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RAILROAD RETIREMENT ACT— SUPPLEMENTAL BENEFITS

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

SECOND SESSION

ON

H.R. 17285

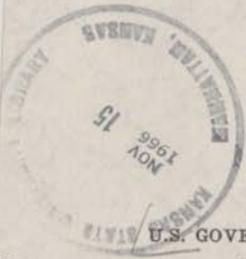
A BILL TO AMEND THE RAILROAD RETIREMENT ACT OF 1937
AND THE RAILROAD RETIREMENT TAX ACT, AND FOR OTHER
PURPOSES

SEPTEMBER 27, 1966

Serial No. 89-50

Printed for the use of the
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RAILROAD RETIREMENT ACT
SUPPLEMENTAL BENEFITS
HEARING

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RAILROAD RETIREMENT ACT—SUPPLEMENTAL BENEFITS

TUESDAY, SEPTEMBER 27, 1966

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

The subcommittee met at 10 a.m., pursuant to call, in room 2322 Rayburn House Office Building, Hon. Torbert H. Macdonald (chairman of the subcommittee) presiding.

Mr. MACDONALD. The subcommittee will be in order.

The hearings this morning are on H.R. 17258 which was introduced by myself at the joint request of the Railway Labor Executives Association, and representatives of the railroads.

I understand that all the railroads in the United States except maybe one in Florida reported in favor of the bill.

At the same time there were two similar bills, one introduced by Mr. Burke from Massachusetts, H.R. 17659 and another bill introduced by Mr. Harsha, of Ohio, which is identical to my bill, 17940.

In general, the bill is to establish a supplemental pension plan for railroad employees who retire on or after July 1, 1966, and who have completed 25 or more years of service credible under the Railroad Retirement Act, including credible military service and who have attained the age of 65.

This supplemental annuity would be financed by a tax equal to 2 cents per man-hour which would be deposited in a special fund and used for payments of these annuities. The supplemental annuities are to be payable for a 5-year period and the entire program would be required to be reexamined by the Congress at the end of that 5-year period.

In addition the bill provides for a general 7-percent increase in railroad retirement benefits for all persons not covered by the supplemental annuity with this 7-percent increase being offset by the total of the increased benefits accruing to the individual concerned under either the Railroad Retirement Act or the Social Security Act by reason of amendments of the Social Security Act of 1965.

The 7-percent increase would be financed by an additional one-quarter of 1 percent taxes on the first \$550 monthly compensation paid by both the employees and the employers.

As I mentioned, this is an agreed upon bill and I include in the record at this point the text of the agreement entered into on August 24, 1966.

(The agreement referred to follows:)

AGREEMENT

This agreement made this 24th day of August, 1966, by and between the Carriers represented by the National Railway Labor Conference as parties of the first part, and the Railway Labor Organizations as parties of the second part, Witnesseth:

1. The parties hereto mutually agree to cooperate with each other and jointly to recommend to the Congress and the President of the United States the enactment at the earliest feasible date of the Bill attached hereto. No party hereto will recommend or support any further legislation dealing with supplemental annuities to become effective prior to the expiration of the supplemental annuities provided for in Title I of the attached Bill, unless pursuant to further mutual agreement of the parties.

2. Representatives of the parties to this agreement, or their successors, not earlier than one year prior to the expiration of the supplemental annuities provided for in Title I of the attached Bill, will at the request of either party, meet for the purpose of discussing the subject of supplemental annuities. If these discussions do not lead to agreement on what action, if any, should be taken in regard to the subject within a period of six months prior to the expiration of the supplemental annuities provided for in Title I of the attached Bill, or upon termination of any extension of the period for discussion as may be mutually agreed upon, both the carrier parties and the organization parties to this agreement shall be free to recommend or support legislation dealing with supplemental annuities, subject to the other provisions of this agreement.

3. Neither the making of this agreement nor the discussion provided for in paragraph 2 hereof shall be considered in any way to prejudice the position of either the carrier parties or the organization parties hereto as to whether or not the subject matter of this agreement or the subject matter of such discussion is a proper or mandatory subject for collective bargaining under the Railway Labor Act or under such law or laws as may hereafter be applicable to collective bargaining in the railroad industry. It is further understood that the making of this agreement is not a waiver of the position of the carriers that the 1937 agreement with respect to equal joint employer and employee taxes to finance benefits provided by the Railroad Retirement Act, as amended, is still binding on the parties, nor is it a waiver of the position of the organization parties hereto to the contrary.

4. In consideration of the mutual commitments made in the foregoing paragraphs, the parties further agree that all notices of intended changes in agreements heretofore served by any Carrier or Organization party hereto on any other party hereto pursuant to the Railway Labor Act pertaining to pensions or annuities of employees and not heretofore disposed of shall not be further progressed and shall be promptly withdrawn. The parties hereto further agree that no Carrier or Organization party hereto shall serve any such notice on any other party hereto pertaining to pensions or annuities prior to six months immediately preceding the sixtieth month following the enactment of the attached Bill, provided further that such Section 6 notices do not contemplate an effective date prior to the expiration of the supplemental annuities provided for in Title I of the attached Bill.

Signed at Washington, D.C., this 24th day of August, 1966.

For the carriers :

J. E. WOLFE,

Chairman, National Railway Labor Conference.

For the organizations :

J. P. Tahney, President, American Railway Supervisors' Association ;
R. C. Watts, President, American Train Dispatchers' Association ;
H. E. Gilbert, President, Brotherhood of Locomotive Firemen and
Enginemen ; H. C. Crotty, President, Brotherhood of Maintenance
of Way Employes ; Jesse Clark, President, Brotherhood of Rail-
road Signalmen ; Charles Luna, President, Brotherhood of Rail-
road Trainmen ; A. J. Beukardt, General President, Brotherhood
of Railway Carmen of America ; C. L. Dennis, Grand President,
Brotherhood of Railway & Steamship Clerks, Freight Handlers,
Express and Station Employes ; A. Phillip Randolph, Interna-
tional President, Brotherhood of Sleeping Car Porters ; R. W.
Smith, International Vice President, Hotel & Restaurant Em-
ployes & Bartenders' International Union ; Joseph W. Ramsey,
General Vice President, International Assn. of Machinists & Aero-
space Workers ; Russell K. Berg, International President, Int'l
Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths,
Forgers & Helpers ; Thos. Ramsey, International Vice President,
Int'l. Brotherhood of Electrical Workers ; Wm. E. Fredenburger,
President, International Brotherhood of Firemen and Oilers ;
Lloyd W. Sheldon, International President, Int'l. Organization
Masters, Mates & Pilots of America ; J. M. Calhoun, International
President, National Marine Engineers' Beneficial Assn. ; C. F.
Lane, President, Order of Railway Conductors and Brakemen ;
Ralph H. Hachowiak, President, Railroad Yardmasters of Amer-
ica ; Paul Hall, President, Seafarers' International Union of
North America ; J. W. O'Brien, General Vice President, Sheet
Metal Workers' Int'l. Association ; Neil P. Speirs, President,
Switchmen's Union of North America ; G. E. Leighty, President,
Transportation-Communication Employees Union ; Michael Fox,
President, Railway Employes' Department, AFL-CIO

Mr. MACDONALD. At this point in the record there will be included the text of the bill and the agency reports thereon.

(The bill and agency reports thereon follow :)

[H.R. 17285, 89th Cong., 2d sess.]

A BILL To amend the Railroad Retirement Act of 1937 and the Railroad Retirement Tax Act, and for other purposes

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

**TITLE I—AMENDMENTS TO THE RAILROAD RETIREMENT ACT OF 1937
TO PROVIDE SUPPLEMENTAL ANNUITIES**

SECTION 1. Section 3 of the Railroad Retirement Act of 1937 is amended by adding at the end thereof the following new subsection :

“SUPPLEMENTAL ANNUITIES

“(j) (1) An individual who is entitled to the payment of an annuity under section 2 of this Act (other than subsection (e) or (h) thereof) and had a current connection with the railroad industry at the time such annuity began to accrue, shall be entitled to have a supplemental annuity accrue to him for each month beginning with the month in which he has (i) attained the age of sixty-five and (ii) completed twenty-five or more years of service. The amount of the supplemental annuity shall be \$45 plus an additional amount of \$5 for each year of service that the individual has in excess of 25 years, but in no case shall the supplemental annuity exceed \$70. For the purposes of this subsection, there shall not be included in the computation of the years of service any month on

the basis of the individual's service as an employee of a railway-labor-organization employer during which he was not engaged predominantly in work involving representation of employees within the definition of 'employee' in this Act. The supplemental annuity provided by this subsection shall, with respect to any month, be subject to the same provisions of subsection (d) of section 2 of this Act as the individual's annuity under such section 2. Except as provided in subsection (a) (2) of this section, the supplemental annuity provided by this subsection shall not be taken into consideration in determining or computing any other annuity or benefit under this Act.

"(2) The supplemental annuity provided by this subsection for an individual shall, with respect to any month, be reduced by the amount of the supplemental pension, attributable to the employer's contribution, that such individual is entitled to receive for that month under any other supplemental pension plan if such pension is not reduced by reason of the supplemental annuity to which such individual is entitled under the provisions of this subsection.

"(3) The supplemental annuity provided by this subsection shall terminate with such annuity accruing for the sixtieth month following enactment of this Act."

SEC. 2. (a) Section 15 of the Railroad Retirement Act of 1937 is amended by inserting after subsection (a) the following:

"RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT

"(b) There is hereby created an account in the Treasury of the United States to be known as the Railroad Retirement Supplemental Account. There is hereby appropriated to the Railroad Retirement Supplemental Account, for the fiscal year ending June 30, 1967, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, to provide for the payment of supplemental annuities in accordance with the provisions of section 3(j) of this Act, and for expenses necessary for the Board in the administration of such section 3(j) as may be specifically authorized annually in Appropriation Acts, for crediting to such Supplemental Account, an amount equal to amounts covered into the Treasury (minus refunds) during the fiscal year ending June 30, 1967, and during each fiscal year thereafter, under sections 3211(b) and 3221(c) of the Railroad Retirement Tax Act.

