right.

The Senate adopted the Pell amendment which increased the taxable base from \$5,400 to \$6,600. This amendment was challenged as a violation of article 1, section 7, of the Constitution which provides that "all bills raising revenues shall originate in the House of Representatives."

To meet this constitutional challenge, the chairman of this committee has introduced a new House bill, H.R. 10874. The new House bill is not entirely the same as the Senate bill. In brief, the new House bill does three things:

- (1) It repeals the spouses' dual benefits restriction;
- (2) It increases the taxable base from \$450 a month to \$550 a month; and
- (3) For the first year of operation, it reduces the basic tax rate on both employees and employers from $7\frac{1}{4}$ percent to $6\frac{1}{4}$ percent; therefore, the 1 percent reduction is restored at the rate of one-fourth percent per year for the next 4 years.

Although the foregoing is a summary of the factual contents of the new House bill, the naked summary does not spell out all of the secondary consequences. For instance, it must be emphasized that the increase in the taxable base also increases the earnings base on which benefits are calculated. This works a total increase in retirement benefits of \$45.8 million, an increase which would have not been granted under the original House bill. Moreover, the tie-in between the Railroad Retirement Act and the recent amendments to the Social Security Act will provide railroad workers under the new House bill with an additional \$47.5 million in benefits. When it is understood that these additional benefits will accrue and at the same time there will be a reduction in the tax rate charged both employees and employers, the new House bill comes into true focus as a distinct improvement over both the original House bill and the Senate-passed bill.

Accordingly, I endorse the new House bill. I make only one suggestion. I suggest the committee, while it is dealing with the interrelation between railroad retirement and social security, consider one further amendment. This amendment is absolutely necessary if the Congress is to correct discrimination which resulted from the recent social security bill adopted by the Congress. Under the social security bill, benefits hereafter will be payable to the children of deceased workers between the ages of 18 and 21 while they are attending school. Under the Railroad Retirement Act, such benefits are payable only until the child attains the age of 18. The language correcting this discrimination is contained in H.R. 651, which I introduced on Janu-

ary 4 and in several similar bills. I am told that the Railroad Retirement Board estimates the cost of this amendment on a level basis at only \$2.2 million, a cost increase which would not, according to the Board, require an additional increase in the tax base.

No one, including the Board, disputes the simple equity of this amendment. Moreover, no one could logically dispute the fairness of repealing the spouses' dual benefits restriction, the only dual benefits restriction which remains in the law today. I hope the bill will have the unanimous bipartisan support of this committee so that passage can be achieved before the Congress adjourns this year.

The CHAIRMAN. We appreciate your testimony, Mr. Poff.

Mr. Poff. Thank you for the opportunity, Mr. Chairman.

The CHAIRMAN. Our next witness will be the Chairman of the Railroad Retirement Board, Mr. Howard W. Habermeyer.

We are glad to have you, Mr. Habermeyer, and to have a statement from you on this subject at this time.

I might say in view of this situation, for the purpose of this hearing, I see no need whatsoever for us to take any time arguing or debating the question on the constitutional provision. That seems to me to be unnecessary and would be a waste of time.

STATEMENT OF HON. HOWARD W. HABERMEYER, CHAIRMAN, RAILROAD RETIREMENT BOARD

Mr. HABERMEYER. Mr. Chairman and members of the committee, my name is Howard W. Habermeyer, and I am Chairman of the Railroad Retirement Board. I have had no opportunity to study the bill H.R. 10874 before appearing here to testify, but I have been advised that it is substantially the same as the bill H.R. 3157 which was passed by the Senate on September 1, 1965.

I assume, therefore, that the bill would eliminate the provision in the Railroad Retirement Act which requires that a spouse's annuity be reduced by the amount of her own railroad retirement annuity or by the amount of the spouse's monthly benefit—other than a wife's benefit—under the Social Security Act.

I assume further that the bill H.R. 10874 would increase the maximum monthly creditable and taxable base for the railroad retirement system, effective with respect to compensation paid for months after December 31, 1965, from the present \$450 a month to an amount equal to one-twelfth of the current maximum annual creditable and taxable wages for purposes of the social security system, or starting January 1, 1966, \$550 a month.

In addition, the bill H.R. 10874 would amend the Railroad Retirement Act as follows: The current tax rate is $7\frac{1}{4}$ percent each on employers and employees, plus the difference between the current social security tax rate and $2\frac{3}{4}$ percent. The bill H.R. 10874 would change this rate from $7\frac{1}{4}$ percent to $6\frac{1}{4}$ percent with respect to compensation paid after September 30, 1965, and before January 1, 1966; to $6\frac{1}{2}$ percent with respect to compensation paid for months after December 1965 and before January 1, 1967; to $6\frac{3}{4}$ percent with respect to compensation paid for months after December 1966 and before January 1968; to 7 percent with respect to compensation paid for months after December 1967 and before January 1, 1969; and to $7\frac{1}{4}$ percent with respect to compensation paid for months after December 31, 1968.

In each instance the rates would be increased by the difference between the current social security tax rate and $2\frac{3}{4}$ percent.

The bill would make the same changes, proportionately, in the tax rates imposed on employee representatives.

I am advised by the Board's chief actuary that if the bill H.R. 3157, as passed by the Senate on September 1, 1965, were enacted into law, the deficit in the financing of the benefits under the railroad retirement system would be about \$24.5 million a year, which is about one-half percent of the new taxable payroll, and the system would be considered financially sound.

I am further advised by the chief actuary that the change in tax rates proposed by the bill would increase the deficit from \$24.5 million to \$29.8 million a year. If, however, the tax rate with respect to compensation for months after 1968 were 7.30 percent instead of 7.25 percent, the deficit in the system would be about the same as it would be if the Senate bill were adopted.

The Board is, of course, interested in keeping the deficit in the financing of the railroad retirement system as low as possible and, consequently, the Board would like to have the tax rate with respect to compensation paid for months after 1968 to be increased to 7.30 percent each for employers and employees, and to 14.60 for employee representatives.

The Board is still opposed to the provision in the bill which would eliminate the provision in the Railroad Retirement Act for reducing a spouse's annuity by the amount of her own railroad retirement annuity or by the amount of the spouse's monthly benefit—other than a wife's benefit—under the Social Security Act. However, in light of the other provisions of this bill, the Board is in favor of the bill.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Your assumption is correct with reference to the provision of the bill on spouses' annuity, your assumption is correct with reference to the wage base. Therefore, we are glad to have your statement as to what the particular stepup would be and the effect it would have.

I am not sure I understand, however, on page 2, on the third step. I believe you say 7 percent with respect to the compensation paid for months after December 1967 and before January 1969.

Mr. HABERMEYER. It was my understanding that step was covered in a 2-year period. I may be wrong about that.

Wait a minute, Mr. Chairman.

The CHAIRMAN. Seven percent with respect to compensation paid for months after December 1967.

Mr. HABERMEYER. I think I have a typographical error. It should be after December 1968.

The CHAIRMAN. That wouldn't be right, because after December 1967 you get into the first part of 1968 and before January 1969 it would be in 1968.

Mr. HABERMEYER. That is right.

The CHAIRMAN. Well, that is one way of putting it, anyhow.

Mr. STAGGERS, have you any questions?

Mr. STAGGERS. No questions.

The CHAIRMAN. Mr. Younger?

Mr. YOUNGER. To return to the deficit, you say it is \$24.5 million a year. On a percentage basis, what is that?

Mr. HABERMEYER. It is a little over a half percent.

Mr. YOUNGER. Of the deficit?

Mr. HABERMAYER. Yes, sir.

Mr. YOUNGER. On these figures as to the increase in the tax, rather than the increase in the amount of taxable earnings, will that deficit be cleared?

Mr. HABERMAYER. If this bill that we are discussing today is enacted as it is written, it will increase the deficit about \$5 million. I have suggested—

Mr. YOUNGER. Instead of clearing it up, it will increase it.

Mr. HABERMAYER. Increase it slightly; yes. I have suggested in order to eliminate that, you might change that last tax rate from 7.25 to 7.30, and that would leave it at about the same level as it is at the present time.

Mr. YOUNGER. Do you have more retirees now than you have employees?

Mr. HABERMAYER. Not retirees; we have more beneficiaries.

Mr. YOUNGER. There are more beneficiaries of the retirement fund than you have employees paying into it?

Mr. HABERMAYER. We have about 890,000 beneficiaries drawing monthly benefits, and there are about 765,000 people currently working in the industry paying taxes.

Mr. YOUNGER. The number of employees would likely go down rather than go up; would it not?

Mr. HABERMAYER. That has been the trend for the past 10 or 15 years.

Mr. YOUNGER. Will that create a larger deficit?

Mr. HABERMAYER. The more the employment is reduced, the more it will build the deficit; yes, sir.

Mr. YOUNGER. Do you anticipate that in increasing the tax more at the present time?

Mr. HABERMAYER. We try to anticipate that. Our system is evaluated every 3 years by the actuary, and his work is, in turn, reviewed by an actuarial committee not connected with the Government. We try to keep our employment levels, on a projected basis, realistic.

Three years ago we reduced the projected employment to 800,000. We are talking now of dropping that to 700,000 next year.

Mr. YOUNGER. And that would, again, increase the deficit?

Mr. HABERMAYER. Yes, sir.

Mr. YOUNGER. Shouldn't the taxes be increased?

Mr. HABERMAYER. We would like to wait for the actuary's results, the actuarial study results, and then propose a program at that time. We would like to keep the system on a currently sound basis on the basis of the last statistics available.

Mr. YOUNGER. That report will be in when?

Mr. HABERMAYER. It will be in about 2 years from now. We will start the study next year.

Mr. YOUNGER. That is all, Mr. Chairman.

The CHAIRMAN. What is the deficit now?

Mr. HABERMAYER. Before the enactment of 1965 Social Security Amendments it was between \$19 and \$20 million. Now it is about \$48 million.

The CHAIRMAN. What percentage is that?

Mr. HABERMAYER. That was a little less than a half percent, about 0.43 or 0.44, but is now in excess of 1 percent.

The CHAIRMAN. That is supposed to be in perpetuity, isn't it?

Mr. HABERMEYER. Yes, sir.

The CHAIRMAN. Isn't the Board's position traditionally conservative?

Mr. HABERMEYER. I think actuaries are usually regarded as such, but the results have been the opposite as far as our system is concerned with the basic revenue producer, the taxable employment, continuing to drop. We used, as I just explained, 800,000 employees in the railroad industry in perpetuity 2 years ago. We know now that that is too high and probably next year when we start our study we will drop that to 700,000.

The CHAIRMAN. Don't you know as time goes along that it is going to go down in view of the fact that the employment in the railroad industry is going down?

Mr. HABERMEYER. The trend would indicate that, but we would hope that somewhere along the line this will bottom out. If there is going to be a railroad industry that will move freight, goods, and passengers, they will need employees, and it seems to me somewhere they are going to find a bottom.

The CHAIRMAN. That we have been hoping for for a long time.

Mr. HABERMEYER. Yes.

The CHAIRMAN. Isn't it definitely considered that anywhere below 1 percent it is safe?

Mr. HABERMEYER. I would say in the early days of the system when our tax rates were low, 3 to 4 percent, and we had relatively high employment—in fact, in some of those years we had expanding employment—the 1 percent would have been considered tolerable, but with the tax rate scheduled to go to over 9 percent and the trend of employment going against us, I think a half percent is all that should be considered tolerable.

The CHAIRMAN. Do you think under the circumstances, then, in the foreseeable future, if we keep it below one-half percent it would be tolerable?

Mr. HABERMEYER. I would think so; yes, sir.

The CHAIRMAN. Could not your mistake in the actuarial estimate be included in the error in your statement on page 1 where your assumption is compensation paid for months after December 31, 1965? Shouldn't that be the months after September 30, 1965?

Mr. HABERMEYER. That is what it says, Mr. Chairman; 6¼ percent with respect to compensation paid after September 30, 1965, in the last line.

The CHAIRMAN. On the first page, about halfway or a little more:

I assume further that the bill H.R. 10874 would increase the maximum monthly creditable and taxable base for the railroad retirement system effective with respect to compensation paid for months after December 31, 1965.

Mr. HABERMEYER. It is my understanding, sir, that the base will not be raised from \$450 to \$550 until January 1 of next year. However, the tax rate is going to be reduced on the old base, the \$450 base, as of October 1 this year.

The CHAIRMAN. Yes. I see.

Mr. Friedel?

Mr. FRIEDEL. No questions.

The CHAIRMAN. Mr. Devine?

Mr. DEVINE. Thank you, Mr. Chairman.

It seems to me, Mr. Habermeyer, that this deficit financing has become a way of life. I think you are talking in theory only when you say the system would be considered financially sound. In order to be realistic, according to your own figures, where railroad employment continues to decrease, and your beneficiaries seem to increase, I don't think this will get the job done.

Mr. HABERMEYER. As I have tried to explain to Congressman Younger, we try to keep this system sound and on a current basis. If the actuarial study starting next year shows that the deficit is above a half percent, we will be back here for additional revenues, asking for additional revenues.

Mr. DEVINE. You say if this bill is enacted, the deficit will increase by \$5.3 million a year?

Mr. HABERMEYER. Yes. That is why I suggested that instead of using the $7\frac{1}{4}$ percent for that last tax rate, that you use 7.30 and that will hold it down to the level that we have now.

Mr. DEVINE. Do you know what the total income per year is from the tax?

Mr. HABERMEYER. It is about—well, last year it was about \$630 million.

Mr. DEVINE. Last year?

Mr. HABERMEYER. Yes, sir.

Mr. DEVINE. What is anticipated for this year? Have you projected it?

Mr. HABERMEYER. I haven't looked at it. I can get that figure for the record, if you want it, but it is going to be higher because the tax rate went up about a half percent, so it will probably be in the neighborhood of \$680 million or \$690 million.

Mr. DEVINE. Up about \$50 million.

Mr. HABERMEYER. Yes.

Mr. DEVINE. Thank you, Mr. Chairman.

Mr. STAGGERS (presiding). Mr. Macdonald.

Mr. MACDONALD. Mr. Habermeyer, it is nice to see you again.

Mr. HABERMEYER. And it is nice to see you, sir.

Mr. MACDONALD. As I recall, when we held hearings in the subcommittee on this matter you were opposed to the bill that was then before us.

Mr. HABERMEYER. Yes, sir.

Mr. MACDONALD. I was wondering what changed your mind.

Mr. HABERMEYER. Well, I say in the statement that that part of this bill we are still opposed to.

Mr. MACDONALD. How can you be opposed to part of the bill if the whole bill is going through?

Mr. HABERMEYER. The good feature—

Mr. MACDONALD. Excuse me. How can you be opposed to part of the bill and support the bill itself, because this bill will be voted on as a whole?

Mr. HABERMEYER. I think you have to weigh the bad with good, and if you find that the provisions that you want are better than the bad ones, you have to take the loaf, don't you?

Mr. MACDONALD. If you once opposed the bill, I think you would be opposed to the bill in its entirety, because the bill in its entirety is the thing that is going to go through, if it does go through.

Mr. HABERMEYER. Well, we will take the elimination of spouse reduction. The Congress has really spoken on that. The House voted

unanimously to eliminate that reduction and the Senate did the same thing. You can't fight forever.

Mr. MACDONALD. This is a very intricate prolem, obviously, and since you deal with it every day and we only deal with it two or three times a year, you should know more about it than we do.

Mr. HABERMEYER. The overriding importance of this bill we are discussing today, as far as I am concerned, is putting this system back on a good, sound financial basis, and keeping us coordinated with the social security system.

Mr. MACDONALD. You and I had a dialog about that, in which I said you were not in competition with social security.

Mr. HABERMEYER. Well, we are not in competition, but we are interrelated. For example, when the social security amendments passed this year, and they raised the benefits 7 percent for the social security beneficiaries, that immediately cost our system \$28 million because of the coordination between the two systems.

As I explained, we guarantee that no beneficiary under our system will get less than 110 percent of what he would get if his railroad earnings had been under social security, so there is a relationship. When they raise their benefits, certain of our beneficiaries automatically get raises. When they raise their tax base, we have to pay them on the basis of their tax base. If we are not collecting taxes on that same base, we are losing money on that transaction, you see.

So there is this interrelation. We are not competitive, but there is a coordination between the two. It is a very important and very vital coordination as far as we are concerned.

Mr. MACDONALD. And in your opinion, and as I say, certainly you are expert in this field, you think that this particular bill clears up the troubles that were bothering you at the time of the original hearing?

Mr. HABERMEYER. Yes. If I had a choice as to how I was to spend that \$14 million we are going to pay the spouses in additional benefits, I have other areas where I would rather spend that money. But that is beside the point.

Mr. MACDONALD. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Cunningham?

Mr. CUNNINGHAM. Mr. Habermeyer, you mentioned, I believe, that there were about 800,000 employees and you are thinking of revising that downward to about 700,000.

Mr. HABERMEYER. Yes.

Mr. CUNNINGHAM. What factors do you take into consideration when you make these revisions?

Mr. HABERMEYER. Well, we take into consideration the trend of the past 10 or 15 years. We take into consideration certain agreements that are being drafted.

For example, in the last year, railroad labor and management have entered into stabilization of employment agreements with certain attrition factors. We take into consideration some of the mergers that have taken place. We take into consideration technological improvements that are being introduced into the industry, replacing manpower with machines.

Mr. CUNNINGHAM. Do you take into consideration the action of Federal agencies, such as the Post Office Department, in closing out

70 railway gateways, for example, the discontinuation of RPO cars and the like?

Mr. HABERMAYER. I don't think we have actually taken that into consideration. I am not too well aware of the facts about that. I have read something about it. It just happened recently, I believe.

Mr. CUNNINGHAM. It is and has been in the process of being done. That will reduce railroad employment considerably, and I wondered if you took that into consideration.

Mr. HABERMAYER. Yes, it would.

Mr. CUNNINGHAM. Thank you.

The CHAIRMAN. Mr. Jarman.

Mr. JARMAN. What concerns me at the present time is whether we are proceeding in too much haste at the end of this session to try and get into what is a very complicated problem. I would, of course, be interested in any comments you might make on that.

Do you think that sufficient information has been developed on this subject to justify action at this time?

Mr. HABERMAYER. I think it has, sir; yes, sir.

Mr. JARMAN. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Broyhill?

Mr. BROYHILL. Briefly, for the record, Mr. Habermeyer, are the administrative costs of the Railroad Retirement Board paid for by the industry and employees, or are Federal tax dollars from general revenues involved?

Mr. HABERMAYER. They are paid by the taxes of the railroad employees and employers.

Mr. BROYHILL. So the entire railroad retirement system is financed 100 percent by the industry and by the employees?

Mr. HABERMAYER. I would say that is a good general statement. There are some funds that we do derive from the Federal Government. For example, military service credits. Back in the beginning of World War II, it was decided that railroad men going into military service, that for them the Government would pay their taxes, both the employee and employer taxes. We have and are collecting those revenues now. We do get, I suppose, a form of subsidization in a very small way in the way we rent our buildings. General Services usually provides the buildings and we pay them maintenance. There is some little Government money there, but I think by and large the system is financed by the employer and employee; yes, sir.

Mr. BROYHILL. One other question: Where are these funds invested? Do you invest them in Government securities?

Mr. HABERMAYER. Yes, sir; they are all invested in Government securities.

Mr. BROYHILL. Under the law, you are not permitted to invest them in any other outside investment?

Mr. HABERMAYER. No, sir.

Mr. BROYHILL. Thank you.

The CHAIRMAN. Mr. Moss?

Mr. MOSS. No questions.

The CHAIRMAN. Mr. Harvey?

Mr. HARVEY. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Van Deerlin?

Mr. ROGERS?

Mr. ROGERS. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Rooney?

Mr. ROONEY. I have one question, Mr. Chairman.

Do you foresee in the near future, with the lesser amount of railroad business and income, that you might be tied into social security? In other words, you would have more beneficiaries than you will have income to support the beneficiaries?

Mr. HABERMAYER. No, sir; I am optimistic. I think there is plenty of business for the railroads and that they are making progress and reclaiming some of the lost business of the last few years. I hope that they are successful in reclaiming more. Instead of our employment level continuing down, I would hope it would stabilize or possibly increase.

Mr. ROONEY. No further questions.

The CHAIRMAN. Mr. Watson?

Mr. WATSON. Thank you, Mr. Chairman.

Mr. Habermeyer, I am not a member of the subcommittee and I am not familiar with the amounts of annuities that you pay. I notice that you deal in percentages here, but would you help me out on what would be the average annuities or benefits paid presently, and what would it be under the terms of the bill we are considering?

Mr. HABERMAYER. The average annuity now, of a man retiring today, would be about \$150. The maximum benefit that we pay today is about \$216 a month.

Mr. WATSON. What is the allowance to the spouse?

Mr. HABERMAYER. The spouse's benefit is now a maximum of \$74.80, and a vast majority get that amount. Our formula is such that most of them get the maximum. In the future, with the \$550 wage base, there are a lot of factors that come into play.

After 1966, for example, we can credit more than 30 years of service because then the employees will have paid taxes on more than 30 years of service. So a man retiring in 1972 could get 35 years of service. In 1982 he could get 45 years of service. At the present time the maximum that he can get is 30 years of service, so it is conceivable that a \$550 wage base in 1982 would pay a man pretty close to \$400 a month.

Mr. WATSON. I appreciate the fact that the employees pay an additional amount into this railroad retirement fund.

Mr. HABERMAYER. Yes, sir.

Mr. WATSON. Is it a correct statement that the annuities or benefits are substantially higher than under social security?

Mr. HABERMAYER. Yes, sir.

Mr. WATSON. Substantially higher than under social security?

Mr. HABERMAYER. Yes, sir.

Mr. WATSON. As I recall, you stated that you have some 890,000 beneficiaries now.

Mr. HABERMAYER. Yes, sir.

Mr. WATSON. And your number of employees is about 765,000?

Mr. HABERMAYER. Yes, sir.

Mr. WATSON. Then the question comes to mind, with this trend in reduction of employees, if that places an added burden upon those currently employed as well as the industry.

Mr. HABERMAYER. Yes, sir.

Mr. WATSON. Would you care to comment on whether or not we might be headed toward, if not destroying, the goose that lays the

golden egg? I am not only thinking about the industry, but I am thinking about the employees.

Mr. HABERMEYER. There is always that danger, sir. That is why I say we would tolerate a 1-percent deficiency in the days when the tax rate and base were low, but we, as a Board, consider a half percent deficiency the most we can tolerate at the present time. There is a limit, and there is no question about it.

Mr. WATSON. It would be a fair assumption, and this is my final question, that with the passage of this bill, should it pass in its present form, that it will result in increased costs both to labor and to the industry?

Mr. HABERMEYER. In the long run it will average about \$40 million on each, each year, \$40 million that the employees will have to pay in addition, and \$40 million that the industry will have to pay.

Mr. WATSON. And very well would not that result in a further reduction in employees? In other words, the industry is going to have to do something to pick up the slack, perhaps further acceleration of automation.

Mr. HABERMEYER. I would hope not, but it could very well turn out that way.

Mr. WATSON. With the increased benefits to the retirees, but, in turn, cause a reduction in the number of those actually on the employment roll today.

Mr. HABERMEYER. That could happen; yes, sir.

Mr. WATSON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Satterfield?

Mr. SATTERFIELD. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Ronan?

Mr. RONAN. No questions.

The CHAIRMAN. Mr. Huot?

Mr. HUOT. No questions.

The CHAIRMAN. Mr. Mackay?

Mr. MACKAY. No questions.

The CHAIRMAN. Mr. Gilligan?

Mr. GILLIGAN. No questions.

The CHAIRMAN. Mr. Rogers of Texas?

Mr. ROGERS of Texas. I have no questions.

The CHAIRMAN. Mr. Macdonald?

Mr. MACDONALD. I am still not clear about the position of the Board, Mr. Habermeyer, in light of your previous testimony before our subcommittee. I have reviewed what you said at that time. I asked the question is it true that there are more people drawing benefits under the present act than are actually contributing to the act, and you said yes, there are, and you gave the figures, and then in a colloquy it was asked you: "Are there any current practices that may be unsound which, if eliminated, could improve the act in the future if they were taken away?" and you said "No."

Therefore, I still am a little uncertain as to the reasons you think this is such a good amendment to the act.

Mr. HABERMEYER. I don't know how I can explain it any clearer. Sometimes you don't like the medicine, but you have to take it to get well. There is a certain feature here that we don't particularly relish and that we would naturally oppose, but it is rather insignificant when

you view it in the total package. If I had a choice as to whether I would take that \$14 million that we were paying these spouses, who are going to get this additional money, I would rather give it to other types of beneficiaries, such as the aged widows, as I believe I said before your committee.

But apparently I don't have a choice. The Congress has spoken, both Houses acting unanimously, with respect to telling me I was wrong, that the spouses should have this additional benefit, so I am going to go along. I am very much in favor of the other feature in the bill.

Mr. MACDONALD. There is quite a difference between going along and thinking that this is a good amendment. You said you thought it was a good amendment earlier.

Mr. HABERMEYER. Yes, sir.

Mr. MACDONALD. Do you think it is a good amendment or are you just going along with it?

Mr. HABERMEYER. No, I think it is a good amendment in total.

Mr. MACDONALD. So you are not just going along?

Mr. HABERMEYER. In total it is a good amendment.

Mr. MACDONALD. Thank you, Mr. Chairman.

The CHAIRMAN. I think we should point out that you said in your statement that you were still against that provision; that is, with reference to spouses. But then you explain the other provision of the bill with reference to the adjustment of the wage base and the tax rate, and the overall results, and you would support the bill.

Mr. HABERMEYER. Yes, sir.

The CHAIRMAN. That is notwithstanding your opposition to the first phase of it respecting the spouses.

Mr. HABERMEYER. That is right.

The CHAIRMAN. Mr. Younger.

Mr. YOUNGER. Just for the record, what is the amount of the fund at the present time?

Mr. HABERMEYER. About \$4 billion, sir.

Mr. YOUNGER. About \$4 billion?

Mr. HABERMEYER. Yes, sir.

Mr. YOUNGER. Thank you.

The CHAIRMAN. Thank you very much, Mr. Habermeyer, for your presence today, and your contribution.

Mr. HABERMEYER. Mr. Chairman, the management member of my Board, Mr. Healy, had a statement he would like to introduce in the record. Could I file it at this time?

The CHAIRMAN. Let it be included in the record.

Mr. HABERMEYER. He touches on things that are not in the bill, so I don't feel competent to testify.

The CHAIRMAN. Let me ask you about one thing. I am glad you mentioned that before you left.

There is some provision someone talked to me about that they wanted to include in this which was considered in the Senate by Senator Hartke, particularly.

Mr. HABERMEYER. That was in the Senate bill. That was the tips.

The CHAIRMAN. Yes.

Mr. HABERMEYER. We met on that as a Board and supported that amendment. The amendment would treat tips in the railroad industry

the same as tips are now being treated under the social security system. By and large we have a rather small group who receive tips in the railroad industry—redcaps, Pullman porters, dining car waiters. Under this provision they would report each month to their employer the amount of their tips and pay the tax, pay the employee tax, on those tips.

The CHAIRMAN. Do you think that would be a good thing?

Mr. HABERMAYER. I think so; yes, sir.

The CHAIRMAN. Would it affect the fund?

Mr. HABERMAYER. No, sir.

The CHAIRMAN. It would make a little for the fund, in fact?

Mr. HABERMAYER. It wouldn't make a little. It would cost a little, but it would be so insignificant.

The CHAIRMAN. Thank you very much.

(Mr. Healy's statement follows:)

STATEMENT BY MR. THOMAS M. HEALY, MEMBER OF THE RAILROAD RETIREMENT BOARD

As compared with H.R. 3157 as passed by the Senate on September 1, 1965, the bill H.R. 10874 grants the industry a temporary tax relief during the period beginning 1968. Thereafter, the additional tax burden would be the same under both bills.

I am firmly convinced that the tax relief granted by the bill H.R. 10874 is not sufficient and that means should be found for granting the industry some additional tax relief indefinitely. I believe that the loss of tax income to the system could be offset by a reasonable and equitable change in the provision relating to spouse's benefits. If such a change is adopted, the actuarial situation would be practically the same as under the present version of H.R. 10874.

The amendment I have in mind is as follows:

1. The provision pegging the maximum spouse's annuity to the highest amount that could be paid to any wife under the Social Security Act would be eliminated. Instead of this, there would be a maximum equal to the amount that would be payable under the Social Security Act on the basis of the employee's earnings record.

2. Differentiation would be made between cases where the spouse is not entitled to a wife's annuity under the Social Security Act and cases where she is so entitled. In the first instance, the maximum spouse's annuity would equal one-half of the primary insurance amount (PIA) computed on the basis of the employee's railroad and social security earnings combined; in the second instance, that is when there is a dual spouse's benefit, the railroad retirement maximum would be one-half of the employee's primary insurance amount computed on the basis of his railroad earnings alone.

3. No reduction in the spouse's annuity would be made for social security or railroad retirement benefits to which she is entitled on the basis of her own earnings. This, in effect, would retain the basic part of H.R. 3157.

4. The new method of computation would apply only to awards after the effective date of the amendment and would not work to reduce any benefit that is already payable. However, the automatic increases in maximum spouse's annuities that would come about under present law in 1967 and 1968 would not be granted.

Our chief actuary has advised me that the amendment I am here proposing would reduce costs by about \$21 million a year on a level basis. This cost reduction could be translated into a tax relief to the industry by keeping the basic part of the employee-employer tax rate at 7 percent from 1968 indefinitely. In other words, the basic part of the tax rate would be 6¼ percent for the period October-December 1965, 6½ percent for 1966, 6¾ percent for 1967, and 7 percent for 1968 and thereafter. Of course, to these rates there will be added the differential between the current social security tax rates and 2¾ percentage points.

As I have stated before, the actuarial condition of the system would be, under my proposal, practically the same as under the present version of H.R. 10874.

The actuarial deficiency would be about \$30 million a year or 0.62 percent of the taxable payroll for the proposed \$550 monthly limit.

I am still opposed to the provision in the bill which would eliminate the reduction in the railroad retirement spouse's annuity by the amount of her own railroad retirement annuity or by the amount of her own social security benefit. However, if my proposal for the change in the spouse annuity formula is adopted, I would reluctantly favor the enactment of the bill.

The CHAIRMAN. Mr. Curtin?

Mr. CURTIN. I am sorry I was late. I was detained on something else.

One question, Mr. Habermeyer. How many are on the Railroad Retirement Board?