"At the end of forty-eight months following the enactment of the Act establishing the Railroad Retirement Supplemental Account the Railroad Retirement Board, having surveyed the progress of such Account, shall make a determination of whether the balance in such Account together with the anticipated income to the Account for the next succeeding twelve months will be sufficient to provide for the payment of the supplemental annuities provided for in section 3(j) (1) of this Act. In the event that such determination is that such balance and such anticipated income will not be sufficient to provide for the payment of all such supplemental annuities in the amounts specified, the Railroad Retirement Board is hereby authorized and directed to readjust the amounts of all such supplemental annuities, proportionately, so that such balance and anticipated income will be sufficient to provide for payment of all the supplemental annuities as so readjusted for the next succeeding twelve months."

(b) Section 15 of such Act is further amended by redesignating subsections (b), (c), and (d) as subsections (c), (d), and (e), respectively; by striking out the word "Account" where it first appears in subsection (c) as redesignated and inserting in lieu thereof "Railroad Retirement Account and the Railroad Retirement Supplemental Account (hereinafter jointly referred to as 'Accounts' or 'Railroad Retirement Accounts')"; by striking out "Account" each time it appears elsewhere in such redesignated subsections and inserting in lieu thereof "Accounts".

SEC. 3. (a) The amendment made by section 1 of this title shall be effective with respect to individuals whose annuities under section 2 of the Railroad Retirement Act of 1937 are first awarded on or after July 1, 1966, provided that no supplemental annuity shall accrue for months before the calendar month following the month in which this Act is enacted.

(b) The Railroad Retirement Board is authorized to request the Secretary of the Treasury to transfer from the Railroad Retirement Account to the credit of the Railroad Retirement Supplemental Account such moneys as the Board estimates would be necessary for the payment of the Supplemental annuities, provided for in section 3(j) of the Railroad Retirement Act of 1937, for the six

months next following enactment of this Act, and for administrative expenses necessary in the administration of such section 3(j) (which expenses are hereby authorized) until such time as an appropriation for such expenses is made pursuant to section 15(b) of such Act, and the Secretary shall make such transfer. The Railroad Retirement Board shall request the Secretary of the Treasury at any time before the expiration of one year following the enactment of this Act, to retransfer from the Railroad Retirement Supplemental Account to the credit of the Railroad Retirement Account the amount transferred to the Railroad Retirement Supplemental Account pursuant to the next preceding sentence, plus interest at a rate equal to the average rate of interest borne by all special obligations held by the Railroad Retirement Account on the last day of the fiscal year ending on June 30, 1966, rounded to the nearest multiple of one-eighth of 1 per centum, and the Secretary shall make such retransfer.

TITLE II—AMENDMENTS TO THE RAILROAD RETIREMENT ACT OF 1937 TO PROVIDE AN INCREASE IN CERTAIN ANNUITIES UNDER THE ACT

SEC. 201. (a) (1) Section 2(e) of the Railroad Retirement Act of 1937 is amended by striking out the period at the end thereof and inserting in lieu thereof the following: “; *And provided further*, That the spouse's annuity provided for herein and in subsection (h) of this section shall be computed without regard to the reduction in the individual's annuity under the first two provisos in section 3(a) (1) of this Act and without regard to the effect of section 3(a) (2) on the annuity of the individual from whom such spouse's annuity derives.”.

(2) Section 2 of such Act is further amended by adding a new subsection at the end thereof as follows:

“(1) The spouse's annuity provided under subsections (e) and (h) of this section shall (before any reduction on account of age) be reduced in accordance with the first two provisions in section 3(a) (1) of this Act except that the spouse's annuity shall not be less than it would be had this Act not been amended in 1966.”

(b) Section 3(a) of such Act is amended by striking out all that appears therein and inserting in lieu thereof the following:

“SEC. 3. (a) (1) The annuity shall be computed by multiplying an individual's 'years of service' by the following percentages of his 'monthly compensation': 3.58 per centum of the first \$50; 2.69 per centum of the next \$100; 1.79 per centum of the next \$300; and 1.67 per centum of the next \$100: *Provided, however*, That in case where an individual is entitled to a benefit under title II of the Social Security Act, the amount so computed shall be reduced by 6.55 per centum of the amount of such social security benefit (disregarding any increases in such benefit based on work recomputations after such reductions is first applied and any increases derived from changes in the primary insurance amount through legislation enacted after the Social Security Amendments of 1965): *Provided further*, That in determining social security benefit amounts for the purpose of this subsection, if such individual's average monthly wage is in excess of \$400, only an average monthly wage of \$400 shall be used: *And provided further*, That the amount of an annuity as computed under this subsection shall not be less than it would be had this Act not been amended in 1966.

“(2) Notwithstanding the provisions of paragraph (1) of this subsection, the annuity of an individual for a month with respect to which a supplemental annuity under subsection (j) of this section accrues to him shall be computed or recomputed under the provisions of this subsection as in effect before its amendment in 1966.”

(c) Section 3(e) of such Act is amended by striking out all that precedes the first proviso and inserting in lieu thereof the following: “In the case of an individual having a current connection with the railroad industry, the minimum annuity payable shall, before any reduction pursuant to section 2(a)3, be whichever of the following is the least: (1) \$5.35 multiplied by the number of his years of service; or (2) \$89.35; or (3) 118 per centum of his monthly compensation except that the minimum annuity so determined shall be reduced in accordance with the first two provisos in subsection (a) (1) of this section, but shall not be less than it would be had this Act not been amended in 1966.”.

(d) Section 5(h) of such Act is amended by striking out all that appears therein and substituting in lieu thereof the following:

"MAXIMUM AND MINIMUM ANNUITY TOTALS.—Whenever according to the provisions of this section as to annuities payable for a month with respect to the death of an employee, the total annuities is more than \$38.84 and exceeds either (a) \$207.15, or (b) an amount equal to two and two-thirds times such employee's basic amount, whichever of such amounts is the lesser, such total of annuities shall, after any deductions under subsection (i), be reduced to such lesser amount or to \$38.84, whichever is greater. Whenever such total of annuities is less than \$18.14, such total shall, prior to any deductions under subsection (i), be increased to \$18.14: *Provided, however,* That the share of any individual in an amount so determined shall be reduced in accordance with the first two provisions in section 3(a) (1) of this Act except that the share of such individual shall not be less than it would be had this Act not been amended in 1966."

(e) Section 5(1) (10) of such Act is amended—

(1) by striking out all that appears in subdivision (i) and inserting in lieu thereof the following: "for an employee who will have been partially insured, or completely insured solely by virtue of paragraph (7) (i) or (7) (ii), or both: the sum of (A) 52.4 per centum of his average monthly remuneration, up to and including \$75; plus (B) 12.8 per centum of such average monthly remuneration exceeding \$75 and up to and including \$450; plus (C) 12 per centum of such average monthly remuneration exceeding \$450 and up to and including \$550, plus (D) 1 per centum of the sum of (A) plus (B) plus (C) multiplied by the number of years after 1936 in each of which the compensation, wages, or both, paid to him will have been equal to \$200 or more; if the basic amount thus computed is less than \$18.14, it shall be increased to \$18.14;" and

(2) by striking out in subdivision (ii) thereof "49" wherever it appears and inserting in lieu thereof "52.4", by striking out in such subdivision "12" and inserting in lieu thereof "12.8", by striking out in such subdivision "\$40.33" and inserting "\$43.15", by striking out in such subdivision "\$30.25" and inserting in lieu thereof "52.37", and by striking out in such subdivision "\$16.13" and inserting in lieu thereof "\$17.26".

(f) Section 5 of such Act is amended by adding at the end thereof the following new subsection:

"(m) An annuity payable under this section to an individual, without regard to subsection (h) of this section or the proviso in the first paragraph of section 3(e) of this Act, shall be reduced in accordance with the first two provisos in section 3(a) (1) of this Act except that the amount of the annuity shall not be less than it would be had this Act not been amended in 1966."

(g) All pensions under section 6 for the Railroad Retirement Act of 1937, all joint and survivors annuities and survivor annuities deriving from joint and survivor annuities under that Act awarded before the month following the month of enactment of this Act, all widows' and widowers' insurance annuities which began to accrue before the second month following the month of enactment of this Act and which, in accordance with the proviso in section 5(a) or section 5(b) of the Railroad Retirement Act of 1937, are payable in the amount of a spouse's annuity to which the widow or widower was entitled (except those of such insurance annuities which are based on a spouse's annuity which was payable in the maximum amount as determined in accordance with the provisions of the Social Security Act as amended by the Social Security Amendments of 1965), and all annuities under the Railroad Retirement Act of 1935 are increased by 7 per centum: *Provided, however,* That in cases where an individual is entitled to a benefit under title II of the Social Security Act, the additional amount payable because of this subsection shall be reduced by 6.55 per centum of the amount of such social security benefit (disregarding any increases in such benefit based on work recomputations after such reduction is first applied and any increases derived from changes in the primary insurance amount through legislation enacted after the Social Security Amendments of 1965): *Provided further,* That in determining social security benefit amounts for the purpose of this subsection, if such individual's average monthly wage is in excess of \$400, only the average monthly wage of \$400 shall be used.

Sec. 202. (a) The amendments made by section 201 of this title shall be effective with respect to annuities accruing for months after the month in which this Act is enacted, and with respect to pensions due in calendar months after the month next following the month in which this Act is enacted. The amendments made by subsection (e) of section 201 of this title shall be effective as to lump-

sum benefits under section 5(f)(1) of the Railroad Retirement Act of 1937 with respect to deaths occurring on or after the date of enactment of this Act.