Mr. HABERMEYER. Three members, sir.

Mr. CURTIN. Is your thinking as represented by the statement you gave today representative of the thinking of the other two members, as well as yourself, or are you speaking as an individual?

Mr. HABERMEYER. I think I am speaking today just for the public member and the labor member.

The CHAIRMAN. Thank you very much.

The next witness on this subject will be Mr. Gregory S. Prince.

You may proceed, Mr. Prince.

STATEMENT OF GREGORY S. PRINCE, VICE PRESIDENT AND GENERAL COUNSEL, ASSOCIATION OF AMERICAN RAILROADS

Mr. PRINCE. Mr. Chairman and gentlemen of the committee, my name is Gregory S. Prince, and I am executive vice president and general counsel of the Association of American Railroads.

Mr. Chairman, if I might have permission to have this statement filed for the record, I might spare the committee some time by not reading this but by giving you the highlights of it and discussing certain of the features perhaps in more detail than I might in here.

The CHAIRMAN. Very well. You may proceed as you like, Mr. Prince. Your statement will be included in the record. I assume you want to include the tables and the other information.

Mr. PRINCE. If you please.

The CHAIRMAN. Very well. It will be included.

(The statement referred to follows:)

STATEMENT OF GREGORY S. PRINCE, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL OF THE ASSOCIATION OF AMERICAN RAILROADS

My name is Gregory S. Prince, and I am executive vice president and general counsel of the Association of American Railroads. I appear here to present the views of the railroads with respect to H.R. 10874, the bill introduced by Mr. Harris on September 3, 1965, to amend the Railroad Retirement Act. The bill would do three principal things: (1) It would eliminate the provisions which reduce spouses' annuities by the amount of the monthly benefits to which the wife was entitled in her own right by reason of her own service as an employee under the social security system or the railroad retirement system; (2) it would increase the earnings base on which railroad benefits and taxes are computed from \$450 a month to \$550 a month; and (3) it would make reductions of varying percentages in the tax rate for the last quarter of 1965 and for each of the years 1966, 1967, and 1968. The broad general effect of the bill would be to spread the impact of the increase in taxes on both the employees and employers over a period of more than 3 years. This favorable effect as compared with the original Pell amendment would be offset in the long run by adding an additional

\$5 million a year to the annual deficit in the retirement account as compared with the level of the deficit resulting from the Pell amendment or by adding a small increase in the tax rate beginning after the conclusion of the stretchout period to offset the increase in the deficit.

This bill cannot be considered in a vacuum or separate and apart from the background that has set the stage for today's hearing. H.R. 10874 is, of course, an outgrowth of H.R. 3157, introduced by Mr. Harris and passed by the House of Representatives earlier this year. This bill was opposed by the Railroad Retirement Board, by railroad management, and, originally in the preceding Congress, by representatives of the employee organizations. The reasons set forth by the Railroad Retirement Board in its letter of April 26, 1965, to the Honorable Oren Harris, signed by Howard W. Habermeyer, Chairman, seem to us sound and convincing, and we still subscribe to those views. When this bill was sent over the Senate it was referred to the Senate Committee on Labor and Public Welfare and set for hearings before a subcommittee of which Senator Pell was the chairman. At the hearing on June 29, Senator Pell made a statement in which he pointed to a level that would be reached by the actuarial deficit for the railroad retirement account assuming that the spouses' benefit bill—then before the subcommittee—were to pass, and the amendments to the Social Security Act—then before the Senate—were passed. Assuming the passage of these two bills, he stated that the deficit in the railroad retirement account would be raised from \$19½ million to approximately \$61 million a year. In order to cure the deficit, even then not in being, Senator Pell said that he proposed to present an amendment to H.R. 3157 to raise the base for railroad retirement purposes from \$450 per month to \$550 per month. This, he indicated, would reduce the deficit to a level of approximately \$22.3 million a year (which figure is presently estimated at \$24.5 million a year). The added tax burden resulting from the Pell amendment was estimated on a level basis as \$84.2 million per year, of which \$42.1 million would be borne by railroad employers and an equal amount by railroad employees. No mention was made of the fact that in selecting this method of reducing the deficit in the railroad retirement account approximately \$45.8 million of the tax revenue of \$84 million would go to provide additional benefits, nor was any mention made of the fact that the tie-in provisions between railroad retirement and social security would provide additional railroad benefits of \$47½ million as and when the amendments to the Social Security Act become law.

The witnesses who were scheduled to appear on H.R. 3157 were notified just 3 or 4 days before they were scheduled to appear that their views on the proposed amendment of Senator Pell would be requested. The witness appearing for railroad management opposed the Pell amendment as well as the provisions relating to spouses' benefits. The representatives of the railroad employees supported both features, and the Railroad Retirement Board continued to oppose the original provisions of H.R. 3157, but a majority of that Board supported the Pell amendment. The bill was considered by the Senate Committee on Labor and Public Welfare and ordered favorably reported. At that time Senator Pell is reported to have stated that if, prior to the time the bill came up on the floor of the Senate, railroad management and railroad labor could agree on any modification of his amendment, he would offer such agreement by way of modification of his own amendment. At the instance of the staff member for the Senate Labor Committee handling H.R. 3157, two meetings were held between representatives of railroad labor and railroad management. These meetings did not result in agreement. When the bill came up on the floor of the Senate, a point of order was raised that the Pell amendment had turned H.R. 3157 into a revenue measure and as such it should have originated in the House of Representatives in accordance with article 1, section 7, of the U.S. Constitution. This motion was defeated by a vote of 41 to 44, and the measure was then passed. The point of order seems to have been well taken, and even though it did not prevail in the Senate, I would assume that the House of Representatives would be more zealous in guarding its prerogatives than would perhaps the other body in deferring to the House in what might fairly be called a questionable case. Attached to this statement is a very brief—and, admittedly, hurriedly prepared—memorandum in support of the position that H.R. 3157, in its present posture, could not lawfully be enacted.

There is one more bit of information by way of background that is relevant to the recommendations hereafter to be made, so I will diverge for a moment to supply that information. Several months ago the Railway Labor Executives'

Association submitted to representatives of the railroad industry a proposal for amendment of the Railroad Retirement Act providing for a supplemental annuity of \$100 per month for an employee who retired at or after age 65 with 30 or more years of service on a noncontributory basis. Two meetings were held between representatives of management and labor to discuss this proposal, and at the second meeting representatives of railroad management said that further consideration of this proposal would necessarily have to be deferred until after an actuarial study could be made of this proposal in order to determine the cost consequences of this proposal or any proposal providing for a supplemental annuity in any lesser amount. The preliminary report of the firm of actuaries regarding this proposal was submitted just last month. At the same time demands had been served on many individual railroads for supplemental annuities in varying amounts—these demands being made pursuant to section 6 of the Railway Labor Act.

What is done with respect to the increase in the base under the Railroad Retirement Act with its accompanying increases in benefits would necessarily have a distinct bearing upon both the need for such supplemental benefits and the ability of the industry to pay for them. Neither the passage of H.R. 3157 or of H.R. 10874 would do anything to answer the question of the wisdom of continuing certain provisions of the Railroad Retirement Act whereby the increases under the Social Security Act bring about automatic increases in certain railroad benefits. Where the differences in the types of benefits are as great as they are between these two systems, it would not necessarily follow that because a particular benefit needed to be increased under the social security system a corresponding increase would be needed under the retirement system. For instance, the maximum retirement benefit for an employee retiring at age 65 at the end of 40 years continuous service in the year 1965 would be \$133 under social security and \$217 under railroad retirement. This is a difference of \$84 and in the years to come the spread between the two will become even greater (see attached table). If, because of the relatively low primary benefit under social security, it should be decided that the wife's benefit should be increased under that system, it would not necessarily follow that this would be the feature of the railroad retirement system most in need of improvement and yet the increase would be automatic. Not only is the maximum spouses' benefit under railroad retirement equal to that under social security, but it must be at least 110 percent of that maximum.

I am satisfied that all but the keenest students of the Railroad Retirement Act and its interpretation by the Railroad Retirement Board have the impression that this provision would give the spouse of a railroad employee 110 percent as the maximum of what she would have been entitled to had her husband's compensation been earned under the Social Security Act. However, this is not at all so, and the maximum is 110 percent of an amount equal to the maximum amount which could be paid to anyone as a wife's insurance benefit under the Social Security Act. Without attempting to elaborate on the details, the net effect of this proposal and its interpretation will mean that by reason of the amendments to the Social Security Act the maximum spouses' benefit under the Railroad Retirement Act will go up 32 percent by the first of January 1968. There are numerous other tie-ins between benefits under railroad retirement and benefits under social security that should be reexamined. As a general principle we feel it would be sound that changes in benefits under the Railroad Retirement Act be made independently of those made under the Social Security Act. Railroad benefit changes should be made in relation to other benefits under the railroad system and at the same time a decision should be made as to the manner in which the benefits are to be paid for in order to keep the retirement account actuarially sound.

This brings me to the recommendations I would like to make to this committee. By all odds, the most desirable solution would be to defer action on all of the proposals found in either H.R. 3157 or H.R. 10874 thus giving an opportunity to representatives of railroad management to meet with representatives of railroad labor in an effort to agree on what should be recommended to the Congress by way of modification of the Railroad Retirement Act including such matters as the tie-in of benefit provisions with social security, the rate of tax, the monthly earnings base and the legislative proposal of the brotherhoods with respect to a supplemental pension. The piecemeal decisions being made by going forward with either piece of legislation referred to will impede the possibility

of successful negotiations to bring about a sensible solution in this entire area. We feel that Congress should provide this opportunity rather than rush forward with hastily conceived solutions that no one has had an opportunity to study and thoroughly analyze.

The second solution we would suggest would be to proceed with consideration of the spouses' benefit provisions but set aside for this session of Congress any consideration of amendments to the compensation base or tax rate under the Railroad Retirement Act.

The third solution we would offer would be one based upon the approach employed in H.R. 10874. This solution involves taking the provisions of H.R. 10874 and adding to it two additional provisions. One of these would be to provide that, hereafter, the spouse's annuity under the Railroad Retirement Act would be calculated as though the compensation earned by her husband had been earned under the Social Security Act. The spouse's annuity would be based upon the compensation of the employee under the Railroad Retirement Act except that if such employee had earned wages under the Social Security Act but was not entitled to a primary benefit and, accordingly, his wife was not entitled to a wife's benefit, the spouse's annuity would be based upon a combination of the employee's earnings under the two systems. This would not involve a reduction in the annuity of any spouse who had already been granted a spouse's annuity, but annuities already granted would not be subject to future automatic increases. The second change would be to provide for a reduction of 0.25 percent in the tax rate for each side for the years after 1968. The net result of these changes would be to provide the same savings over the cost of the Pell amendment as would H.R. 10874 for the years 1965 through 1968. For the years 1969 and thereafter the cost on a level basis would be approximately \$30 million for each side as compared with \$42 million for the Pell amendment, and the deficit in the fund would approximate \$30 million or a little over a million dollars more than that created by H.R. 10874.

Finally, I shall address myself to H.R. 10874 in the form in which this bill is now before the committee. I can best do this by comparing it with H.R. 3157 as passed by the Senate. The following table will show on a level basis for the last quarter of 1965 and for the years 1966 through 1969 the tax increases for each side that would be created by the Pell amendment and by H.R. 10874 as compared with the taxes that would be paid for those periods with no change in the present base or tax rates.

Period	Pell amendment excess	H.R. 10874 excess	Tax reduction H.R. 10874 versus Pell amendment
(a)	(b)	(c)	(b) minus (c)
Oct. 1 through Dec. 31, 1965.....	0	-10.7	10.7
1966.....	30.7	3.9	35.8
1967.....	39.9	16.0	23.9
1968.....	39.9	28.0	11.9
1969.....	42.3	42.3	0

While the tax reductions shown in the table above appear substantial, it is not to be overlooked that the stretchout effect of H.R. 10874 is not to provide true savings to the railroads and their employees but will result in adding about \$5 million to the annual deficit of the retirement account. Based upon past experience, the situation with respect to the retirement account will not remain static indefinitely and when adjustments are made by reason of the deficit in that account no doubt the \$5 million annual addition to the deficit caused by H.R. 10874 would be paid for by the employers and the employees.

Unfortunately, time has not permitted having a review of this new proposal by the industry so we are obliged to use our best judgment on this question. Having in mind the very serious problems that would be created for certain of the companies covered by the Railroad Retirement Act if H.R. 3157 with the Pell amendment were to pass, and in the belief that the stretchout of the impact of these tax increases will give all parties concerned a better opportunity to

make their plans to meet such increases, we believe that the majority of the railroad industry would express a preference for H.R. 10874 over H.R. 3157.

If H.R. 3157 were adopted in the form passed by the Senate it would not be a valid statutory enactment

Article I, section 7 of the Constitution provides:

"All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills."

The question arises whether the Pell amendment to H.R. 3157 constitutes this measure as a bill for raising revenue that should originate in the House of Representatives. In the Senate debate on this question on September 1, 1965, three Supreme Court cases were cited to support the contention that the Pell amendment did not run afoul of article I, section 7. These cases are *U.S. v. Norton* (91 U.S. 569 (1876)); *Twin City National Bank v. Nebeker* (167 U.S. 196 (1897)), and *Millard v. Roberts* (202 U.S. 429 (1906)). In all three cases the provisions for raising revenue were merely incidental to the main purpose of the bill, and in none of them was it the primary purpose of the act. In *U.S. v. Norton* the principal purpose of the bill was the creation of the postal money order system. In *Twin City National Bank v. Nebeker* the Court stated, "The main purpose that Congress had in view was to provide a national currency based upon U.S. bonds, and to that end it was deemed wise to impose the tax in question." As the Court went on to say, "The tax was a means for effectually accomplishing the great object of giving to the people a currency that would rest, primarily, upon the honor of the United States, and be available in every part of the country." In *Millard v. Roberts* the Senate initiated an act which required certain railroads to eliminate grade crossings and to construct a railroad depot. In that case, a sum of money was to be paid to the railroads to be raised by the levy of a tax on the property of area residents and the Court concluded, "Whatever taxes are imposed are but means to the purposes provided by the act." There are two other cases involving interpretation of this section of the Constitution, *Flint v. Stone Tracy Company* (220 U.S. 107 (1911)) and *Rainey v. United States* (232 U.S. 310 (1914)). In each of these cases new tax provisions were added by Senate amendments but in each case the bill to which the amendment was attached was deemed by the Supreme Court to have been a revenue measure itself and one that originated in the House of Representatives. In each case the Supreme Court held that that was sufficient.

In the present situation it is entirely clear that H.R. 3157, as it passed the House of Representatives, was not a revenue measure. Therefore, the tests of the *Stone Tracy Company* case and the *Rainey* case are not met. Also, it seems quite clear that the tests of the *Norton* case, the *Nebeker* case and the *Roberts* case are not met by the situation at hand. To say that the Pell amendment is merely incidental to the main purpose of the bill is patently absurd. In the first place, it is beyond reason to say that an amendment which would provide taxes in the amount of \$84 million a year was merely incidental to the main purpose of a bill that provided for certain additional benefits in the amount of \$14 million a year. This position is further fortified by the statement of Senator Pell at the hearings on H.R. 3157 on June 29, 1965, when he gave official notice of his intention to propose the so-called Pell amendment to H.R. 3157 and asked the witnesses to address their testimony to his proposed amendment as well as to the bill. In that statement he outlined the situation with respect to the deficit in the railroad retirement account and how his amendment would tend to reduce that deficit. It is true that the increase in the base proposed by Senator Pell in his amendment would create certain additional benefits as well as bring in additional tax moneys, but his statement does not include one word as to any need for such increases in benefits or, in fact, that it would have this result. The whole tenor and emphasis of the statement is on the amount of money that would be raised to offset the deficit in the railroad retirement account, more than half of which was not attributable to either H.R. 3157 as passed by the House, or the Pell amendment itself.

It seems inescapable that H.R. 3157 as passed by the Senate has become a bill for raising revenue and, not having originated in the House of Representatives in that form or in any other form that could possibly be deemed a revenue measure, the resulting statute—if enacted—would be in violation of article I, section 7 of the Constitution.

Maximum social security and railroad retirement benefits for employees who will retire at age 65 at the end of years 1965-76 after 40 years of continuous service

Date of retirement Dec. 31	Social security (PIA)	Railroad retirement	
		Present law	With \$550 earnings base after 1965
1965.....	\$133	\$217	\$217
1966.....	136	220	222
1967.....	138	229	232
1968.....	141	238	244
1969.....	143	247	254
1970.....	144	257	265
1971.....	146	266	276
1972.....	147	275	287
1973.....	148	284	298
1974.....	149	294	308
1975.....	150	303	320
1976.....	151	312	330

Source: Office of the Actuary and Research, U.S. Railroad Retirement Board, July 23, 1965.

Mr. PRINCE. Mr. Chairman, in your opening statement you described the principal features of the bill that is now before the committee, so I will not undertake to repeat that at this point in my statement. I don't believe we can fairly come to the question before us without some reference to the background that brings us to this point in time.

Very briefly, the situation is this: H.R. 3157, introduced by the chairman, was before this committee earlier this year, reported out and passed by the House of Representatives. That bill dealt only with the so-called spouse's benefit, eliminating the reductions in the spouse's benefit that now are included in the act where the spouse earns a primary benefit either under social security or under railroad retirement. Such a benefit is deducted from the spouse's benefit.

That bill was opposed by the Railroad Retirement Board. Mr. Habermeyer addressed himself to that further this morning. It was also opposed by the representative of railroad management. In the preceding Congress the representative of the Railroad Brotherhoods also opposed that provision. Later, they came to support it. We still, as does Mr. Habermeyer on behalf of the Retirement Board, oppose that provision. We do not think it is a sound provision. We do not think that this piecemeal approach to the problems in the railroad retirement system is a good one.

I just might mention one little factor regarding the spouse's benefit. We point to the fact, and the report of the committee points to the fact, that some 40,000 of them will lose their dual benefits under the law as it stands today, and that this is what the spouse's bill undertakes to cure. However, it is a curious thing that we have just gone through amendments to the Social Security Act and nobody seems to regard it as inequitable or unfair that under that act in the case of hundreds of thousands of wives a deduction is made from the wife's benefit when she, herself, earns a primary benefit under the social security system. In fact, it isn't even known how many. The best figure we could get from the Social Security Board was that approximately 275,000 of them had deductions made from their wife's

benefit by reason of their own primary benefits under social security. And where their primary benefits exceed their wife's benefit, the Board has no record of it and it is believed that that number probably greatly exceeds the 275,000.

So, I say to you that the provision in the current law is not an extraordinary one, and you didn't see fit to do anything about it in social security. We still say that we think it is a mistake to go at this one provision of the Railroad Retirement Act.

The CHAIRMAN. Can a spouse draw her railroad retirement to which she is entitled under covered employment with the railroad industry and at the same time the spouse's benefit?

Mr. PRINCE. Not at the same time as the spouse's benefit, Mr. Harris. If she has a primary benefit—no, excuse me. If she is the wife of an employee working under social security—

The CHAIRMAN. I am not talking about social security. I am talking about railroad retirement.

Mr. PRINCE. A spouse, the wife of a railroad man, has deducted from her benefit as a spouse any amount that she may be entitled to by reason of her own service under railroad retirement or social security.

The CHAIRMAN. I don't want to interrupt here, but the railroad retirement feature in that respect is precisely the social security feature, of people covered under social security versus people covered by railroad retirement.

Mr. PRINCE. That is correct, Mr. Chairman. You are now changing it, though, by your provision. Bear in mind that the important thing under social security is that of the 2,800,000 wives, only 1,000 of them are employed by railroads and entitled to any railroad benefits. And of the many, many thousands of them that are employed themselves under social security, their benefits under social security are deducted from their wife's benefit under that system.

That is the really significant thing. That makes it comparable to what we have today in the railroad industry, and your amendment would remove, as a practical matter, that comparability.

Mr. MOSS. Mr. Chairman, would the gentleman yield at that point?

The CHAIRMAN. Mr. MOSS.

Mr. MOSS. I wonder if the significant factor is a comparison of railroad retirement with social security, or whether a more appropriate comparison would be the railroad worker and his spouse and a steelworker or a worker in the automotive industry and his spouse, as to the types of benefits that they can draw under (1) the company plan, plus social security, and (2) the total package which the railroad employee and spouse would draw from railroad retirement.

Would you come up with perhaps a little more interesting result? There is no reduction in either the social security or the company-sponsored package under, say, the steelworkers' contract?

Mr. PRINCE. I am sorry, Mr. MOSS, I am not familiar with the steel company contracts, or any of the outside supplemental benefit plans.

Mr. MOSS. Don't we have to take some cognizance of the progress being made in these areas of negotiated packages supplementary to social security when we study railroad retirement, where we have a unique situation? We have a private system, all contributions being from the employee and the employer, governed under laws written by

the Congress and administered by a board of directors appointed under law and compensated entirely from the fund. It is a private system that was put together under law and directed under law. The total package that it produces should be consistent with the packages being produced in the combination systems in American industry, shouldn't they?

Mr. PRINCE. Let me say that if that is relevant and should enter into your determination of what to do about the Railroad Retirement Act, there certainly have been no hearings that brought forth the facts in that regard on which we would be in a position to act today.

Mr. MOSS. I am quite aware of the fact that there have been no hearings. As a matter of fact, I sometimes felt that perhaps we should, in considering railroad retirement, take a look at the overall gains of American industrial workers. The railroad employee is in much the same predicament as the employee of the steel industry, the utilities industry other than railroads, and in many instances great progress has been made in fringe benefits, perhaps moving ahead of the railroads. I don't know.

Mr. PRINCE. Let me say in that regard that several months ago, in the spring of this year, the representatives of the Railway Labor Executives' Association asked to confer with representatives of the Association of American Railroads, and later I think with a subcommittee of our board of directors, at which they outlined a plan for supplemental benefits in the railroad industry that they would like to propose by way of amendment to the Railroad Retirement Act, calling for a benefit of \$100 a month for what they referred to as career railroad employees, those aged 65 with at least 30 years of service, the \$100 per month to be provided solely at the expense of the employer without any contribution by the employee.

We took the plan and said that we would consider it; that we thought it properly did belong for consideration along with what should be done under the Railroad Act, just as you have indicated, and that these matters should be taken up together. We should study the Railroad Retirement Act, the deficiencies that might be in that system, points where it is low in benefits, points where it is unexpectedly and perhaps unnecessarily generous—all of that along with their demand or their suggestion for legislation providing for a supplemental pension.

We also said that this required study. It was a matter we had not had before us heretofore, and we needed an actuarial study. We needed to know what the costs would be of a supplemental benefit of the kind they were speaking of, or some lesser supplemental benefit.

We undertook to retain a firm of actuaries to give us the basis on which we could conduct conferences intelligently about this proposal of theirs. We have just received the preliminary report from them, in August of this year. The backup part of this report is about 12 inches high. But by the time we got this report we were embroiled in this "fight," if you will call it that, over the Pell amendment, and we were unable to continue our discussions of this or of the changes that ought to be made in the retirement act.

We think—and this brings me to what the real recommendation is that we would like to make to this committee—that we ought to be given the opportunity to sit down, calmly and quietly, with the repre-

sentatives of railroad labor, consider the Railroad Retirement Act, the effect upon that act of the passage of the social security amendments, the effect upon the deficit, the need for additional benefits, if any, under the Railroad Retirement Act; this supplemental benefit proposal of the Railroad Brotherhoods; the various tie-in provisions between social security and railroad retirement.

Incidentally, and as an aside, it is those tie-in provisions that make for automatic increases in our system whenever there is an increase in certain of the benefits under social security, that are responsible for the high deficit in our system. It is not just the financial interchange. Financial interchange benefits us. But it is these automatic tie-ins. All of these ought to be part of this conference.

Mr. Moss. Aren't you oversimplifying dangerously by stating that it is those automatic features which have led to the deficit? Isn't it the fact that the deficit is far more complex than just the automatic features that are built into the system?

Mr. PRINCE. Certainly this is not by any means the sole factor. I didn't mean to indicate that. I meant it was one of the important things that ought to be considered in a thorough review of this situation. We think that the Congress would be taking a wiser step if they postponed the consideration of this whole thing, the spouse's benefit, the increase in the base, the change in the tax rate, until early in the next session of Congress, and give us the opportunity to see if we can't sit down with railroad labor and work out a sensible solution to this, and including consultation with the Railroad Retirement Board which knows the weak features of our act. We think that that would be the best thing that could be done in the present situation.

Mr. Moss. Before returning the floor to my chairman, I want to say that I cannot disagree with the conclusion you have reached that a study is necessary, but I don't think it is necessary to delay action on this rather minimal improvement in order to undertake that study. I think that study is finally going to have to be undertaken for many reasons.

I have read your statement with great care, and I don't think that the case is made for postponement, but certainly it well predicates the need for a comprehensive study of the system.

Mr. PRINCE. May I comment on one remark of Mr. Moss' before the next question?

The CHAIRMAN. The Chair does not want to interrupt, but I do think you ought to make your statement before we get off into these ancillary things, which I anticipated we were going to get into. I do feel if we could stay pretty much on what you have here to try to straighten this out, we would all be better off.

Mr. PRINCE. I would be happy to comply with that, if you wish.

Mr. MACDONALD. I don't believe my question will bring up any ancillary matters, but I take it you oppose the so-called Pell amendment on the basis of cost to the railroad; is that correct?

Mr. PRINCE. Cost to the railroad is a very important feature of it. Don't mistake me. There is more than that, however. I say it is an impediment to any conferences to settle this whole problem, including their demand for a legislative enactment of a supplemental benefit. That needs to be coupled with consideration of the benefits under railroad retirement. You can't help but have the two related. The cost

of these present changes in the railroad retirement will very definitely affect the ability of the industry to provide any supplemental benefit or to meet the cost of such.

So the two ought to be dealt with together.

Mr. MACDONALD. You are perhaps correct about that, but I was wondering if you know, representing the Association of American Railroads, what the cost to the American railroads would be.

Mr. PRINCE. Of the present bill, sir?

Mr. MACDONALD. Of the Pell amendment.

Mr. PRINCE. The Pell amendment? It is estimated on a level basis that it would cost \$42 million a year to each side, the employer and the employees alike.

Mr. MACDONALD. Spread out among how many railroads?

Mr. PRINCE. I don't know how many are subject to it. It is a vast number of railroads, some 500 or 600, probably.

Mr. HABERMAYER, do you know the number?

Mr. HABERMAYER. It would be about 600 or 700, I think, counting the short lines. There are about 250 short lines, and 100-some class I's, a lot of switching and terminals.

Mr. PRINCE. Probably 95 percent of it is paid by the class I railroads, of which there are less than 100 now.

Mr. MACDONALD. Being counsel for the railroads, you are better at mathematics than I am, but how much would it come out to for each railroad?

Mr. PRINCE. You can't measure in terms of averages, because you have too many rabbits and too many elephants in the picture.

Mr. MACDONALD. And maybe too many railroads.

Mr. PRINCE. Perhaps. There are some steps being taken to try to make a more efficient and orderly system out of our railroad system. It is very hard to answer the question, Mr. Macdonald. I am not trying to dodge it. I just don't see how I can give you a very sensible answer. I know one or two railroads in the northeast that are in very bad financial condition that indicated the cost of this would be a very severe blow to them.

Mr. MACDONALD. Is it the Federal Government or the State government that is now running them?

Mr. PRINCE. I didn't understand your question.

Mr. MACDONALD. As I understand, the New York, New Haven & Hartford is in bankruptcy and being run by trustees.

Mr. PRINCE. That is correct.

Mr. MACDONALD. Therefore, the railroad, itself, will not absorb a loss. It is public funds that are running them at present.

Mr. PRINCE. That is sort of a side issue, I guess, as to who pays the costs of the New Haven.

Mr. MACDONALD. I was referring to the northeast railroads in general.

Mr. PRINCE. You indicated you would like to know how much it costs on certain railroads. I have the figures on a few. Perhaps that will help you to have a rough idea of what the impact is on certain railroads.

It would cost the New Haven, the employer, half of the taxes, about \$500,000 a year; for the Boston & Maine, about \$200,000 a year; for the Reading Co., about \$400,000 a year; for the Erie-Lackawanna,

about \$800,000 a year; for the Central Railroad, of New Jersey, about \$200,000.

Taking a larger railroad, the C. & O., the employer's share would run about \$2½ million a year.

I just happen to have those figures on particular railroads that will give you some idea of the cost to the individual railroads.

Mr. Chairman, I am trying to follow your suggestion.

The CHAIRMAN. I hope we can go ahead with the bill we have here before us.

Mr. PRINCE. I may be able to skip a good bit of my statement by reason of the discussion that has taken place.

I was going on to point out the haste with which this whole problem was approached in the Senate. When the House bill went over to the Senate, hearings were set on the House bill, a bill involving \$14 million in added benefits, at a cost roughly of \$7 million to each side. It got over there and after being noticed for hearing on that basis, the chairman, about 4 days before the hearings, gave word to the witnesses that he would like to hear from them on a proposed amendment he was going to make.

The tail of this dog would have added \$84 million to the cost as compared to the original \$14 million. There was no notice of that officially. When the witnesses appeared on Tuesday, they were requested to express their views about this amendment. This amendment was put in to cure a deficit that had not even occurred. It was a deficit premised upon the assumption that the Social Security Act was going to pass, which would create an additional deficit in the railroad system, and, it is true, it did, and on the assumption that the very bill to which this amendment was to be attached, the spouse's bill, would pass, and would add a deficit.

So he asked witnesses to appear and tell what they thought of an amendment to cure the situation that hadn't even happened. That is just an example of the haste with which Congress, the Senate, undertook a problem of this magnitude with a proposal to increase the monthly compensation base from \$450 to \$550 a month, the largest increase since the inception of the Railroad Retirement Act in 1937. We are asked to deal with it on that basis.

Our witness had no figures. He was unable to make much of a statement. It was later supplemented by a written statement. But I don't think that is the way this Congress should undertake consideration of a measure of this great importance.

I think that fortifies the reasons I gave earlier as to why action by the Congress on this matter should be deferred until we have an opportunity to approach it intelligently through conferences with the railroad employee representatives and the Retirement Board.

This was done in 1963 for the first time in many years, and it saved this committee the pushing and pulling that has gone on through the years with railroad employees putting up proposals and railroad management fighting them, and a real donnybrook ensuing every time. We settled it intelligently in 1963, and we were hopeful we would be able to do it again. We haven't had a fair opportunity.