(b) All recertifications required by reason of the amendments made by this title shall be made by the Railroad Retirement Board without application therefor.

TITLE III—AMENDMENTS TO THE RAILROAD RETIREMENT TAX ACT

CHANGES IN TAX RATES

SEC. 301. (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 "6¼ percent" from subdivision "(3)" and inserting in lieu thereof "7 percent"; by striking out "7 percent" from subdivision "(4)" and inserting in lieu thereof "7¼ percent"; and by striking out "7¼ percent" from subdivision "(5)" and inserting in lieu thereof "7½ percent".

(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 "13½ percent" from subdivision "(3)" and inserting in lieu thereof "14 percent"; by striking out "14 percent" from subdivision "(4)" and inserting in lieu thereof "14½ percent"; and by striking out "14½ percent" from subdivision "(5)" and inserting in lieu thereof "15 percent".

(c) Section 3221(a) of such Code (relating to rate of tax on employers under the Railroad Retirement Tax Act) is amended by striking out "6¾ percent" from subdivision "(3)" and inserting in lieu thereof "7 percent"; by striking out "7 percent" from subdivision "(4)" and inserting in lieu thereof "7¼ percent" and by striking out "7¼ percent" from subdivision "(5)" and inserting in lieu thereof "7½ percent".

SUPPLEMENTAL TAXES

(d) Section 3211 of such Code is further amended by inserting "(a)" after "Sec. 3211" and by adding at the end thereof the following new subsection:

"(b) In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to 2 cents for each man-hour for which compensation is paid to him for services rendered as an employee representative."

(e) Section 3221 of such Code is further amended by adding at the end thereof the following new subsection:

"(c) In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to 2 cents for each man-hour, for which compensation is paid. With respect to daily, weekly, or monthly rates of compensation such tax shall apply to the number of hours comprehended in the rate together with the number of overtime hours for which compensation in addition to the daily, weekly, or monthly rate is paid. With respect to compensation paid on a mileage or piecework basis such tax shall apply to the number of hours constituting the hourly equivalent of the compensation paid. The tax imposed by this subsection shall not apply to hours included in any month of service as an employee rendered to a railway-labor-organization employer during which month the individual to whom such compensation is paid was not engaged predominantly in work involving representation of employees within the definition of 'employee' in this Act.

"Each employer of employees whose supplemental annuities are reduced pursuant to section 3(j)(2) of the Railroad Retirement Act of 1937 shall be allowed as a credit against the tax imposed by this subsection an amount equivalent in each month to the aggregate amount of reductions in supplemental annuities accruing in such month to employees of such employer. If the credit so allowed to such an employer for any month exceeds the tax liability of such employer accruing under this subsection in such month, the excess may be carried forward for credit against such taxes accruing in subsequent months but the total credit allowed by this paragraph to an employer shall not exceed the total of the taxes on such employer imposed by this subsection. At the end of each calendar quarter the Railroad Retirement Board shall certify to the Secretary of the Treasury with respect to each such employer the amount of credit accruing to such employer under this paragraph during such quarter and shall notify such employer as to the amount so certified."

(f) The amendments made by subsections (d) and (e) of this section shall be effective with respect to man-hours, for sixty months beginning with the first month following enactment of this Act, for which compensation is paid.

TREASURY DEPARTMENT,
Washington, D.C., September 29, 1966.

Hon. HARLEY O. STAGGERS,
*Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This report sets forth the views of the Treasury Department on H.R. 17285, "A BILL To amend the Railroad Retirement Act of 1937 and the Railroad Retirement Tax Act, and for other purposes." The Treasury Department is opposed to one aspect of this bill.

The bill would make two distinctly different types of changes in the existing railroad retirement program. Title I of the bill would create an entirely new and different kind of retirement program which would supplement the basic public program in much the same way that private pension plans in other industries supplement the basic benefits provided under the social security system. More specifically, these provisions of the bill would provide for the payment of supplemental annuities (ranging from \$45 to \$70 per month) to a specified class of employees for a five year period. The supplemental annuities are to be financed by a new and separate tax on employers and employee representatives (but not on employees) and would be payable only to employees retiring after July 1, 1966, who have attained the age of 65, and have completed at least 25 years of service. Title II of the bill would increase and otherwise adjust the benefits that are currently paid under the basic retirement program covering the railroad industry. Title III provides for an increase in the basic tax to finance the increased basic benefits and a new tax based on man-hours of employment to finance the supplemental annuities.

The Treasury Department has no objection to the provisions of H.R. 17285 except to the extent that it extends the tax exemption presently accorded benefits paid under the basic railroad retirement program to the supplemental annuity program created by Title I.

The basic retirement benefits provided under the two public retirement systems, the Federal Old Age Survivors and Disability Insurance system and the Railroad Retirement system, are exempt from Federal income tax. On the other hand, employer financed benefits received under private retirement programs are subject to tax in the same manner as other forms of retirement income. By creating and implementing the system of supplemental annuities as an amendment to the Railroad Retirement Act and specifically by defining the annuities as those covered by Section 12 of the Railroad Retirement Act of 1937, the bill would automatically extend to these annuities the tax exemption previously reserved for the broad based public programs. The Treasury Department does not believe that such a tax benefit is appropriate since, except for the fact that they are to be publicly administered, the supplemental annuities provided for by the bill have none of the hallmarks of a public program. Rather, they are payable only to a narrow group of long service employees who retire during a specified five year period. In these circumstances the Treasury Department can see little justification for favoring the supplemental retirement program of the railroad industry at the expense of all other Federal taxpayers. To do so would grant this particular industry favored tax status for its pension benefits that is not available to any other industry with respect to its private retirement programs. Rather, the Treasury Department is of the opinion that the supplemental annuity program provided for by the Act should be subject to the tax rules that are applicable to qualified private pension plans generally. We understand that appropriate language to accomplish this has been submitted to your Committee by the Railroad Retirement Board.

The Treasury Department also wishes to point out that study is presently being given to a Cabinet Committee Report which, through amendments to the Internal Revenue Code, would add additional requirements for the qualification of private pension plans. If any such requirements are added in the future, we would think it would be appropriate to amend the supplemental annuity program to bring it up to the new standards if the program is to be extended beyond the initial period.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the Administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY, *Assistant Secretary.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 26, 1966.

HON. HARLEY O. STAGGERS,
*Chairman, Committee on Interstate and Foreign Commerce
House of Representatives, Washington D.C.*

DEAR MR. CHAIRMAN: This is in response to your request of August 29, 1966, for the views of the Bureau of the Budget with respect to H.R. 17285, a bill "To amend the Railroad Retirement Act of 1937 and the Railroad Retirement Tax Act, and for other purposes."

The bill has two purposes: to provide supplemental annuities to certain beneficiaries entitled to a regular annuity under the Railroad Retirement Act, and to increase benefit amounts under the existing provisions of the Railroad Retirement Act by seven percent, subject to certain limitations. The seven percent increase conforms, generally, to the pattern for increasing benefit amounts under Public Law 89-97—the Social Security Amendments of 1965—and, accordingly, the Bureau of the Budget sees no objection to that portion of the bill.

The portion of the bill having to do with supplemental pensions calls for more careful consideration. Although it is proposed as an amendment to the basic Railroad Retirement Act, the supplemental pension plan is in reality a private pension plan arrived at through collective bargaining and similar in general form to many such plans within American industry except that the Federal Government will (a) administer the plan through a Federal agency; (b) collect its revenue through the Federal taxing power; (c) require compulsory participation of the entire industry; and (d) exempt employer contributions as well as employee benefits from Federal taxes.

We wish to call attention to two issues which the plan raises:

First, employee benefits, as in other non-contributory private plans, should be taxable. Employer contributions are tax free only if the plan meets certain requirements set forth in the Internal Revenue Code. It appears that this plan would meet such requirements as a private plan and, therefore, employers might deduct their contributions from Federal taxes in either case. However, we see no basis for the special tax treatment afforded to employee benefits. In this matter, we agree with the recommendation of the Treasury Department, in the report, it is submitting to your committee, and urge that this exemption be deleted from the plan.

Secondly, we think provision should be made for adequate long-term financing. The plan is limited to a five-year term for both contributions and benefits and no provision is made for its extension beyond that period. It is adequately financed only for this period. If the plan were extended beyond this period—as it is expected to be—the contribution level would have to be at least doubled simply to continue benefits at the same level for another five years. Negotiations to extend the term of the plan at that time might involve concessions by the employees in order to continue or improve the terms of the plan. If employees are then called upon to share some of the costs, it would limit their capacity to finance future improvements in the basic railroad retirement system. We would strongly object to any possible interpretation of this legislation that financial support on the part of the Federal Government might be proposed in order to extend the term of the plan beyond its present termination. We, therefore, endorse the statement to this effect in the report of the Railroad Retirement Board that enactment of this legislation does not presuppose any financial obligation by the Federal Government. This point could be made clear by adding a provision to the bill which directs the Railroad Retirement Board, before the end of the five-year period, to determine the costs of adequately financing the plan on a permanent basis and to present this to representatives of railroad labor and railroad management in order to assist them in negotiating a continuation of the plan.

The lack of provision for early vesting and the severe length of service requirements do not recommend themselves as models of a publicly enacted supplemental pension program. If this measure should become effective pending the development of Federal policy on these issues, we think any extension of it should be subject to review in the light of subsequent legislation.

If the bill were modified to remove the income tax exemption for employee benefits, the Bureau of the Budget would have no objection to enactment of H.R. 17285.

Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

UNITED STATES OF AMERICA,
RAILROAD RETIREMENT BOARD,
Chicago, Ill., September 23, 1966.

HON. HARLEY O. STAGGERS,
*Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: This is a report on the bill H.R. 17285, which was introduced in the House of Representatives on August 25, 1966, by Mr. Macdonald, and referred to your Committee for consideration.

The purpose of the bill is to provide supplemental annuities under the Railroad Retirement Act for qualified individuals, and a 7 per cent increase in regular benefit amounts under the Act subject to certain limitations.

The supplemental annuities would be payable to individuals who have attained age 65, have at least 25 years of creditable service, are entitled to a regular annuity as an employee under the provisions of that Act, and have a current connection with the railroad industry at the time their annuity began to accrue. The supplemental annuity would be in an amount equal to \$45 plus \$5 for each year of creditable service over 25 and up to 30 that the recipient has. Thus, the supplemental annuity would be limited to \$70 even though the individual has in excess of 30 years of creditable service under the Act. For the purpose of supplemental annuities no month would be included in the computation of an individual's years of service on the basis of his service as an employee of a railway labor-organization employer during which he was not predominantly engaged in work involving the representation of employees covered by the Railroad Retirement Act. The costs of these supplemental annuities would be financed by an excise tax on employers and employees representatives under the Act of 2 cents for each man-hour of employment for which the employer paid compensation to begin with the month following the month of enactment of the bill and to continue for the 60 month period beginning with the month after enactment. There would be no taxes on employees for the purpose of the supplemental annuities. The supplemental annuities would have no effect in determining the amount of other annuities or benefits under the Act except that the 7 per cent increase in regular annuity amounts the bill would provide (described hereinafter) would not be included in annuity amounts after an individual becomes entitled to a supplemental annuity. The supplemental annuities would be subject to the same provisions requiring loss of annuities because of work as the regular annuities. They would be payable for a period of 60 months following the month in which the bill is enacted; but would be payable only in cases where the award of a regular annuity is first made on or after July 1, 1966. The reference to the first award would prevent an individual from qualifying by withdrawing his application for an annuity and having a later award.

In the case of an individual entitled to a supplemental pension payment under another plan the supplemental annuity which would otherwise be payable would be reduced with respect to any month by the amount of the supplemental pension for the month attributable to the employer's contribution; except that the reduction would not be applicable if such pension is reduced by reason of the supplemental annuity to which the individual would be entitled. The amounts by which supplemental annuities are reduced by reason of pension payments by an employer would be credited against taxes on man-hours imposed on such employer (the taxes on man-hours, which the bill would provide, with respect to which compensation is paid are described hereinafter).

The supplemental annuity program would be administered by the Board and would be financed separately from the regular railroad retirement program. There would be an excise tax imposed by the Railroad Retirement Act on each employer equal to two cents for each man-hour with respect to which compensation is paid. A separate account would be established in the Treasury for the program. Employees would not pay taxes for the supplemental program. The taxes would be payable only for the 60-month period with respect to which supplemental annuities are payable. Funds needed for the first six months of the program could be borrowed from the Railroad Retirement Account, but would have to be repaid with interest within a year after the start of the program. The Board is satisfied that the amounts borrowed would be repaid well before the end of the year. Thereafter, the regular Railroad Retirement Account would not be called upon to contribute to the new Account in any way.

The Board is also satisfied that the provisions for supplemental annuities are adequately financed. However, as a precaution, the bill provides, as stated below, that if, as the result of the survey to be made by the Railroad Retirement

Board after 48 months have elapsed from the beginning of the supplemental annuity program, it should appear that the balance in the Railroad Retirement Supplemental Account together with the anticipated income to such account would be insufficient to pay the supplemental annuities in full for the remaining twelve months of the program, the Board is authorized to adjust the supplement annuity amounts proportionately.

The Federal Government has no obligation whatsoever to contribute any funds for the supplemental annuity program during the five year period provided for in the bill and has no obligation to provide funds for a continuation of the program after such period. The supplemental annuities will not be excluded from income otherwise taxable pursuant to the Federal income tax provisions of the Internal Revenue Code of 1954.

The bill would also provide for a 7 per cent increase in ordinary benefits payable under the Railroad Retirement Act, except for those annuities which are payable under the so-called social security guaranty provision in Section 3(e) of the Railroad Retirement Act, and spouses' annuities which are payable in the maximum amount. The annuities payable under the special guaranty provision were increased as a result of the raises in social security benefits, generally, by 7 per cent effected by the enactment of the Social Security Amendments of 1965. The amount of the maximum spouse's annuity was also increased through such raises in social security benefits. In cases where an annuitant under the Railroad Retirement Act is also receiving benefits under the Social Security Act, the increase in his railroad retirement annuity would be limited, generally, to the amount by which the increase otherwise applicable exceeds the increase the annuitant received in his social security benefits through the 1965 legislation. The increase in the social security benefits to be taken into account would be confined to the additional benefits that would be payable on the basis of an average monthly wage up to \$400. Increases in social security benefits attributable solely to that part of the average monthly wage which is in excess of \$400 would not be taken into account. The increase in the creditable wage base under the Social Security Act from \$4,800 a year to \$6,600 a year by the 1965 legislation permits, for the first time, an average monthly wage in excess of \$400 for benefit computation purposes.

In order to facilitate administration, the increase otherwise applicable would be adjusted by 6.55 per cent of the amount of the social security benefits, after the 1965 increase, to be taken into account (any increases in social security benefit amounts effected by legislation enacted after 1965 would not be taken into account in the reduction). This would produce approximately the 1965 increase in social security benefits, except in cases where the social security benefit was increased by more than 7 per cent (in cases of minimum or low benefits), the amount of the adjustment would be less than the 1965 increase in such social security benefit amounts.

The bill is divided into three titles. Section 1 of title I would add a new subsection (j) at the end of Section 3 of the Railroad Retirement Act to provide for the supplemental annuities.

Section 2 of this title would establish in the Treasury of the United States by an amendment of Section 15 of the Act a new account to be known as the Railroad Retirement Supplemental Account. The supplemental annuities would be paid from this Account. There would be a provision for an automatic annual appropriation to this Account of the amounts paid under the relevant provisions of the Railroad Retirement Tax Act. The interest rates applicable as to the funds in the new account would be determined in the same way as interest rates for the funds in the Railroad Retirement Account.

At the end of 48 months following enactment of the bill the Board would be required to make a survey to determine whether the balance in the Account plus anticipated income for the next succeeding twelve months would be sufficient to provide for the payment of supplemental annuities for that period. If the determination is that the funds of the Account will not be sufficient to provide for the supplemental annuities in the amount specified for the next succeeding 12 months the Board would be required to adjust the amounts of all supplemental annuities proportionately so that the available funds, will be sufficient to pay all supplemental annuities, as so readjusted, for the next succeeding 12 months.

In order to make certain that sufficient funds would be available for the payment of supplemental annuities (and administrative expenses) in the early stages of the supplemental program (for 6 months following the month in which the bill is enacted), authority would be provided for loans to the Railroad Retirement Supplemental Account from the Railroad Retirement Account.

These loans would be required to be repaid with interest within one year after enactment of the bill. The interest rate would be approximately equal to the rate borne by other obligations of the Railroad Retirement Account.

Title II of the bill would increase benefit amounts under the existing provisions of the Railroad Retirement Act by 7 per cent but only as to that portion of benefit amounts which are derived from an average monthly compensation of \$450 or less. The amount that the average monthly compensation in excess of \$450 adds to the annuity would still be obtained by applying the same percentage factor that is now applied to that portion of the average monthly compensation over \$150. There are now three percentage factors in the formula for determining regular annuity amounts. The factor now applicable to average monthly compensation over \$150 would be increased by 7 per cent as to average monthly compensation over \$150 and up to \$450. The factor applicable to average compensation under \$150 would also be increased by 7 per cent. The same factor now applicable to the highest portion of the maximum average monthly compensation would apply to over \$450 and up to \$550. Thus, this would become the fourth factor. (The maximum creditable monthly compensation was, of course, increased by legislation enacted in 1965 from \$450 to \$550.) This conforms to the pattern for increasing benefit amounts by 7 per cent under the Social Security Act in 1965 which increases were limited to benefits produced by the maximum average monthly wage possible before the 1965 changes (\$400). The provisions for the regular minimum annuity would be changed to provide an increase of 7 per cent.

The formula for computing the basic amount (used in determining survivor benefit amounts, including the lump-sum benefit under Section 5(f)(1)) would also be revised to effect a 7 per cent increase. The increase would be effected by increasing only the percentage factors applicable as to average monthly remuneration up to \$450, as it would be done in respect to the formula for employee annuity amounts.

However, as stated before, the annuities payable under the so-called social security guaranty provision would not be increased. Annuities payable under this guaranty provision were increased as a result of the raise in social security benefits in 1965. The guaranty provision, in effect, assures that an annuity, or the total of annuities, under the Railroad Retirement Act for a month shall be no less than 110 per cent of the amount, or the additional amount, which would be payable to all persons under the Social Security Act for the month if the railroad service from which the annuity or annuities are derived had been employment subject to the Social Security Act.

The spouse's annuity under the Railroad Retirement Act is in an amount equal to one-half of her husband's annuity, except that it is limited in amount to 110 per cent of the highest amount which could be currently paid to anyone as a wife's benefit under the Social Security Act. Accordingly, this maximum amount of the spouses was increased through the raise in social security benefits effected in 1965, and the maximum amount would not be further increased by this bill.

Many individuals who receive annuities under the Railroad Retirement Act also draw social security benefits. The increases in annuities this bill would provide would be reduced in such cases, generally, by the amount of the increase in the individual's social security benefits effected through the 1965 legislation. The amount of the increase in social security benefits effected by the 1965 legislation to be taken into account in this respect would be limited to the increase in social security benefits derived from an average monthly wage of \$400 or less. The social security wage base was increased from \$4,800 a year to \$6,600 a year by the 1965 legislation. This permits in the future an average monthly wage of up to \$550 as compared with a maximum of \$400 under the law before the 1965 amendments. As a consequence, an average monthly wage of over \$400 and up to \$550 can be the basis for the determination of benefit amounts in the future. The social security primary insurance amounts on the basis of an average monthly wage of up to \$400 were increased in 1965, generally, by 7 per cent (in the lower amounts the increase was larger), but in determining the primary insurance amount the factor applicable to the highest portion of the average monthly wage before the 1965 increase was made applicable to the average monthly wage in excess of \$400.