Mr. Chairman, I touched very briefly in my statement on the point of order raised in the Senate on S. 3157 and I will not say anything here. I attached a brief memorandum to my statement. It was

rather hurriedly prepared, because there just hasn't been much time. It deals with the point of order.

There is one other thing I want to say about these tie-ins with social security, whereby increases in social security bring about automatic increases in benefits under the railroad retirement system. It does not follow that because one particular benefit under social security needs improvement that that same benefit under the Railroad Retirement Act is the one most in need of improvement.

For example, what is going to happen to spouses as a result of the tie-in with social security is a perfect example of this. The benefits for spouses—and I am not talking about old H.R. 3157 and the spouse's provision in that, I am not talking about that at all—as a result of the amendments to the Social Security Act the spouse's benefits which have heretofore borne a relationship of about \$63.50 for the maximum spouse's benefit under social security, to \$69.50, or some such figure as that, for railroad retirement. Because of this tie-in between social security and railroad retirement, and a certain gimmick in the law, the benefits to spouses under railroad retirement between the time just preceding the passage of the Social Security Act Amendments and January 1, 1968, are going up 32 percent. The spouse's maximum under railroad retirement is going up from \$69 and a fraction to \$92.40. That is because of this automatic tie-in.

I say that is one of the things that ought to be examined. I think as a principle we ought to decide the benefits that need to be improved under railroad retirement, the manner in which the money will be raised, the way in which to keep the deficit down to a level that will make the system actuarially sound; and we ought not to be tied in on these automatic benefit provisions to social security.

Mr. Chairman, I gave, as our first recommendation, the deferment of consideration of this proposal in its entirety. I would say our second proposal is sort of an expedient answer along the line that Mr. Habermeyer gave. I say the second best thing would be to go ahead and pass the original spouse's bill, if you will. We don't think it is a sound move, but if you will, go ahead and pass it and hold over the changes in the base and tax rate until next session. This clearly is an expedient answer simply because the matter of the tax base and rate is a far more important part of the whole proposal than the spouse's benefit bill. It costs \$84 million as against the \$14 million for the spouse's provision.

If that is not something that can be done at this stage of the game, and you feel something has to be done now and you can't wait until next year, then I would recommend a third solution. This solution follows very closely the solution advanced in H.R. 10874. It would adopt the increase in the base to \$550 a month. It would adopt the tax structure in that bill precisely. But there would be two amendments to that bill: one amendment would provide that hereafter the spouse's benefit, benefits of wives of railroad workers, would be determined as though the railroad employee were working under social security. In this way, the railroad man's wife would obtain the same spouse's benefit as she would obtain if her husband were working under social security.

We think that is amply generous with regard to the spouse's benefit, because when you look at the spouse's benefit, as I said before, you can't

look at it in a vacuum. A spouse's benefit is one to the wife of a living annuitant. It was provided to enable two aged people to get along. The annuitant's benefit is a very important and significant factor in determining what the level of the spouse's benefit needs to be in order to be fair and equitable.

Where you have the annuitant's benefit under railroad retirement practically double, almost to the dollar, what it is under social security, then I say a spouse's benefit at least the equal of that of the spouse of a worker under social security is ample.

And then at the end of the line, in 1969, when, under H.R. 10874, the tax structure would go back to the original tax structure, we would suggest that you continue in effect a reduction of one-quarter of 1 percent for each side.

With those two changes, the effect of the bill would be not only to stretch out the impact of the tax increases resulting from the increase in base for a $3\frac{1}{4}$ -year period, but it would continue some decrease into the future. It would leave a deficit in the railroad retirement fund of around \$30 million. This compares with \$29.8, I think it is, as the deficit left by H.R. 10874. So it is substantially the same.

With those two amendments, we would accept this bill.

The CHAIRMAN. One of them was a different formula for computing the spouse's benefit, and what was the other?

Mr. PRINCE. A reduction in the tax rate for the years after 1968 of one-quarter of 1 percent for each side.

The CHAIRMAN. That would be one-half of 1 percent, or a savings of about \$22 or \$23 million?

Mr. PRINCE. That is right. This would largely be offset by the change in the formula with respect to calculation of future spouse's benefits.

The CHAIRMAN. How much would be saved in the different formula of the spouse's benefit?

Mr. PRINCE. Around \$21 to \$21.5 million is the best estimate we have been able to get from the Retirement Board. This would not lower the benefits of any spouses already on the rolls. Any annuities already granted would not be affected. What it does it take away the prospect for this rather inordinate increase that is going to take place over the next 2 years in spouse's benefits. They just jumped from \$69 to \$74, and they are going to jump in 2 years from \$74 to \$92. No other benefits under this act or social security will have any such jump as that.

So, Mr. Chairman, that is our third recommendation.

The CHAIRMAN. What is the formula, to take this a little further—and I know this is getting into technical detail—for determining the spouse's benefit under railroad retirement under present law?

Mr. PRINCE. Under railroad retirement, the benefit is one-half, I believe, and I stand to be corrected, of her husband's, but with a maximum of 110 percent of the benefit that might be granted to any annuitant under social security. This is the gimmick in the law I referred to earlier.

The CHAIRMAN. Explain how that operates.

Mr. PRINCE. Mr. Chairman, I will probably falter along the line, and I hope Mr. Habermeyer will correct me.

The CHAIRMAN. Say the employee gets a retirement of \$200 a month, and the spouse gets a benefit of one-half of that, or \$100.

Mr. PRINCE. She would not be entitled to that when she exceeds the maximum.

The CHAIRMAN. But let's take it a step at a time. The first step would be 50 percent.

Mr. PRINCE. That would be the first step.

The CHAIRMAN. It would be \$100.

Mr. PRINCE. If it were less than the maximum, she would get the whole thing. If it were more than the maximum, it would be cut down.

The CHAIRMAN. If it were the maximum, what would be the benefit? That is, on \$200.

Mr. PRINCE. This year, I judge it would be \$69. No, it is \$74 now, since the amendment to the Social Security Act.

The CHAIRMAN. We already determined it to be \$100.

Mr. PRINCE. Then it would jump to \$83 and then to \$92. Mr. Chairman, there is just so much money in the railroad retirement account.

The CHAIRMAN. I know, but let's go back to this. If you are like myself, if you don't know how to do it, we will ask one of these other experts about it.

Mr. PRINCE. I think I have told you generally how it is done.

The CHAIRMAN. It can't be correct, because we have already shown that the first step would make her entitled to \$100 a month.

Mr. PRINCE. That is right. She would be entitled to it, if it didn't exceed the maximum.

The CHAIRMAN. If it exceeds the maximum—

Mr. PRINCE. Then she is cut down to the maximum limit.

The CHAIRMAN. Do you mean if it exceeds the maximum, she gets a reduced annuity?

Mr. PRINCE. That is right. That isn't any great surprise, I wouldn't think.

Mr. Chairman, let's look at this thing another way. The spouse's benefit has no more been "purchased" by the employee than is a wife's benefit under the Social Security Act. If it is purchased by the taxes paid by the employee, what about the bachelors? There is no spouse's annuity for them, and yet they have paid the same amount of taxes as the married men.

The CHAIRMAN. We can't argue to get rid of that. Every system has benefits for a spouse, including our own, the Federal employees, railroad employees, social security, everyone. We can't do away with that.

Mr. PRINCE. All I say is that it ought to be related to the other benefits under the system. The very purpose of putting in the spouse's benefit—and you didn't have one originally—go back and read your own reports—was to provide two aged people enough to live on. If you have a spouse, you need additional money.

I have one additional thing to say, and then I will be through. That is, that I suppose at this point in time we should comment on H.R. 10874 just as it is before this committee. I think that can best be done by making a comparison of it with the H.R. 3157 as it passed the Senate. You will find that that is done on page 8 of my statement, where there is shown the amount of cost on a level basis in taxes for

each side as compared with what the taxes would be if there had been no change in the present base of \$450 and on change in the tax rate scheduled to go into effect under present law.

The amount by which the Pell amendment, as I have designated it, that is, H.R. 3157 as it passed the Senate, exceeds what costs would have been under present law, is in column B; in column C you see what would happen under H.R. 10874 as it is before this committee now, and then in the final column the amount of money each year that would be saved to each, the employer and the employees as between H.R. 10874 and the so-called Pell amendment.

The savings are substantial in the 4-year period, but I want you to appreciate the fact that this is not a saving in a true sense. You are not granting any great saving to the railroad employees or to railroad management. This is something that has to be paid for and a check picked up for it on a deferred basis. As Mr. Habermeyer said, this will add about \$5 million a year to the deficit on a level basis. That is the effect of the stretchout. The assumption is that at some point in time we will have to pick up the check for that or our share of it. Despite that fact, I think as between this bill and H.R. 3157 as it passed the Senate, the majority of the railroad employers would prefer H.R. 10874. As you know, this bill was introduced on Friday, the first inkling we had of a bill along this line. The Labor Day weekend intervened. We have had no opportunity to confer with others in the industry. We are obliged to use our own best judgment, and primarily because this allows people to plan for what is going to hit them in the face, we think it is better than the old bill.

Mr. Chairman, that concludes my statement.

The CHAIRMAN. Mr. Rogers.

Mr. ROGERS of Texas. Mr. Prince, the \$200 figure that Mr. Harris was talking about a minute ago as being the retirement of the railroad employee, under the first application the wife would get \$100. But because of your spouse limitations, as I understand you, she would only get \$74 now.

Mr. PRINCE. Yes, sir.

Mr. ROGERS of Texas. And this would be increased to \$82.

Mr. PRINCE. By January 1, 1968.

Mr. ROGERS of Texas. But let's take the present situation. What is the formula, or how would the formula that you advocate work, being applied to that same hypothetical case?

Mr. PRINCE. This is very difficult to give you exactly, what it would be in dollars, because you have to take the individual railroad employee and determine how many quarters he worked, and it might depend on how regular his employment had been, and all of that. But what you do is, say, take the railroad employee and consider that he had worked under social security and then calculate what his benefit would have been under that system and then half of that would be his spouse's benefit, with a maximum that is prescribed under social security.

We say that if that is enough for a spouse under social security with a husband getting only about half of what a husband is getting under railroad retirement, it should be enough for the spouse of a railroad man.

Mr. ROGERS of Texas. What would a spouse get at the end of the roll? What would the spouse get instead of \$92, according to your formula? I just want the average.

Mr. PRINCE. My guess is that she would get around \$70.

Mr. ROGERS of Texas. Around \$70?

Mr. PRINCE. Yes.

Mr. ROGERS of Texas. That would be less, actually, than she is getting now?

Mr. PRINCE. Less than one who had gone on the rolls under the old formula; yes.

Mr. ROGERS of Texas. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. How many spouses did you say are under this program? Did you say 40,000?

Mr. PRINCE. I believe so.

The CHAIRMAN. Do you suppose they will have a march on Washington?

Mr. PRINCE. I don't believe I would win a popularity contest with the spouses.

The CHAIRMAN. Mr. Younger.

Mr. YOUNGER. On page 8, you don't say whether the figures are millions of dollars, or cents, or what they are.

Mr. PRINCE. I am afraid that was in the haste of about 10 o'clock last evening. They are millions of dollars. Thank you very much.

Mr. YOUNGER. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Staggers?

Mr. STAGGERS. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Curtin?

Mr. CURTIN. No questions.

The CHAIRMAN. Mr. Friedel?

Mr. FRIEDEL. No questions.

The CHAIRMAN. Mr. Broyhill?

Mr. BROYHILL. No questions.

The CHAIRMAN. Mr. Macdonald?

Mr. MACDONALD. I don't want you to sound like a Mr. Scrooge, but isn't it difficult for these people who have paid into social security all during their working years to suddenly find out, in talking about the spouses, after they have paid into social security that they are not entitled to anything under social security? Wouldn't you think that is a very harsh and difficult thing for them to face?

Mr. PRINCE. That isn't quite the situation as I see it, Mr. Macdonald.

Mr. MACDONALD. It is exactly the situation.

Mr. PRINCE. They would get their social security benefit.

Mr. MACDONALD. If they are married to a railroader and they retired, under the section they are absolutely ineligible to receive social security.

Mr. PRINCE. I think you are incorrect, sir. They would get their social security benefit. What would happen, and this is probably what you have in mind, is that that would be credited against a spouse's benefit under railroad retirement. But she would draw what she earned. The theory of this spouse's benefit is, she doesn't need it as much as the one who has no benefit.

Mr. MACDONALD. And how much a month?

Mr. PRINCE. I don't know what you are referring to.

Mr. MACDONALD. How much money?

Mr. PRINCE. \$65, say.

Mr. MACDONALD. A month?

Mr. PRINCE. A month.

Mr. MACDONALD. Do you think any human being can live on \$65 a month?

Mr. PRINCE. To try to put it in that way, Mr. Macdonald, is a very unfair question.

Mr. MACDONALD. I don't want you to sound like Mr. Scrooge.

Mr. PRINCE. You are trying to paint me a little blacker than I am, I think, in this picture. I am saying that you have so much money to spend, and this is just what Mr. Habermeyer said with respect to your spouse's benefit provision, and there are other places that need it more. Why, if this is so unfair and so unjust, do you do it under social security to hundreds of thousands of wives? You are not as concerned about the hundreds of thousands of wives under social security whose husbands work under social security as you are about these 40,000 under railroad retirement.

Mr. MACDONALD. This committee doesn't deal with social security, as such.

Mr. PRINCE. I didn't hear your voice raised at the time of the social security amendments on behalf of those wives whose benefits are reduced. That is just what happens under social security. All I am saying is that there are probably better places to use that money under railroad retirement.

Mr. MACDONALD. I didn't follow the last part of your statement.

Mr. PRINCE. There are probably better places to use whatever money this spouse's provision would cost, for other purposes.

Mr. MACDONALD. Like what?

Mr. PRINCE. Widows, the wives of deceased annuitants. She needs more money than does a spouse who has a husband living and drawing an annuity about double what the annuity would be for a man working under social security.

Mr. MACDONALD. Without being flippant, of course, the fact that two can't live as cheaply as one, I think, is well established.

Mr. PRINCE. I would agree.

Mr. MACDONALD. I am just asking, do you think that this provision to deduct from the spouse's ability to get payments from social security after they have paid in social security all during their working lives is a just one?

Mr. PRINCE. I can't answer your question that way, because she gets what she earned. She does not get the spouse's benefit.

Mr. MACDONALD. But it is deductible from what she is eligible for under railroad retirement.

Mr. PRINCE. That is correct.

Mr. MACDONALD. Do you think that is fair?

Mr. PRINCE. I think that is proper and just under the circumstances.

Mr. MACDONALD. Then I retract my earlier statement about Scrooge. I yield to the gentleman from California.

Mr. MOSS. Getting back to the point I mentioned earlier, I think that in comparing social security with railroad retirement, we must recognize that many of the people who are retiring under social security frequently have supplemental benefits from their employer which are not available under the railroad retirement system. Here you are dealing with one package and not two.

The CHAIRMAN. Are there further questions? Mr. Harvey?

Mr. HARVEY. No questions.

The CHAIRMAN. Mr. Jarman.

Mr. JARMAN. As I said earlier, I am concerned about the speed with which we are trying to move on this, at the end of a long session.

Mr. PRINCE, you recommend the Congress defer action until labor, management, and the Board can confer and come up with recommendations. Would you prognosticate or make any kind of prediction as to what time would be involved in that, and when we can anticipate recommendations?