Pensions under Section 6 of the Railroad Retirement Act an annuities payable under the Railroad Retirement Act of 1935 would similarly be increased, as would annuities payable on a joint and survivor basis, but these increases would

also be subject to reduction because of any 1965 raise in social security benefits on an average monthly wage of up to \$400 for which the individual is concurrently entitled. The widow's annuity payable on the basis of the guaranty that it shall be no less than her spouse's annuity, which is based on a spouse's annuity payable for months before the month following enactment of the bill, would be similarly increased subject to a reduction because of entitlement to social security benefits.

The 7 per cent increase would be effective as to annuities accruing for months after the month in which the bill is enacted and with respect to pensions due in calendar months after the month next following the month in which the bill is enacted. The increase with respect to lump-sum benefits under Section 5(f)(1) of the Railroad Retirement Act would be effective with respect to deaths occurring on and after the date of enactment.

Title III of the bill would amend the Railroad Retirement Tax Act to increase the basic tax rate on employers and employees for years after 1966 by $\frac{1}{4}$ per cent. The tax rate on employee representatives for years after 1966 would be increased by one-half per centum. These higher tax rates are designed to cover the 7 per cent increases in the benefits payable under the regular provisions of the Railroad Retirement Act.

Subsection (d) of Section 301 of this title would amend the Railroad Retirement Tax Act to provide an excise tax on employers, with respect to having individuals in their employ, equal to 2 cents per each man-hour on which compensation is paid. This tax would also be applicable to employee representatives. The tax would not apply to hours included in any month of service of an individual as an employee rendered to a railway-labor-organization employer, during which month the individual to whom such compensation was paid was not engaged predominantly in work involving representation of employees covered by the Railroad Retirement Act. This new tax would be applicable to man-hours for which compensation is paid for 60 months following the month in which the bill is enacted.

The amount for each month by which supplemental annuities of employees of an employer are reduced, because of supplemental pension payments by such employer, would be allowed as a credit for such employer against the tax imposed on the basis of man-hours for which compensation is paid. If the amount of the reduction because of supplemental pension payments exceeds in any month the tax liability on man-hours for such month, the excess could be carried forward but the total credits could never exceed the total tax liability. The Board would be required to certify at the end of each calendar quarter to the Secretary of the Treasury with respect to each such employer the amount of credit accruing to such employer and to notify the employer as to the amount certified.

COST ESTIMATES

Because the supplemental annuity program is treated in the bill as a separate financial entity, it is proper to consider the actuarial implications of the proposed amendments in two parts. This, however, should not be construed to mean that the supplemental annuity program and the selective 7 per cent increase in regular Railroad Retirement Act benefits are truly independent of each other. The areas of interdependence between these two sets of amendments are as follows:

- (1) The 7 per cent increase would not be available to recipients of the supplemental annuity, thus reducing the cost effects of the 7 per cent increase.
- (2) The availability of a substantial additional retirement benefit would in all likelihood accelerate retirement on the part of qualified employees and thus increase the cost of retirement annuities under the regular railroad retirement program.

For the supplemental annuity program, the actuarial analysis is limited to the 5-year period specified in the bill. However, for the 7 per cent increase, it is necessary to consider the long-range cost implications because this is made a permanent feature of the railroad retirement program. Thus, an important consideration is whether the supplemental annuity program will be extended beyond the 5-year period or not. For purposes of either set of amendments, it was assumed that the provisions of the bill will become effective on October 1, 1966.

1. *Supplemental annuity account.*—The progress of this account will depend mainly on the retirement rates which will prevail during the period of its existence. Since the strong possibility of an acceleration in retirement could not be ignored, the estimates are based on retirement rates moderately higher than the rates used in the Board's latest actuarial valuation (the ninth, made

as of December 31, 1962). The income figure of \$34.8 million a year is based on the assumption that over the next 5 years railroad employment will average 725,000 full-time jobs and that the number of paid hours associated with each job will be 200 per month.

The estimated annual income, outgo, and balance figures are shown in the table at the top of the next page.

Our general conclusion is that the financing would be adequate to carry the program for 5 years without any significant fund left at the end of that period. There is, of course, the possibility of a deficit emerging before the specified termination date of the program but for this to happen, the acceleration in retirement would have to be much greater than we have reason to expect.

[Dollars figures in millions]

Benefit year ¹	Income ²	Benefit payments ²	Fund at end of year
1966-67.....	\$34.8	\$13.1	\$22.1
1967-68.....	34.8	25.3	32.7
1968-69.....	34.8	35.9	32.9
1969-70.....	34.8	46.5	22.3
1970-71.....	34.8	56.3	1.3

¹ Begins Oct. 1 and ends Sept. 30, next.

² Computed without regard to the offsets on account of pensions under private plans. These offsets would balance each other so that the progress of the account would not be affected by them.

As for the borrowing from the regular railroad retirement account, we believe that the amounts borrowed would be repaid well before the period specified in the bill. Thereafter, the regular account would not be called upon to contribute to the new account in any way. However, as stated before, the new benefit program could have an indirect adverse effect on the regular account by causing a significant acceleration in retirement.

2. *Regular railroad retirement account.*—The income of this account would be augmented by a new tax of ½ per cent of payroll shared equally by employees and employers. This additional income is intended to finance the selective 7 per cent increase in regular railroad retirement benefits on a level basis.

The adequacy of this financing depends primarily on two factors: (1) the duration of the supplemental annuity program and (2) the extent by which retirement rates would be accelerated as a result of the availability of a supplemental annuity. Should there be no extension of the supplemental annuity program beyond the first 5 years, the cost might be as high as 0.85 per cent of payroll. This is because the great majority of retirees with long service would then become eligible for a 7 per cent increase in their regular annuities. On the other hand, if the supplemental plan is continued on a permanent basis, the cost of the 7 per cent increase would be 0.52 per cent of payroll before adjustment for acceleration in retirement and about 0.60 per cent after such an adjustment.

Because of the fairly large difference between the cost figures for a continuing and terminating supplemental annuity program, respectively, it is practically impossible to make at this time an unqualified judgment on the adequacy of the ½ per cent tax over the long range. However, since this tax could be nearly sufficient under certain circumstances, the Board is inclined to consider the financial arrangements for this part of the bill as satisfactory for the time being. As more information becomes available on the issues involved, this cost area will be re-examined with the view of determining whether any adjustments in financing are needed.

IMMEDIATE EFFECTS

The immediate effects of the proposed legislation will also be discussed in two parts. The first part will deal with the expected experience in the first year of the supplemental annuity program while the second part will describe the estimated effects of the selective 7 per cent increase on beneficiaries who were on the rolls at the end of June 1966.

1. *Supplemental annuity program.*—Assuming an effective date of October 1, 1966, the program would start with a backlog of qualified employees who were awarded annuities in July–September 1966. We estimate that the number of such individuals will be about 4,000 and that their average supplemental annuity will be \$68.

As for new retirements during the period October 1, 1966–September 30, 1967, the number could range from 15,000 if retirement rates continue at the previous levels to 45,000 if all qualified employees age 65 or over decide to retire immediately. For purposes of the cost estimates discussed earlier, it was assumed that the new retirements in the first year of the plan will number about 21,000.

The great majority (90 per cent) of the first-year beneficiaries will be eligible for the maximum supplemental benefit of \$70. For the remainder, the average benefit will be of the order of \$55 a month. Incidentally, the average regular annuity for employees eligible for supplemental annuities will be about \$185 per month. In most cases, the qualified wives of these retirees will be eligible for maximum spouses' annuities, that is, \$74.80 during the remainder of 1966 and \$83.60 during 1967.

2. *Selective 7 per cent increase.*—A detailed breakdown of the effects of this set of amendments on present beneficiaries is presented in the table appearing on the next page. This table tells, among other things, how many individuals in each beneficiary group would receive an increase and how large the increase would be on the average. As can be seen from the table, the increase provisions would benefit approximately 461,000 individuals (disregarding the inconsequential duplicate counting of widows receiving annuities under the old joint and survivor provisions) presently on the Board's benefit rolls. This group consists of 294,000 nondual beneficiaries (roughly one-third of the total) who would receive a full increase and 167,000 dual beneficiaries (or certain special over-all minimum cases) who would receive but a partial increase.

Immediate effects of the selective 7-percent increase in RRA benefits provided for in H.R. 17285

[Estimate for beneficiaries on the rolls on June 30, 1966]

Class of beneficiary	Number of beneficiaries				Average annuity for beneficiaries		Average increase for eligible beneficiaries
	Total	No increase	Full increase	Partial increase	With no increase	With increase ¹	
All beneficiaries.....	2 922, 200	460, 600	2 294, 400	167, 200	-----	-----	-----
Retired employees, total.....	429, 500	72, 900	254, 400	102, 200	\$117	\$145	\$8
Age annuitants.....	328, 000	49, 600	191, 300	87, 100	112	149	8
Disability annuitants.....	101, 300	23, 300	62, 900	15, 100	128	133	9
Pensioners.....	200	-----	200	-----	-----	78	5
Spouses, total.....	197, 000	145, 000	17, 000	35, 000	66	57	3
Survivors, total.....	2 295, 700	242, 700	2 23, 000	30, 000	-----	-----	-----
Aged widows.....	240, 000	198, 300	20, 700	30, 000	84	60	2
Widowed mothers.....	9, 400	9, 300	100	-----	114	76	5
Children.....	34, 900	34, 400	500	-----	77	40	3
Parents.....	700	700	-----	-----	80	-----	-----
Option cases.....	1, 700	-----	1, 700	-----	-----	56	4

¹ Before increase.