Mr. PRINCE. In 1963, if my memory serves me correctly, Mr. Jarman, we did the job in under 3 months. We didn't meet daily. We would have meetings, put forth propositions, go off and study them, make cost calculations, come back together again and throw out new ideas. It seems to me that that time we did it in about that length of time. This would be, say, a little bigger problem, because of the injection of the supplemental benefit into the picture. But I would think we are talking in terms of perhaps 4 months or something like that, 3 or 4 months, in which we could determine whether we could arrive at a solution by mutual agreement, or whether we were unable to.

Mr. JARMAN. Then you feel it could be done by the early part of the next session of the Congress?

Mr. PRINCE. Yes, sir.

Mr. JARMAN. Thank you.

The CHAIRMAN. Mr. Watson?

Mr. WATSON. Mr. Chairman, I have no questions, but I am persuaded to make this observation.

If you and those you represent, as well as the gentlemen on the Retirement Board, were as little concerned about deficits as this Congress has been over the measures that we have passed this year, really we would have no problem. I applaud you for your concern over the effect of this legislation on your retirement fund deficit.

The CHAIRMAN. Mr. Dingell.

Mr. DINGELL. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Rogers.

Mr. ROGERS of Florida. Mr. Prince, as I understand it, you think if we simply delay this until January or February that would perhaps be a good time for you to get together and come before the Congress with a proposal?

Mr. PRINCE. Yes, sir; I sincerely do.

Mr. ROGERS of Florida. Thank you.

Thank you, very much, Mr. Chairman.

The CHAIRMAN. Mr. Pickle?

Mr. PICKLE. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Satterfield?

Mr. SATTERFIELD. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Ronan?

Mr. RONAN. No questions.

The CHAIRMAN. Mr. Huot?

Mr. HUOT. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Williams?

Mr. WILLIAMS. I have no questions, Mr. Chairman.

The CHAIRMAN. I have just one inquiry about what I think is a rather important suggestion that you have, and that is about changing

the formula for the spouse's benefit. I know that the railroad industry opposed that benefit when it was originally adopted a good many years ago. The railroad employees, however, face a much higher rate of tax than does the social security employee.

Mr. PRINCE. That is correct.

The CHAIRMAN. What would be your answer to determining a formula for the spouse who is benefited under social security, where the tax rate is much less than it would be under railroad retirement, where the employee pays a much higher rate?

Mr. PRINCE. Simply this, Mr. Chairman, that the employee himself uses up that money in his primary annuity, which is about double that of the primary annuitant under social security.

The CHAIRMAN. Of course, the rate is about double, too.

Mr. PRINCE. That is right. But you can only use this money once. If you use it for spouses, then you can't use it for widows and you can't use it for children of school age, a project that some people think ought to be covered by our law. You can't use it for survivors. You can't use it to increase the annuitant's own benefit. It is just a question of deciding where you should use it and where most sensibly.

The ultimate of my whole presentation is that in this situation, where the primary annuitant under railroad retirement is getting about double what the primary—

The CHAIRMAN. Pardon me a moment. I think in order to expedite the consideration of this we will come back at 2 o'clock this afternoon. A representative of the Railway Labor Executives' Association will be on the witness stand.

Mr. PRINCE. To finish the one sentence, where he is getting about double what the primary annuitant gets under social security, if their wives got the same amount, calculated on the same formula, that would be a fair and reasonable solution.

The CHAIRMAN. I don't know, myself, what is a fair and reasonable solution.

The only problem I would have, which it would seem would concern everyone of us, would be the effect of a proposal to bring about an automatic reduction to 40,000 spouses in the country. I sort of hate to think what would happen to me. If that were to be done, I would want to bar the door.

Mr. PRINCE. Mr. Chairman, we can make a lot of jokes about spouses, and I know that my statement wouldn't be very popular with them, but remember that this is not reducing the benefits of anybody who received an award of a spouse's benefit. Nobody is going to have it reduced. What it does is for the future they cannot expect the automatic increases that they can now look forward to. Future spouses retiring 5 years from now cannot look forward to it.

The CHAIRMAN. But Mrs. Jones lives next to Mrs. Smith and Mrs. Jones is getting the higher rate and Mrs. Smith is getting the lower rate. I am talking about a practical difficulty.

Mr. PRINCE. Let me point out one other difference. Wives, under social security, if I am not mistaken, once they have been awarded their benefit that benefit stays at that level, unless there is an across-the-board increase, such as the recent 7-percent increase. That is not true under railroad retirement. A wife getting the spouse's benefit under railroad retirement will go up automatically under these steps; for example, one who is getting \$74 today will, in 1968, draw \$92.

So, in effect, you are making it retroactive for them. That is a feature that is most unusual. Those are the things that I think some study should be given to.

The CHAIRMAN. I do think that a lot of study should be given to it. What I had in mind in trying to work this immediate problem out is the emergency brought on by the Social Security Act amendments this year. The Social Security Act amendments added \$28 million to the deficit. We didn't have anything to do with that. In addition, there is the medicare phase of it.

Mr. PRINCE. That is not involved in this so far as any deficits are concerned.

The CHAIRMAN. That is right. With that \$28 million added to the \$14 million that would be brought on by correcting this inequity or injustice in the spouse's benefit, together with \$19 million actuarial deficit, in perpetuity, would run this matter up to \$62 million. That is beyond the level that we should tolerate, in my judgment. That is going too far. Something ought to be done about it.

Senator Pell proposed to do something about it. Senator Pell's approach, it seems to me, would bring about a sudden impact upon employees and the industry. There would be no way to lead into it. To me it would bring about such an economic impact that not only would the railroad industry feel it immediately, and with no time to make the adjustment, but the impact on certain employees, I think, would be immediate, without notice. And I think they would probably kick up their heels, with some justification.

This approach that I had in mind was sort of a graduated effort over a period of 4 years of trying to reach what is necessary to be imposed on the industry and the employees. I did not have in mind trying to go into the justification of a lot of these other things which require time, and should require time.

Mr. PRINCE. May I say just one thing, Mr. Chairman, with respect to that? I could hardly disagree with anything you say, except there is one thing I would like to remind you of. This matter of the deficit is something that takes place far off into the future. We have a reserve of \$4 billion, as Mr. Habermeyer told you. From the period 1959 to 1963, there was a deficit in the railroad retirement account that averaged, as I recall, between \$61 and \$77 million a year for 5 years, or 4 years. There wasn't a great rush to take care of it.

The CHAIRMAN. Except for one thing, we did see the leveling down substantially during that 5 years, to the point that everybody on both sides began to get concerned about it.

Mr. PRINCE. Right. And we are not suggesting waiting any 4 years now. But what I am saying is, if you could tolerate it for 4 years then, at a level higher than it is now, you could certainly tolerate it for 4 months while we tried to find a better solution.

The CHAIRMAN. I understand that is not what you recommended. You recommended doing nothing about it except to pass the spouse's thing. That would create the deficit of only \$28 million total, or about \$30 million total.

Mr. PRINCE. I said until next session, Mr. Chairman, with the opportunity, hopefully, of our agreeing on a method of solving this whole problem.

The CHAIRMAN. There would be no danger if we could do nothing about it at all, or even just only passed the spouse's amendment. But

in view of the social security amendments it would not be advisable for this part of it relating to the base to just go over maybe 4 months or whatever it might be.

I don't see why these other matters could not be resolved in conferences, the usual way, even though we did attempt to cure this one part of it.

Mr. PRINCE. I think the trouble is that you try to bring about a solution of one or two piecemeal bits of it at this time and you do definitely impede the ability to solve the whole problem through conference. That is our earnest opinion.

The CHAIRMAN. Is this not true, to show you there is some justification of this other viewpoint, that efforts were made by Senator Pell to get this kind of a meeting?

Mr. PRINCE. Yes, sir. We met twice under the auspices of a staff member of the Senate Labor Committee.

The CHAIRMAN. Under the direct supervision of Senator Pell, himself?

Mr. PRINCE. That is right. You can't do that in two hourly meetings, which is what we had.

The CHAIRMAN. Didn't both sides refuse to proceed further, even though he urged you to?

Mr. PRINCE. No, sir.

The CHAIRMAN. I either misunderstood my information or it is incorrect, one or the other.

Mr. PRINCE. We made a proposal to railroad labor as a temporary settlement of this thing for this year.

The CHAIRMAN. If you want to settle it on a temporary basis, what is wrong with us settling it on a temporary basis, then? I am just trying to get your thinking on a problem that we have facing us now, and we have to either work this out something along this line, or go to bat on what is over there on the Speaker's desk. In my judgment, I think this is a whole lot better than undertaking that.

Mr. PRINCE. As I expressed myself, I think so, too. I gave you the reasons. I don't want to bore you or the record with a repetition of them.

The CHAIRMAN. I don't want to argue with you. I hope you understand that. I appreciate and I think every member of the committee appreciates your suggestions. Certainly they will be given consideration.

Are there any further questions?

If not, thank you very much, Mr. Prince.

Mr. PRINCE. Thank you, Mr. Chairman.

The CHAIRMAN. The committee will recess until 2 o'clock, at which time Mr. John Beattie will be the witness for the RLEA.

(Whereupon, at 12:15 p.m., the committee recessed to reconvene at 2 p.m. of the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Oren Harris, chairman, presiding.)

The CHAIRMAN. The committee will come to order.

The witness will be Mr. Donald S. Beattie, executive secretary-treasurer, Railway Labor Executives' Association.

Mr. Beattie, you may proceed.

STATEMENT OF DONALD S. BEATTIE, EXECUTIVE SECRETARY-TREASURER, RAILWAY LABOR EXECUTIVES' ASSOCIATION

Mr. BEATTIE. Mr. Chairman and members of the committee, I appreciate the opportunity to appear here today. My name is Donald S. Beattie. I am the executive secretary-treasurer of the Railway Labor Executives' Association. This association is an unincorporated association of the chief executive officers of the 22 standard national and international railway labor organizations, representing virtually all railroad employees in this country pursuant to the provisions of the Railway Labor Act. I appear here in behalf of the association.

The bill H.R. 10874 (1) would eliminate the provision in the Railroad Retirement Act which requires that a spouse's annuity be reduced by the amount of her own railroad retirement annuity or by the amount of the spouse's monthly benefit (other than a wife's benefit) under the Social Security Act, (2) would increase the maximum monthly creditable and taxable base for the railroad retirement system, effective with respect to compensation paid for months after December 31, 1965, from the present \$450 a month to an amount equal to one-twelfth of the current maximum annual creditable and taxable wages for purposes of the social security system, and (3) would reduce temporarily the 7 $\frac{1}{4}$ -percent basic tax rate for railroad employers and employees as follows:

	Percentage point reduction	Basic tax rate (percent)
October-December:		
1965.....	1	6 $\frac{3}{4}$
1966.....	$\frac{3}{4}$	6 $\frac{1}{2}$
1967.....	$\frac{1}{2}$	6 $\frac{3}{4}$
1968.....	$\frac{1}{4}$	7
1969.....	None	

The bill would make no change in the present law which increases the basic rate by the difference between the current social security tax rate and 2 $\frac{3}{4}$ percent.

The Railway Labor Executives' Association endorsed the proposed elimination of the reduction in spouse's annuities when I testified before a subcommittee of this committee on April 29 of this year and before a subcommittee of the Senate Committee on Labor and Public Welfare on June 29 of this year. In addition, the association endorsed the proposed increase in base when I testified before the Senate Subcommittee on Labor and Public Welfare. The increase in base was proposed by an amendment to the bill H.R. 3157 and we endorsed that amendment. As you know, the Senate unanimously approved the bill H.R. 3157 as amended. In these respects, therefore, the bill H.R. 10874 would incorporate the provisions of H.R. 3157 as passed by the Senate on September 1 of this year.

This bill, however, would add a provision to spread out the effect of the increase in base over a period of 3 years and 3 months as above stated; and we are in favor of this provision also.

We have been advised by the Railroad Retirement Board that enactment of this bill would increase the deficit for the financing of

the benefits under the railroad retirement system from \$24.5 million a year on a level basis (if H.R. 3157 as passed by the Senate were enacted) to \$29.8 million a year. We have been further advised that if the tax rate were increased, beginning in 1970, from 7.25 percent of taxable payroll to 7.3 percent, the enactment of this bill, as so amended, would result substantially in the same deficit as would be the case if the bill H.R. 3157, as passed by the Senate, were enacted.

We are in favor of this bill as it is now drafted, and we will also be in favor of it if the committee should decide to increase, beginning with 1970, the tax rate from 7.25 percent of taxable payroll to 7.3 percent.

We recommend, however, that the bill be amended to provide for benefits to children of deceased railroad employees, aged 18 to 21, while attending school, the same as is provided for such children by the 1965 amendments to the Social Security Act.

We have received many complaints about the differences in treatment of such children under the two systems. Under the social security minimum provision of the Railroad Retirement Act, the Railroad Retirement Board can pay benefits on behalf of such children only if there is another person receiving benefits under the Railroad Retirement Act on the basis of the compensation of the same individual. For example, if there are three surviving children, one under 18 and two aged 18 to 21, the Board will increase the monthly benefit of the child under age 18 to an amount equal to 110 percent of the total amount that all three children would have received under the Social Security Act if the deceased's service had been covered under the Social Security Act; but if all are over 18, the Board would pay nothing to any of them. The cost of such amendment is only \$2.2 million a year on a level base. I am advised by the Railroad Retirement Board that if such amendment were adopted, it would not be necessary to increase the tax base. The result would be merely to increase the deficit by \$2.2 million a year on a level basis.

Finally, we recommend also that the bill be amended to restore the Senate amendment to H.R. 3157 regarding the creditability, as compensation under the Railroad Retirement Act, of tips received by railroad employees, the same as is provided for in the 1965 amendments to the Social Security Act regarding tips received by employees covered under that act. The cost of this amendment is nominal and would not require any increase in tax rates; nor would such amendment increase significantly the deficit in the railroad retirement system.

Thank you very much, Mr. Chairman and members of the committee, for your attention and favorable consideration of the bill and the amendments I have recommended.

I do have one additional comment I would like to make, if you don't mind, Mr. Chairman. I should like to address a few comments to a proposal offered by the previous witness.

The proposal, I believe, entitles us to feel a certain amount of resentment that the industry should come in at this late date and suggest further delay, delay while the brotherhoods and management might get together and work out some accommodation so that there later could be an agreed upon bill.

The joint conferences of the management representatives and the brotherhoods were initiated in March, I think it was, early this year, at our request. We had two such meetings and it was our under-

standing that we would have continuing meetings during this year to explore the whole system, to see what improvements might be made in the system, including determining the feasibility of adding to the system a supplementary pension program.

The meetings that we expected to take place during the early part of this year were postponed, deferred. The last communication deferring further meeting came in the form of a letter, I believe it was July 7, which indicated that we should have no further meetings at the present time because certain measures relating to the retirement system were under consideration by the Congress, and we should await action by the Congress before we resumed our meetings.

Therefore, I think that the proposal made this morning is designed simply to delay. Perhaps we could study this system and the problems that we may have with the system, for a good many months. But we do have the need to pass this legislation in this session of the Congress, not simply because we have the financial interchange which, without the base being raised, would cause our system to lose money to the social security system by reason of the difference in the tax bases, but also because Congress, in enacting the recent amendments to the Social Security Act, provided that the base, the tax base, under railroad retirement must be precisely equal to the tax base under social security if the Railroad Retirement Board is to administer medicare benefits for our people. Then this must be accomplished by legislation before October 1 of this year, if the Board is to administer medicare with benefits becoming payable the latter half of next year. So we have a time problem here. This is only one of the problems, but aside from the financial matter, this is a very real problem.