² Slightly overstates numbers of different individuals because most widows receiving annuities under the old joint and survivor options are also receiving regular widows' annuities and are therefore counted twice.

The group which would benefit most is the one consisting of retired employees with annuities in the higher brackets. The remaining groups of beneficiaries would be affected to a much lesser extent for the following reasons:

(a) Retired employees with annuities in the lower brackets are the ones for whom the frequency of entitlement to a simultaneous social security benefit is fairly large. Because of the social security offset, these annuitants would receive either no increase at all (if their social security benefit is larger than the Railroad Retirement Act annuity) or an increase smaller than 7 per cent of their Railroad Retirement Act annuity. It should also be remembered that retired employees paid under the 110 per cent social security minimum provision (O/M) would generally not be eligible for an increase in the Railroad Retirement Act annuity.

(b) The majority of wives on the benefit rolls is being paid the maximum benefit and would therefore not be eligible for an increase. Among those not receiving the maximum, there are many O/M cases and dual beneficiaries whose own social security benefit is higher than the Railroad Retirement Act spouse annuity. These women would also not receive an increase. Thus, the group eligible for an increase is relatively small.

(c) Survivors other than aged widows are practically always paid under the O/M formula. This accounts for the finding that very few beneficiaries in this category would benefit from the 7 per cent increase.

(d) Aged widows fall into two categories: (1) those paid under the O/M roughly two-thirds, and (2) those paid under the regular or "basic amount" formula—about one-third. Except for certain marginal cases, the first group will not be eligible for any increase. The second group consists mostly of dual beneficiaries (ordinarily the social security benefit is the reason why the O/M formula does not apply) and would thus be subject to the social security offset. This offset may either nullify the increase in the Railroad Retirement Act benefit or make it smaller than 7 per cent.

The representatives of railroad labor and of railroad management have, as the Board understands, reached an agreement as to the provisions of this bill for supplemental annuities and for an increase in regular annuity amounts, as provided in the bill. The Board is in accord with the views of these representatives and also believes the bill to be meritorious. Therefore, the Board recommends enactment of the bill.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program to the submission of this report.

Sincerely yours,

HOWARD W. HABERMEYER, *Chairman.*

Mr. MACDONALD. Our first witness this morning will be Mr. Howard Habermeyer, Chairman of the Railroad Retirement Board.

It is nice to see you again.

Mr. HABERMEYER. Good morning, Mr. Chairman.

Mr. CURTIN. Good morning.

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

Mr. HABERMEYER. Mr. Chairman, members of the subcommittee, my name is Howard W. Habermeyer. I have been Chairman of the Railroad Retirement Board since November 1956. I appear here on behalf of the entire Board in support of the bill.

The bill would amend the Railroad Retirement and the Railroad Retirement Tax Acts to provide supplemental annuities for those railroad employees who are entitled to a regular annuity under the Railroad Retirement Act based on 25 or more years of railroad service, have attained age 65, and have "a current connection with the railroad industry" at the time their regular annuity begins to accrue. This phrase is defined in the Railroad Retirement Act and, in general, applies to those individuals who remain in the railroad industry until they retire on an annuity.

The amount of the supplemental annuity would be \$45 a month for the basic 25 years of service plus \$5 a month for each year of service over 25, but not more than \$70 a month, would be paid even though the annuitant has in excess of 30 years of service. The supplemental annuity would be paid only in cases where the regular annuity was first awarded after June 1966, and would be payable for months beginning with the first month after the month of enactment of the bill.

There would be no payment of the supplemental annuity after the 60th month following the month of enactment.

The supplemental annuity program would be administered by the Board and would be financed separately from the regular railroad retirement program. There would be an excise tax imposed by the Railroad Retirement Tax Act on each employer equal to 2 cents for each man-hour with respect to which compensation is paid. A separate account would be established in the Treasury for the program. Employees would not pay taxes for the supplemental program. The taxes would be payable only for the 60-month period with respect to which supplemental annuities are payable.

Funds needed for the first 6 months of the program could be borrowed from the railroad retirement account, but would have to be repaid with interest within a year after the start of the program.

The Board is satisfied that the amounts borrowed would be repaid well before the end of the year. Thereafter, the regular railroad retirement account would not be called upon to contribute to the new account in any way.

The Board is also satisfied that the provisions for supplemental annuities are adequately financed. However, as a precaution the bill provides that if, as the result of the survey to be made by the Railroad Retirement Board after 48 months have elapsed from the beginning of the supplemental annuity program, it should appear that the balance in the railroad retirement supplemental account together with the anticipated income to such account would be insufficient to pay the supplemental annuities in full for the remaining 12 months of the program, the Board is authorized to adjust the supplemental annuity amounts proportionately.

The Federal Government has no obligation whatsoever to contribute any funds for the supplemental annuity program during the 5-year period provided for in the bill and has no obligation to provide funds for a continuation of the program after such period. The supplemental annuities will not be excluded from income taxable pursuant to the Federal income tax provisions of the Internal Revenue Code of 1954.

The bill would also provide for an increase in regular benefit amounts of 7 percent which would be effective after enactment. However, benefits which were payable under the social security guarantee provision of the act, and spouses' annuities which are payable in the maximum amount, would not be increased. These benefit amounts, which are contingent on social security benefit amounts, were increased as a result of the raise in social security benefits effected by legislation enacted in 1965.

Also in cases where an individual is entitled to monthly benefits under the Social Security Act as well as an annuity under the Railroad Retirement Act, the increase in his annuity which would otherwise be applicable would be adjusted by the amount of the increase in his social security benefits brought about by the 1965 legislation. The increase in regular annuity amounts would not be payable with respect to months for which the individual is entitled to a supplemental annuity. This increase would be applicable to those who are now on the annuity rolls as well as to those who qualify in the future.

The basic tax rate on railroad employees and their employers would be increased by one-fourth percent to cover the cost of this change

in the law. Our actuary thinks that this arrangement for financing the increase in benefit amounts should prove satisfactory at least for the present. The Board's report on the bill contains a detailed discussion as to the financing of the 7-percent increase as well as the supplemental annuity program.

As you know, the provision of this bill reflects an agreement reached by the representatives of railway labor and management following extended negotiations. The supplemental insurance program will obviously be of great benefit to railroad employees and thus represents a greater forward step in social insurance. The 7-percent increase in regular benefit amounts is needed for those who do not qualify for the supplemental annuity. The Board is unanimously in favor of the whole bill and strongly urges its enactment into law.

At this point, Mr. Chairman, I would like to put into the record some amendments that the Railroad Retirement Board is suggesting. Primarily they go toward clarifying language in the bill. There is one amendment that the Treasury has requested; that is, the one which provides that these supplemental annuities not be exempt from Federal income taxes. We have agreed to that and, as I understand, the labor and management groups have no objection to its adoption.

So I would like to offer these amendments with an explanation of them to be included in the record.

Mr. MACDONALD. Without objection, they will be entered in the record.

(The material referred to follows:)

AMENDMENTS TO H.R. 17285 REQUESTED BY THE RAILROAD RETIREMENT BOARD

1. On page 2, line 19, after "\$70", change the period to a colon and insert thereafter the following: "*Provided, however,* That in cases where an individual's annuity under section 2 of this Act begins to accrue on other than the first day of the month, the amount of any supplemental annuity to which he is entitled for that month shall be reduced by one-thirtieth for each day with respect to which he is not entitled to an annuity under section 2."

2. On page 3, line 18, strike out the word "Act" and insert in lieu thereof "subsection"; 1, strike out the quotation mark at the end of the line and insert after such line the following:

"(4) The provisions of section 12 of this Act shall not operate to exclude the supplemental annuities herein provided for from income taxable pursuant to the Federal income tax provisions of the Internal Revenue Code of 1954."

(The latter part of this amendment with regard to the taxability for income tax purposes of supplemental annuities is offered by the Board at the request of the Treasury Department. The Board understands that railroad labor and railroad management have no objection to this amendment.)

3. On page 5, line 22, change the period to a colon and insert thereafter the following: "*Provided, however,* That if before July 1, 1966, an annuity was awarded to an individual under section 2(a)4 or 5 of the Railroad Retirement Act of 1937, and such individual had recovered from disability and returned to the service of an employer before July 1, 1966, following which he was awarded an annuity after June 30, 1966, the annuity last awarded him shall be deemed to be an annuity first awarded within the meaning of this subsection but only if he would have a current connection with the railroad industry at the time the annuity last awarded begins to accrue, disregarding his earlier entitlement to an annuity."

4. On page 8, line 11, strike out "the next \$100" and insert in lieu thereof "the remainder up to 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".

5. On page 8, lines 15 and 16, strike out "work recomputations" and insert in lieu thereof "recomputations other than for the correction of errors".

6. On page 9, line 2, after the comma, insert the following: "and of subsection (e) of this section,".

7. On page 9, line 5, after the word "subsection", insert "or of subsection (e) of this section."

8. On page 9, line 6, strike out the word "its" and insert in lieu thereof "their".

9. On page 9, line 6, change the period to a colon and insert thereafter the following: "Provided, however, That if the application of the preceding sentence would result in the amount of the annuity, plus the amount of a supplemental annuity (after adjustment under subsection (j) (2) of this section) payable to an individual for a month being lower than the amount which would be payable as an annuity except for such preceding sentence, the annuity shall be in an amount which together with the amount of the supplemental annuity would be no less than the amount that would be payable as an annuity but for the preceding sentence."

10. On page 11, line 2, strike out "\$550" and insert in lieu thereof the following: "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".