We have expended a great deal of time and energy on the Senate side urging the passage of the Harris bill, as amended, with the Pell amendment and the Hartke amendment. We now are at the point in time where we need to have this legislation handled expeditiously by this committee. We so urge that you do.

The CHAIRMAN. Is the Hartke amendment in the bill as reported by the Senate?

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. Are there questions by members of the committee?

Mr. STAGGERS. I have no questions, Mr. Chairman.

Mr. YOUNGER. I have one question.

The CHAIRMAN. Mr. Younger.

Mr. YOUNGER. Mr. Beattie, on page 5 you say the cost of this amendment is nominal and would not require an increase in tax rates, with regard to tips. Why would it cost any more?

Mr. BEATTIE. It is my understanding, Congressman Younger, that the Hartke amendment provides that the income from tips would call for payment of the tax on the part of the employee, not to be matched, however, by a tax on the part of the management. In other words, there would be one-half of the tax that would be paid under normal circumstances.

This applies only to tips, and this is comparable to the provision enacted by the Congress under the recent social security amendments.

Mr. YOUNGER. But if he earned \$6,600 a year, and his tips were above that, he wouldn't have to pay anything on his tips?

Mr. BEATTIE. That would be my understanding.

Mr. YOUNGER. He could only use tips up to the maximum.

Mr. BEATTIE. But the employees who would benefit from this, I think, for the most part, would not have a base salary which would be at that level. With the addition of tips there might be a number who would exceed that.

Mr. YOUNGER. I don't understand why it would cost any more. It might cost the employee a little more. It wouldn't cost the railroad retirement any more to keep their books than at present.

Mr. BEATTIE. Whatever the cost might be, it would be a nominal cost. I am assured of that by the Board, and I will take their word that it will not amount to much, but there are very few of these people involved as compared to the total number of beneficiaries.

Mr. YOUNGER. That is right.

The CHAIRMAN. Mr. Beattie, under the present situation, there is a deficit of approximately \$19 million at the present level.

Mr. BEATTIE. On the level basis, aside from the enactment of medicare and social security changes this year. Of course, your bill, the spouses' bill—

The CHAIRMAN. Let's go a step at a time. Right now, without anything, the level of deficit is approximately \$19 million.

Mr. BEATTIE. I think \$19.5 million.

The CHAIRMAN. \$19.5 million or thereabouts. The bill on the spouses' problem would increase that deficit by \$14 million, approximately.

Mr. BEATTIE. Yes, sir. That is my understanding, sir.

The CHAIRMAN. The social security amendments would increase the deficit by what—\$28 million?

Mr. BEATTIE. I think it is around \$28 million or \$28.5 million.

The CHAIRMAN. That would total about \$61 million; is that right?

Mr. BEATTIE. The figure that I have noted is a \$62 million rounded figure.

The CHAIRMAN. Let's say \$62 million. Now, if we did not do anything, the drain on the railroad retirement fund then would be \$62 million if the spouses' amendment were agreed to.

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. The problem we have here is to try to do something about it by October 1 for the reason that, No. 1, there will be a \$62 million deficit.

We will have to recess for a few moments to answer a rollcall.

(A short recess was taken.)

The CHAIRMAN. The committee will come to order.

I was about to develop for my own satisfaction, at least, the condition of the fund now and what it would be with the Pell amendment in comparison to what it would be with the proposal in this bill.

I think before we recessed to answer the quorum call we had developed a deficit of \$62 million, or thereabout, on the basis of the existing deficit should the spouse amendment be adopted, and by the adoption of the social security bill. That was your understanding, was it not, Mr. Beattie?

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. With the Pell amendment, considering the existing deficit with the spouses' cost of \$14 million, with the \$28 million social security requirement that now exists, and the Pell amendment

thereto increasing the taxable base from \$5,400 to \$6,600, it would increase income of the fund on an annual basis now of approximately \$84 million. Is that right?

Mr. BEATTIE. That is my understanding, Mr. Chairman.

The CHAIRMAN. Then that would mean that under the Pell amendment you would have not only the deficit that would be made up of the \$62 million, but you would have, then, \$22 million on a sound, even, level basis, in excess of the current deficit.

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. Now, considering the increase on the wage base from \$5,400 to \$6,600 under the existing benefit provision of the Railroad Retirement Act, it would increase the total benefits on a long-time basis approximately \$45 million a year. Do you agree with that?

Mr. BEATTIE. I believe that figure is correct; yes, sir.

The CHAIRMAN. Then we would have in perpetuity a deficit, then, of approximately \$23 million?

Mr. BEATTIE. I believe the figure in the Senate report is \$24 million, but it is in that neighborhood, of \$23 million to \$24 million.

The CHAIRMAN. Approximately \$24 million or \$23 million. I am using round figures. I think the other \$19.5 million and \$28.5 million and what-have-you would probably make up that difference. But it would be around \$24 million; that would be your estimate?

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. That is under the Pell amendment. That is the way it would turn out if we approved that?

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. So we can have some comparison, we would start with this bill, that with the increase of \$14 million for the spouses, with a \$28-million-plus—and I will put that on there—the \$62 million deficit, if nothing else was done, what would be the increased amount under the present $7\frac{1}{4}$ by merely increasing the wage base to \$6,600? Would it be \$84 million? That is what we decided on a moment ago.

Mr. BEATTIE. Under the Pell amendment it would be about \$84 million on a level basis.

The CHAIRMAN. If we increase the wage base here in this bill to \$6,600?

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. But if we left the rate at $7\frac{1}{4}$, that would take it to \$84 million?

Mr. BEATTIE. Yes, sir.

The CHAIRMAN. What I am trying to establish is by the reduction of 1 percent each, employee and employer, what it would be. It would be approximately \$84 million, wouldn't it, under the present wage being paid by the railroad industry, which is about \$4.3 billion?

Mr. BEATTIE. Yes. The payroll would go up, I think to around \$4.8 billion with a higher base.

The CHAIRMAN. The payroll would go up to about \$4.8 billion?

Mr. BEATTIE. In that neighborhood, I understand.

The CHAIRMAN. In that case it would be higher. It would be 9.6, wouldn't it?

Mr. BEATTIE. I am speaking of the taxable payroll, the \$4.8 billion taxable payroll.

The CHAIRMAN. One percent of \$4.8 billion would be \$48 million, if my figures are correct.

Mr. BEATTIE. Yes, sir; I understand.

The CHAIRMAN. And then 1 percent of the employee and 1 percent of the employer would make twice that, which would be twice 48, which would be a total of \$96 million.

Now, you take \$84 million from the \$96 million, and I hope others follow me on this and see if I come out all right with it, you would have then \$12 million. You would pick up \$12 million there. The \$62 million deficit from the \$84 million would bring that increase to \$22 million.

Then the first year you would have a deficit of \$40 million. I think on this method of computing, we may come out on this a lot better than the fellows who have tried to actuary this thing out.

Mr. BEATTIE. Mr. Chairman, you have proven to me that you are more of an expert on these figures than I am. I haven't tried to work them out in the same fashion as you have.

The CHAIRMAN. I have tried to establish this morning, with the Chairman of the Board, that they were ultraconservative, and he said they used to be but they are not any more. That is the impression I have. I still think they have worked this thing out, and I think it is a good thing for the actuaries to be conservative in it because Mr. Prince, I believe it was, said that this was going to go on for a long time.

Mr. BEATTIE. In perpetuity.

The CHAIRMAN. But I believe that with the taxable base going up, and this arrangement that you have here on this base, you are going to get your increase in benefits after 5 years, or beginning the fifth year, and get it back up to a level above what you have now.

The way I have it figured out, that is the way it would work. Really, I feel a little bit better about it after this than I did when I started. Mr. Nelsen said I have just about convinced myself on it.

Also this bill would give a reduction, though for only 3 months, which is probably the only time in history it has every been done on a retirement system, for a period of time. You would give a reduction of what it is today on the taxable rate.

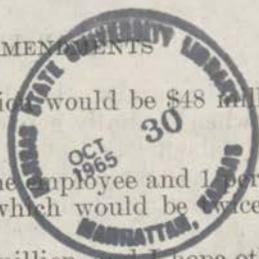
Mr. BEATTIE. That is correct.

The CHAIRMAN. It seems like that should make even the employees feel good for a little while.

Mr. BEATTIE. There would be a particular group of employees who would feel very good about this, I am sure, and that would be the group that would earn less than \$450 a month.

The CHAIRMAN. I think I should point out that it was the employees earning over \$450 I had primarily in mind with this proposal. I felt that it was rather an imposition on this particular group to all at one time throw the burden, the complete burden, upon those who were fortunate enough to be drawing wages above \$5,400 to \$6,600. They are the ones who are going to take the brunt of this increased burden insofar as the taxable rate is concerned. All they will get out of it on a long-time basis is the gradual increase of this some \$45 million in retirement benefits.

Mr. BEATTIE. That is correct.



The CHAIRMAN. But the rest of this deficit they will be making up, and when it finally gets down to them, some of them will not be too happy about it. But we give them to start with a reduction of the present rate which will make them feel better temporarily.

Mr. BEATTIE. I have to compliment you for your ingenuity in devising this particular bill. I fully appreciate how it would be received by those employees.

The CHAIRMAN. After the first year the fund will get one-fourth of it back, and after the second it will get one-half of it back and the fund would be about where it is today. After the third year the fund would get three-fourths of it back, and then at the end of the fourth year we would be back on a level basis.

Mr. BEATTIE. And at the end of the period, the deficit would be approximately \$5 million more than it would otherwise have been under the Senate bill. However, that could be taken care of, that \$5 million, by, as I suggested, making that $7\frac{1}{4}$ into 7.3.

The CHAIRMAN. I don't want to do that myself. The committee might want to do it, but I don't want to do it. That \$5 million more is going to throw this to about, as you said a moment ago, \$24 million in deficit. That is a little less than one-half of 1 percent.

It used to be we thought that less than 1 percent was within the tolerable limits, and now it is established that the thought is today that it is less than one-half percent. As long as we can hold it under the one-half percent, I don't see why we should worry about it, if these traditional estimates are of any value at all. I would rather take a chance on it as it is.

Mr. BEATTIE. I am not greatly concerned, Mr. Chairman, but the deficit would be \$29.8 million, approximately \$30 million under this version, as compared with \$24 million.

The CHAIRMAN. If we give you all you have asked for here, you mean.

Mr. BEATTIE. No.

The CHAIRMAN. You ask for an additional \$2.2 million.

Mr. BEATTIE. Without taking that into consideration, sir, it would be \$29.8 million, the actuaries tell me by reason of the deferment of the tax increase, the reduction initially, and building it up to the present tax level. It would amount to a deficit of just under \$30 million.

The CHAIRMAN. Was that developed on the basis of a taxable wage of \$4 billion 8, or \$4 billion 3?

Mr. BEATTIE. On the basis of the \$4 billion 8, which represents the \$6,600 tax base, or reflects it, I should say.

The CHAIRMAN. Well, thank you very much. If I have confused anybody, don't hesitate to say so.

Mr. FRIEDEL. I would like to know if the figures mentioned would include the Hartke amendment.

The CHAIRMAN. The inclusion of the Hartke amendment will not affect it one way or the other.

Mr. BEATTIE. No, sir; since very little is involved.

The CHAIRMAN. We could include that without affecting the fund. I haven't heard of any objection to it, myself, although there may be.

Mr. Macdonald.

Mr. MACDONALD. Thank you, Mr. Chairman.

You talked about a certain wage area that would bear the brunt of the extra taxes. I was wondering had anyone consulted with these people about their either reluctance or dislike over this type of thing going through?

Mr. BEATTIE. Mr. Macdonald, necessarily people will react adversely to an increase in a tax of any kind, but our members who, by law, are entitled to represent these people and their interests, are in agreement unanimously that first off we have to raise the tax base and this will require an increase in the tax payments over and above what they were to have been under the old schedule.

There would have been a tax increase regardless. This simply means that there will be a larger tax increase. Our people would much prefer, of course, that they didn't pay anything more, but we have to see to it that our system is financially sound. Our people, members of the association, were in unanimous agreement that this must be done.

Mr. MACDONALD. Which association are you now referring to?

Mr. BEATTIE. The 22 railroad labor organizations I represent.

Mr. MACDONALD. Have you put this to a referendum or anything like that among the members?

Mr. BEATTIE. No, sir.

Mr. MACDONALD. In other words, this is being done over their heads?

Mr. BEATTIE. This is the sort of thing that the representatives of laboring people always must do, represent their best interests. If the membership disagrees with the way they do this, they are not elected the next time around.

Mr. MACDONALD. I know that happens on every level of elective office. I am sure that happens. That is why I am trying to ask these questions.

Are the people who will be, shall we say, the bearers of the burden agreeable to this?

Mr. BEATTIE. They accept this as a fact of life, I am sure. You must remember that they are not going to be in any different boat than those under social security. Their tax base was raised \$1,800 effective the first of the year, \$1,800 a year. So they, too, will take on an additional tax requirement.

Mr. MACDONALD. Don't you think it is a reasonable thing, and I understand your line of thinking, to check out with the membership whether they think what they are going to get in benefits for retirement are equal to what they are going to give up?

Mr. BEATTIE. There is always a great deal of discussion over any pending bill of this kind.

Mr. MACDONALD. Has there been discussion?

Mr. BEATTIE. Yes, I am confident there have been many discussions.

Mr. MACDONALD. The bill just came up, so far as I know. It was a complete surprise to me. I am the chairman of the subcommittee that handled the spouse-benefit bill, and this Pell amendment came out of the blue. Nobody mentioned it to anybody, so far as I know. The chairman of the full committee can correct me if I am wrong, but on the House side nobody, as far as I know, knew anything about this amendment.

If, certainly, the people who are to pass on this were not alerted to it, I would doubt that the membership were alerted to it. Am I incorrect in that?

Mr. BEATTIE. Congressman, I personally don't get out and meet the members. I am pretty much tied to my desk here in Washington. But the chief executives of these 22 organizations do spend a great deal of their time meeting their people in various cities and meetings around the country. A subject of this kind, which has been in the newspapers—

Mr. MACDONALD. For how many days?

Mr. BEATTIE. Has given rise to correspondence to at least some of the Members of Congress that I know. It has been discussed in these meetings. Our members realize that we must have a financially sound system. Despite their particular feelings about digging down into their pockets for more tax money, they recognize the fact that it has to be done.

Mr. MACDONALD. Obviously, your saying it doesn't make it a fact. If it has been discussed, it would have had to be discussed in the last week or 2 weeks. It just came up within a very short period of time. I am interested in finding out the processes by which you do follow the wishes of the people you represent.

Mr. BEATTIE. I represent the chief executives of the 22 organizations, and they, in turn, represent their membership. We take a position on bills as they come to our attention. We take a position that we are either for or against, or have a neutral position.

In this particular case, when Senator Pell decided he would offer an amendment to Chairman Harris' bill, they called us on it. I believe the previous witness indicated they called about 4 days before the hearing. They asked what our position would be. It was my responsibility to contact the members of our association and ask them what our position would be.

It was unanimous that we had to favor this amendment because this system has to be continued on a financially sound basis. We had no real choice. Certainly we would like to have benefits without paying the bill, but we know it can't be done.

Mr. MACDONALD. We all understand that. But as you came before the subcommittee of which I was chairman, you didn't give full support to the original spouses' bill, did you?

Mr. BEATTIE. You may recall that I said I reluctantly supported the bill. At that time, of course, it was a \$14 million deficit addition that was involved, without any financing to take care of it. That was the reason I gave reluctant support.

I could agree with Chairman Habermeyer that there might be other deficiencies in the system that might need attention ahead of this, but we are well aware of the fact that the House was most interested in having this bill passed, the proof of the fact being your vote of 323 to 0 when the vote was had earlier this year. It was logical that this correction should be made in the system and I did give my support, although a little reluctantly.

Mr. MACDONALD. Those are exactly your words I was about to read back to you. You did not support the bill at the time. But that is beside the point. I am just asking a question which you don't have to give an answer to, but I think it should sink in: Don't you think it is reasonable to have your membership decide whether or not they would like a bill like this or not, and if so, to reflect it to their elected members and not just to the unions, to the people who represent them here in the Congress?

Mr. BEATTIE. I believe the procedure followed throughout the years in handling matters of this kind has proven to be a meritorious one. To my knowledge, we do not have referendums among the membership to determine whether they want this done or that done, on a matter of this kind in Congress, or whether they want a specific type of rule change in their contracts.

Mr. MACDONALD. I hope you are not saying what I hear you say. Do you mean you just ram things through your unions?

Mr. BEATTIE. This is a democratic way that these unions have operated for a good many years, and I think very successfully. We have leaders of these unions who have been on the job for a good number of years. The membership must be pretty well satisfied with their leadership.

Mr. MACDONALD. If they get a chance to pass on measures that you are now okaying. It seems to me that many members of the unions that are represented here by leadership today would not be in favor of this bill.

Mr. BEATTIE. I didn't understand that.

Mr. MACDONALD. It isn't a very difficult thing to understand. I say that in my judgment, many of the members of the unions that pay dues to the organizations that you represent, and you say you represent some 22 organizations, they would not support this. I asked you and you responded that you had not consulted with your membership.

Mr. BEATTIE. That is correct.

Mr. MACDONALD. This seems to me unusual.

Mr. BEATTIE. On the contrary, it is most usual. I don't know of any instance where it has been done. In no union do you poll the membership of a large or small union to find out whether they want a particular bill.

Mr. MACDONALD. Do you mean when you vote to go out on strike, the membership is not polled as to whether they want to go on strike?

Mr. BEATTIE. That is a somewhat different type of subject.

Mr. MACDONALD. This affects the payroll exactly as much as a strike would. Am I incorrect?

Mr. BEATTIE. I think there is quite a difference between putting your job on the line in a strike or supporting or not supporting a particular measure in Congress.

Mr. MACDONALD. Do you disagree that this affects their payroll, their take-home pay?

Mr. BEATTIE. Yes, sir; it certainly does.

Mr. MACDONALD. Isn't this a matter on which they should have an opportunity to be heard?

Mr. BEATTIE. Believe me, they are heard. These chief executives are very responsive.

Mr. MACDONALD. I hope they are. But the point is they have not been heard from yet. They don't know what is going on about this bill right now. It has only been out some 4 days.

Mr. BEATTIE. I believe the hearing on the Senate side was in June, on June 29.

Mr. MACDONALD. I am talking about the Pell amendment.

Mr. BEATTIE. Yes, sir. That was the date of the Pell amendment. The hearing was on June 29.

Mr. MACDONALD. And when was it passed by the Senate?

Mr. BEATTIE. Shortly thereafter it was voted out of the subcommittee and then later voted unanimously out of the full committee. I don't have the dates in mind. As a matter of fact, I was out of the country on the date they passed it out of the full committee.

Mr. MACDONALD. I don't want to take the time of the committee, but as far as I know, and unless the chairman of the full committee knows better, it just came to our attention last Thursday or Friday, before the Labor Day holiday. We had no knowledge of it prior to that. As far as I know, there have been no hearings held on it, except this hearing today. The bill, itself, has never been read before this committee. I am not suggesting that it is a power play, but I do suggest that it might be a very wise thing from everybody's point of view, including those holding office within the union, to check with the membership to see how they feel about it. Because they, in the long run, are the people who will pay this bill, at least on the human side. I just wonder whether or not they are in accord with your statement given to the committee.

Mr. BEATTIE. I believe it is the same thing as with those people who work under the social security system. They must pay the additional tax, a substantial increase in their tax, and have no choice about it. That is, from the social security amendments of this year.

Mr. MACDONALD. Thank you.

The CHAIRMAN. I think in view of the colloquy, Mr. Macdonald, for the record it might be well to state that if this amendment is a surprise to anyone, it started with the action on social security and medicare. That started a good many years ago. It started to come to a head in the late Congress, but it did come to a head in this Congress. Surely there was enough publicity and controversy for everybody in the country to know something about what was taking place.

I think many of us failed to recognize during all this time, however, the impact it was going to have on the railroad retirement program. I think, as it was reported from the Ways and Means Committee and the rule granted, and it came to the floor of the House, and as it was debated for several days and went through, that many of us failed to recognize that it would affect the railroad retirement fund to the extent of \$28 million.

I think there were very few who recognized that changing the wage base from \$5,400 to \$6,600 would affect the railroad retirement fund. I will venture to say they didn't ask Mr. Beattie anything about it, though there was discussion in the last Congress about this particular point.

So this is not anything that is new, that has just come up on this. It is a question of trying to ravel this ball after it got wrapped up and handed over to us. I think there were very few, if any, outside of those connected with the social security bill, and the technicians involved with it, who recognized that the administration of this medicare program may go to the Social Security Board, and not go to the Railroad Retirement Board.

I don't think the gentleman was any more aware of that at the time than I was, or that I was any more aware of it than you were. But that is precisely what happened when this thing developed.

So, because of all these things, there came out of the social security conference a bill which said virtually that you have to raise the retire-

ment wage base to this point in order for it to meet the requirement that we have included in the social security bill. As a result of that, after the Senate had had several weeks of consideration to this matter, Senator Pell talked to me about it. That was recently, just before it was considered in the Senate. That is when I began to wake up to find out all these things that had taken place.

Efforts were made to use a gradual step on the increased wage base, but that required some consideration by the Ways and Means Committee. In trying to get to some accommodation on it, I talked to members of the Ways and Means Committee, particularly the chairman. I could not work out any arrangement that would meet the provisions of the social security.

So all of this developed in trying to unravel this thing and finally came to a head only last Thursday, I say to the gentleman. Consequently, there was no opportunity for anything else except to try to work it out to meet these contingencies that were put on us by the action of another committee in another legislative program. That is the reason we are where we are now.

I would say that if, by October 1, we do not pass something on this to meet that situation, then the administration of certain parts of this program is going to be taken over by social security. Is that not true?

Mr. BEATTIE. Yes, sir. Of course, the benefits are to be handled, commencing July of next year. But unless the law is changed by October 1 to provide that the base will be increased, social security will administer medicare.

The CHAIRMAN. That is the reason we are faced with this kind of a situation.

Mr. MACDONALD. What parts of the act will be changed by October 1, or did you say July?

Mr. BEATTIE. The tax base must be increased to precisely the same level as that for social security. This must be the law by October 1. Otherwise, next year social security will administer medicare benefits for our people and this would create a very confused situation, it would be a duplication of work, it would be costly. It would not involve a tremendous cost, but it would be costly.

The complaints from our people to us and to you would contain all kinds of criticism. That is the reason we are so anxious that this matter be cleaned up in this session of Congress before October 1.

Mr. MACDONALD. In other words, the medicare provisions of social security will take effect whether this committee acts or not?

Mr. BEATTIE. Yes, sir. The medicare benefits become payable July of next year, and social security will administer those for our people, unless the law is changed to raise our base, unless that law is changed by October 1.

Mr. MACDONALD. Then isn't the hearing and the so-called Pell amendment an exercise in futility, if it is going to happen anyway?

Mr. BEATTIE. No, sir. If this Congress could make the base the equivalent of \$6,600, that takes care of the problem. The deadline is October 1.

Mr. MACDONALD. Thank you. The testimony has been very confusing.

The CHAIRMAN. Mr. Younger?

Mr. YOUNGER. The point I wanted to clear up is a question on social security, the administration of it. As I understand, under this bill the administration is for social security under the Railroad Retirement Board; they will administer it?

Mr. BEATTIE. If we get our base raised.

Mr. YOUNGER. That is what I mean. Under this bill, if it is passed and becomes law by October 1, the social security benefits will be administered by the Retirement Board?

Mr. BEATTIE. The medicare benefits; yes, sir.

Mr. YOUNGER. That is what I meant, the medicare benefits.

The CHAIRMAN. Actually, the way it works the money will have to be paid into social security, won't it, and social security will actually take care of the medicare payments? The records will be kept by the Retirement Board and the decisions on what is to be received will be made by the Retirement Board. Am I wrong about that?

Mr. BEATTIE. I think you are 100 percent correct. The entitlement of railroad people will be determined by the Retirement Board if we pass this legislation in this Congress.

The CHAIRMAN. And your great concern is that that part of it and that part of the records of the railroad employees will be transferred over to social security, and you want to keep them within the Railroad Retirement Board.

Mr. BEATTIE. It is more than that. The Retirement Board has these records now. Social security does not have the records. They would have to get them. But our people would have to go to social security with their questions about this. Are they entitled or not entitled? If they have problems, they would have to write to social security. They would first write to the Board, and find out the Board doesn't have jurisdiction. This would be for probably a 6-month period. By this time next year, we would have gotten this straightened out. But you would have a tremendous problem of having the Social Security Administration giving entitlement to our people, determining who is eligible and who is not. It would be a duplication of work that should be avoided.

Mr. MACDONALD. May I ask one more question for my own knowledge? How do people who have never paid under social security become eligible for benefits under social security?

Mr. BEATTIE. Unless this law is changed, our people will be treated exactly as though they were working under social security.

Mr. MACDONALD. What does that mean? If I never paid into social security, suddenly, on October 1, or July 1, as you say, though the chairman says July 1, suddenly these people who have never paid into social security will become eligible to be recipients.

The CHAIRMAN. Would the gentleman yield?

Mr. MACDONALD. Yes.

The CHAIRMAN. Beginning January 1 they would be fixing to pay into social security on medicare.

Mr. BEATTIE. The money is going into a completely separate fund.

Mr. MACDONALD. But it is a different thing, Mr. Chairman, as I understand it.

Mr. BEATTIE. As I understand it, the money for the medicare benefits, the tax money, will go into a separate fund and be completely separate from the other funds.

The CHAIRMAN. But it goes to the Social Security Administration. Mr. BEATTIE. I believe that is correct.

Mr. MACDONALD. I will ask one last question. I don't know if you are qualified to answer this question, and perhaps I should have asked the gentleman who testified this morning. But is the extra money that will be coming from the railroads deductible from the tax structure of the railroads as a business expense? Or is that actually money out of their pocket?

Mr. BEATTIE. No; it is a business expense which serves as a deduction for tax purposes.

Mr. MACDONALD. So actually it isn't going to cost the railroads anything to do it?

Well, I guess your colleagues differ with that.

Let me ask this question: Is it a business expense that they can take out of taxes?

Mr. BEATTIE. Yes, sir.

Mr. MACDONALD. Therefore, it would seem that the opposition of the railroads would not be based on an expense basis?

Mr. BEATTIE. I think they have expressed themselves pretty well on that. I don't want to speak for them.

Mr. MACDONALD. I was unable to comprehend some of the testimony this morning. That is why I am asking you. I thought as a neutral you would be able to tell me.

Mr. BEATTIE. I get the impression they are concerned about whatever additional cost is involved, regardless of what the amount might be.

Mr. MACDONALD. But it is deductible by them as a business expense?

Mr. BEATTIE. Yes, sir.

Mr. MACDONALD. Thank you.

The CHAIRMAN. It is a tax deductible item. As a general proposition, and there are a lot of other things involved, with me not being a tax expert by any means, the general proposition is that about 48 percent is the corporate tax.

Mr. MACDONALD. I assume it would depend on each railroad.

The CHAIRMAN. It would depend on their profits and corporate situation.

Are there further questions?

Mr. Watson?

Mr. Jarman?

Mr. JARMAN. No questions.

The CHAIRMAN. Mr. Moss?

Mr. MOSS. No questions.

The CHAIRMAN. Mr. Cunningham?

Mr. CUNNINGHAM. No questions.

The CHAIRMAN. Mr. Pickle?

Mr. PICKLE. No questions.

The CHAIRMAN. Mr. Van Deerlin?

Mr. VAN DEERLIN. No questions.

The CHAIRMAN. Mr. Ronan?

Mr. RONAN. No questions.

The CHAIRMAN. Mr. Huot?

Mr. HUOT. No questions.

The CHAIRMAN. Mr. Gilligan?

Mr. GILLIGAN. No questions.

The CHAIRMAN. Mr. Harvey?

Mr. HARVEY. No questions.

The CHAIRMAN. I want to thank you very much for being so patient in listening to us nonexperts in this field. I hope we haven't cluttered up too much.

Mr. BEATTIE. Thank you, Mr. Chairman and members of the committee.

She I do have something else. I would offer, if you don't mind, the amendment to cover the child benefits, or language for that amendment.

The CHAIRMAN. I think if you will hand that to the staff for the committee files and for our consideration, we could utilize it better. (The information referred to will be found in the committee files.)

Mr. BEATTIE. Thank you.

The CHAIRMAN. Again, thank you very much and thank you for your presentation.

The committee will adjourn until 10 o'clock in the morning, at which time we will have an executive session.

(The following letter was received for the record:)

NATIONAL RAILROAD PENSION FORUM, INC.,
Chicago, Ill., September 7, 1965.

HON. OREN HARRIS,

Chairman, Committee on Interstate and Foreign Commerce, House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This day I received a notice of hearing on bill H.R. 10874, beginning tomorrow, September 8. The short notice makes it impossible for me to appear in person, therefore, I ask for this letter to be read and made a part of the record of the hearing.

Since existence of the bill was unknown to me until today, I am not aware of the full contents. I can speculate that the repeal provisions of H.R. 3157, which were approved by four committees of the House and the Senate, which also gained acceptance on the floor in both bodies, remain intact in the bill under consideration.

As stated in personal testimony before the Subcommittee on Commerce and Finance, on April 29, I firmly believe removal of the spouse benefit restriction has been too long delayed and should be accomplished at the earliest possible date. The prevailing inequity has been established and with full confidence that the Congress would soon rectify the error, I have steadfastly counseled against any action to recover all or a part of social security taxes paid by a spouse and her employer, on the premise that, in lieu of providing old age security as promised, the forced payment of such taxes became the instrument of financial injury in the loss of spouse benefits to which the employee was otherwise entitled under Federal law.

I am sympathetic toward equality of the base for railroad retirement and social security, mainly because of the burden that would befall the railroad retirement system if payments were made to the social security account, without like collection from the employee and employer.

I trust that nothing will prevent passage of the spouse feature before adjournment of this session.

Respectfully,

GEO. FINNIGAN, *President.*

(Whereupon, at 3:42 p.m., the committee adjourned, to reconvene in executive session at 10 a.m. Thursday, September 9, 1965.)