11. On page 11, line 14, insert the dollar sign after the quotation mark and before the figure 32.37.

12. On page 12, line 1, strike out the word "for" and insert in lieu thereof the word "of".

13. On page 12, line 17, before the colon, insert the following: ", but such a widow's or widower's annuity in an amount formerly received as a spouse's annuity shall not be increased to an amount above \$74.80".

14. On page 12, line 23, strike out "work recomputations" and insert in lieu thereof "recomputations other than for the correction of errors".

The Board has been advised by representatives of railroad labor and railroad management that they have no objection to these amendments requested by the Board.

EXPLANATION OF THE AMENDMENTS TO THE BILL H.R. 17285 REQUESTED BY THE RAILROAD RETIREMENT BOARD

Amendment No. 1 is intended to avoid the anomaly of paying a supplemental annuity for days with respect to which an individual was not entitled to a regular annuity.

The reason for the change made by Amendment No. 2 is that the word "Act" would appear in section 3(j) (3) of the Railroad Retirement Act and, therefore, would technically refer to the Railroad Retirement Act. The new paragraph (4) added by this amendment distinguishes between regular annuities which, under section 12 of the Railroad Retirement Act, are excluded from income taxable under the Federal income tax provisions of the Internal Revenue Code of 1954, and the supplemental annuities which would not be so excluded.

Amendment No. 3 is intended to provide eligibility for a supplemental annuity to an individual who sometime in the past had been awarded a disability annuity, which terminated with his recovery from disability before July 1, 1966, and who returned to the service of an employer before that date, and was awarded an annuity after June 30, 1966. In such case, if he then has a current connection with the railroad industry, the award of the later annuity would be deemed to be the annuity first awarded to him. For this purpose he would have to have a current connection based on the circumstances prevailing at the time the later annuity began to accrue without regard to the current connection determined to exist at the time the earlier annuity began to accrue.

The effect of Amendment Nos. 4 and 10 is to change \$550 to one-twelfth of \$6600, which is, of course, the same, because under the Railroad Retirement Act of 1937 and the Railroad Retirement Tax Act, both as amended in 1965 by Public Law 89-212, approved September 29, 1965, the maximum creditable and taxable monthly compensation base was fixed at (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. Such maximum annual taxable wage base is now \$6600. Consequently, such maximum monthly compensation base is now one-twelfth of \$6600, or \$550, but may, of course, be changed automatically by a change in the social security wage base.

The reason for the change made by Amendment Nos. 5 and 14 is that there may be recomputations of social security benefits for other than work, such as changes in benefit amounts on a family composition basis.

Amendment Nos. 6, 7 and 8 are intended to avoid the possibility of paying the 7 per cent increase to an individual entitled to a supplemental annuity on the

basis of 25 or more years of service whose annuity is payable under the regular railroad retirement minimum formula. While it is hardly likely that an individual with that many years of service would have his annuity payable under the regular railroad retirement minimum formula, it is at least possible, and this is the basis for the proposed amendments.

Amendment No. 9 is intended to provide the 7 per cent increase in regular annuity amounts (or a portion thereof) to an individual who, though he is qualified for a supplemental annuity, has such annuity reduced (by reason of his entitlement to a pension under a supplemental pension plan) to nothing or to an amount which is less than the 7 per cent increase. In such case, his regular annuity would be increased to the extent that the total of his annuity payments would be no less than he would receive had he not been entitled at all to a supplemental annuity.

The reason for Amendment Nos. 11 and 12 is to correct typographical errors.

Amendment No. 13 is intended to prevent an increase in a widow's or widower's annuity, which is based on the spouse's guaranty provision, in cases now on the Board's annuity rolls, to an amount higher than \$74.80 which is the maximum spouse's annuity which could have been paid to any one in the period January 1965–December 1966, inclusive. The reason for this is that the widow's or widower's annuities now on the rolls based on the maximum spouse's annuity rates are not increased by the amendments.

Mr. MACDONALD. Since the bill was introduced, as you can imagine, I personally, and I am sure other members of the subcommittee, have received quite a good deal of mail. One group of people who write in are the women employees of the railroad. For some reason, and it is not quite clear to me, they seem to feel they are being discriminated against. Do they have any basis in fact about this?

Mr. HABERMAYER. No. If they work in the railroad industry and serve 25 years and meet the other qualifications they will be just as entitled to supplemental annuities as men. There is nothing in the bill that would discriminate against females.

Mr. MACDONALD. Maybe you are not the proper witness for me to ask the question of, but there is a difference in their retirement ages, mandatory retirement ages.

Mr. HABERMAYER. Yes; they can retire at age 60. There is no mandatory retirement age but they can receive a full annuity after age 60 if they have 30 or more years of service, whereas a man cannot receive a full annuity until he attains age 65, except on the basis of disability. Now maybe they are a little confused. If they retire at age 60 with 25 or more years of service, they will not get the supplemental annuity until they reach their 65th birthday the same as men, but when they reach their 65th birthday they will be entitled to the supplemental annuity.

Mr. MACDONALD. Right. I know, fortunately, from my point of view I received a petition signed by about 300 or more women who worked for the railroads but fortunately they are from the west coast. [Laughter.] I did hear from my own area, and they seemed exercised, that they were being discriminated against. I just would like to have it cleared up in my own mind for the record that they are not being discriminated against.

Mr. HABERMAYER. I have considerable correspondence from the males saying they are not able to retire at age 60 the same as the women. So this puts it on an even basis.

Mr. MACDONALD. Right.

The age 65 also raises some problems in my mail. I would like to inquire of you, would a person aged 64 years and 7 months be considered as aged 65 for purposes of the supplemental annuity?

Mr. HABERMEYER. No; he would have to be actually age 65.

Mr. MACDONALD. In other words, there is no shading at all.

Mr. HABERMEYER. We do shade this way: If a man has 24½ years of railroad service we consider that 25 years, or, similarly, 29½ is considered 30, but the age requirement means 65 and not 64½.

Mr. MACDONALD. Not 64 and 364 days?

Mr. HABERMEYER. That is right.

Mr. MACDONALD. It has to be the full amount.

Mr. HABERMEYER. Yes.

Mr. MACDONALD. Any questions, Mr. Curtin?

Mr. CURTIN. Yes, Mr. Chairman. Thank you.

Mr. HABERMEYER, would you tell me just why this particular legislation is needed?

Mr. HABERMEYER. Well, I think this question will be answered better by the witnesses who will follow me. Apparently the organized labor organization group in the railroad industry looking around at the supplemental systems that have been established for workers such as the automobile workers and the steel workers felt that they should get similar treatment. I was not, of course, a party to these negotiations but as I understand it they went to the railroads and I think filed section 6 notices under the Railway Labor Act asking that supplemental systems be established.

Mr. CURTIN. Was this because they feel that the amount they are getting in the form of pension is not comparable to social security?

Mr. HABERMEYER. Their retirement benefits are not as much as the total benefits of those in some of the other industrial groups.

Mr. CURTIN. I notice on the first page of your statement—the last sentence in the second paragraph—you say that—

There would be no payment of the supplemental annuity after the 60th month of enactment.

Does this mean that 5 years after this legislation goes in effect that no new people will be taken into it or does it mean that anyone receiving this supplemental payment will only get it for 5 years?

Mr. HABERMEYER. The way the bill is written the supplemental annuity would be payable only in a period of 5 years beginning with the month after enactment. I think if you will read the agreement that the chairman introduced into the record, you will find that the labor representatives and the management representatives have agreed to meet and start negotiations with regard to the future of this plan at the end of the fourth year.

Mr. MACDONALD. If I could elaborate on the answer, it is my understanding that the unions have agreed not to bring it up as a matter of collective bargaining until after the fourth year, and that was one of the reasons that the railroads agreed to pay for it, so they would not have this yearly hassle about it.

Am I correct in that?

Mr. HABERMEYER. I think that is correct but I think these questions would be better put to the witnesses who follow me.

Mr. CURTIN. I would like to ask one other question.

Why is it that it is felt that such supplemental annuity is only needed for 5 years?

Mr. HABERMEYER. I think anyone who believes that this will stop at the end of 5 years would be rather naive.

Mr. CURTIN. I do, too. That is why I asked the question.

Mr. MACDONALD. Maybe social security would be put up again.

Mr. CURTIN. Are there going to be other witnesses who will clarify this feature?

Mr. MACDONALD. Yes.

Mr. HABERMAYER. I would think so.

Mr. CURTIN. Thank you.

Mr. HABERMAYER. Thank you, Mr. Chairman.

Mr. MACDONALD. The next witness is Mr. Lester P. Schoene, counsel to the Railway Labor Executives Association in Washington, D.C.

Mr. SCHOENE. Good morning, Mr. Chairman.

Mr. MACDONALD. Nice to see you again.

Mr. SCHOENE. Thank you.

Mr. MACDONALD. You may proceed.

STATEMENT OF LESTER P. SCHOENE, COUNSEL, RAILWAY LABOR EXECUTIVES' ASSOCIATION

Mr. SCHOENE. Mr. Chairman and members of the committee, my name is Lester P. Schoene. I am a lawyer, a member of the firm of Schoene & Kramer with offices at 1625 K Street Northwest, Washington, D.C.

Our office has represented the Railway Labor Executives' Association in matters relating to railroad retirement and unemployment insurance for some more than 20 years. We have participated in the negotiation of the agreement that gives rise to this bill and in the drafting of the bill.

The Railway Labor Executives' Association whom I represent here is an association composed of the chief executives of the Standard Railway Labor Organizations, with one exception, and the organizations with whom they are affiliated, in the aggregate represent virtually all the railroad employees in the country.

I have a list of the organization whose chief executives are members of the association. I shall not read it but I would like to hand a copy to the reporter for inclusion in the record if that is agreeable, Mr. Chairman.

Mr. MACDONALD. Without objection, so ordered.

(The material referred to follows:)

ORGANIZATIONS WHOSE CHIEF EXECUTIVES ARE MEMBERS OF RAILWAY LABOR EXECUTIVES' ASSOCIATION

American Railway Supervisors Association.

American Train Dispatchers' Association.

Brotherhood of Locomotive Firemen and Enginemen.

Brotherhood of Maintenance of Way Employes.

Brotherhood of Railroad Signalmen.

Brotherhood of Railroad Trainmen.

Brotherhood of Railway Carmen of America.

Brotherhood of Railway and Steamship Clerks, Freight Handlers, Express and Station Employes.

Brotherhood of Sleeping Car Porters.

Hotel and Restaurant Employees and Bartenders' International Union.

International Association of Machinists and Aerospace Workers.

International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers.

International Brotherhood of Electrical Workers.

International Brotherhood of Firemen and Oilers.

International Organization Masters, Mates and Pilots of America.
 National Marine Engineers' Beneficial Association.
 Order of Railway Conductors and Brakemen.
 Railroad Yardmasters of America.
 Railway Employees' Department, AFL-CIO.
 Seafarers' International Union of North America.
 Sheet Metal Workers' International Association.
 Switchmen's Union of North America.
 Transportation-Communication Employees Union.

Mr. SCHOENE. As has already been testified, the bill is an agreed upon bill between the representatives of the railroads and the members of our Railway Labor Executives' Association acting on behalf of their respective unions representing the employees.

Mr. Habermeyer has summarized the bill and I really see no need of repeating his summary of what the bill provides.

Mr. CURTIN. If I may interrupt, I wish you would tell us just what the bill does seek to do. Would you please go into detail, because it must be presented to the members at some later time and I, for one, would like to know what it is all about.

Mr. SCHOENE. If that is desired, I would be happy to do that, sir.

The bill is in three titles. The first title deals with the subject of supplemental annuities, as has been indicated.

Mr. CURTIN. If I could interrupt again. Why supplemental? Why don't you just increase the amount of the regular pensions? Why do you have to have another separate pension on top of the pension that is already in existence?

Mr. SCHOENE. I think the answer to that is that we do not see in sight a source of sufficient funds to make a general increase in the benefit levels of the railroad retirement system beyond the increase provided in title II of the bill. The regular railroad retirement system is financed by joint contributions equally paid by railroads and the employees.

Mr. CURTIN. Who is going to finance the fund necessary for the supplemental pension?

Mr. SCHOENE. The railroads alone. The employees do not pay any portion of that.

These employees are now paying or will be paying upon the enactment of this bill, with the additional quarter percent tax to finance the general increase of benefits by 7 percent as provided in title II, they will be paying, beginning next January, 8.2 percent of their pay up to \$550 a month to finance the regular railroad retirement system.

Mr. CURTIN. What will the railroads be paying, assuming this bill for supplemental payments becomes law?

Mr. SCHOENE. They will be paying the same 8.2 percent; they will be matching the employee contribution for the regular railroad retirement system. And to finance this supplemental system they will be paying 2 cents per man-hour paid for.

Mr. CURTIN. So the employees will be paying 8.2 percent, and the railroads will be paying 10.2 percent?

Mr. SCHOENE. No; it is on a different basis, Mr. Congressman. So far as the regular system is concerned, it is on a percentage of the earnings of each employee up to \$550 per month insofar as the supplemental pension is concerned, it is not a percentage.

Mr. CURTIN. I thought you said it was 2 percent.

Mr. SCHOENE. 2 cents.

Mr. CURTIN. 2 cents per what?

Mr. SCHOENE. 2 cents per man-hour paid for.

It is man-hours worked and paid for—2 cents for each such hour. Now as I said, these employees feel that they are having about as big a bite taken out of their pay to finance the regular system as they can stand.

Mr. CURTIN. This is in lieu of social security, is it not?

Mr. SCHOENE. Yes; this is in lieu of social security.

Mr. CURTIN. What do the employees pay under the social security system? What is the part that comes out of their pay right now? What percentage?

Mr. SCHOENE. I don't have that figure with me but it is around 3½ percent, I believe.

Mr. Shriber informs me that it is 3⅝ percent. I was off an eighth.

So you see this is more than double what the social security employees pay and we have no surplus funds in the Railroad Retirement Account from which to make a general increase in benefits. However, we felt that the major need in this industry now is additional substantial pensions for the career employees who devote their lives to the industry and which, following the custom established in other industries where supplemental pensions have been negotiated are paid for by the employer. Obviously if we could get the railroads to pay for more generous benefits for everyone, we would like it. You will never find me rejecting more generous benefits. This is what we could negotiate.

Mr. CURTIN. Who of the employees are entitled to this supplemental pension, all of them or just a part?

Mr. SCHOENE. Those employees whose annuities are awarded on or after July 1 of this year and who at retirement are currently connected with the industry and who have attained the age of 65 and who have 25 or more years of service.

Mr. CURTIN. Does it not apply to those who got their pension prior to—what date did you say?

Mr. SCHOENE. July 1 of this year.

Mr. CURTIN. Does it not apply to those who had pensions prior to that date?

Mr. SCHOENE. No.

Mr. CURTIN. I am sorry, I just don't understand this.

Mr. MACDONALD. It is very complicated, Mr. Curtin.

Mr. SCHOENE. The supplemental pension applies only to employees whose annuities were first awarded on or after July 1 of this year.

Mr. CURTIN. Why that cutting off date?

Mr. MACDONALD. Could I ask a question at that point, if you would yield to me, Mr. Curtin?

Mr. CURTIN. Surely.

Mr. MACDONALD. Do you not feel that the people who retired are going to be just a little bit aggravated about this?

Mr. SCHOENE. I have no doubt that they will be.

Mr. MACDONALD. Is there anything that can be done for those people?

Mr. SCHOENE. Well, there is something being done for them by this bill through title II. This 7-percent increase does apply to all individuals who are now on the rolls and who have not received either through the social security amendments or indirectly under the Railroad Re-

irement Act as a result of those amendments an increase in that amount.

Mr. CURTIN. That is the next question I was going to ask you. This 7 percent that is provided for in title II—does that also include those who will get the supplemental pension?

Mr. SCHOENE. No, it does not. Those who get the supplemental pension will not receive the 7 percent. So there is some benefit to each group here. Those who have already retired, those who retire in the future and do not qualify for the supplemental annuity, they will get the benefit of the 7-percent increase, but the concept on which we were working with respect to supplemental annuities is that we are dealing with employees who are in service at the time the negotiations are going on.

This is a program insofar as title I is concerned dealing with employees active at the time of the negotiations and who would subsequently retire.

Mr. MACDONALD. What ratio does the supplemental have to the percentage, the 7 percent, for the employees?

Mr. SCHOENE. If I understand your question you want to know how the two amounts would compare?

Mr. MACDONALD. Yes.

Mr. SCHOENE. The supplemental is of course substantially larger. The maximum annuity now payable is about \$220 and the 7-percent increase on that would be about \$15.40. The supplemental annuity minimum is \$45 and it goes up to a maximum of \$70 so that gives you some idea of the relationship between them. I think that is the question you had in mind.

Mr. MACDONALD. That is the question I had in mind.

Mr. CURTIN. Now go ahead, sir. I am sorry to interrupt you but I wanted to clear that point up to my own satisfaction before you passed on to something else.

Mr. SCHOENE. I think in the course of answering the questions, I have pretty thoroughly described title I relating to the supplemental annuities.

Mr. CURTIN. What do the other titles do?

Mr. SCHOENE. Title II provides the 7-percent increase for the retirees who did not receive 7 percent as a result of the social security amendments of last year.

Mr. CURTIN. Then as this bill is drawn, this 7 percent will not apply to any person who goes on the pension system after July 1, 1966?

Mr. SCHOENE. It will, but it will not apply to those who qualify for the supplemental annuity. Not all persons who go on the rolls after July 1 will qualify for the supplemental annuity.

Mr. CURTIN. They have to have the 25 years' service.

Mr. SCHOENE. They have to have the minimum of 25 years' service, have to be connected with the industry at time of retirement and they must be 65 years of age. Just for example, an individual can get an annuity under the Railroad Retirement Act if he has as many as 10 years of creditable service even though he then leaves the industry and works 30 years somewhere else. That 10 years stands to his credit. When he gets to be age 65 and retires he gets his annuity based on 10 years of service but he would not qualify for a supplemental annuity because he would not have 25 years of service and he

would not be currently connected with the industry at the time of retirement.

Mr. CURTIN. But would he qualify for the 7 percent?

Mr. SCHOENE. He would get the 7 percent.

Mr. KEITH. Can he take a reduced amount at an earlier age by reason of his vested interest at 65?

Mr. SCHOENE. Not until he is 62 if he has on 10 years of service.

Mr. KEITH. Is the only way he can benefit from that at 62 in such and such amount?

Mr. SCHOENE. That is correct.

Mr. KEITH. Can he take a reduced amount at 65 and have his widow included?

Mr. SCHOENE. No, but his widow does get benefits in her own rights. There are survivor benefits provided for by the law.

Mr. MACDONALD. By the same token isn't it true that if somebody has 25 years service but still has not reached 65 that they can by option take a reduced pension?

Mr. SCHOENE. At age 62 he could take a reduced pension.

Mr. MACDONALD. Sixty-two is the minimum age?

Mr. SCHOENE. If he has 30 years of service he can get a reduced annuity at 60.

Mr. MACDONALD. But 25 years of service, 62?

Mr. SCHOENE. Yes.

Mr. MACDONALD. What is the minimum after 30 years' service? Minimum age.

Mr. SCHOENE. Sixty.

Mr. MACDONALD. Sixty?

Mr. SCHOENE. Yes.

Mr. MACDONALD. Thank you.

Mr. KEITH. Then there are really three kinds here. After 10 years' service he has a vested interest and a pension becomes payable at 65 with no option to take the pension at 62.

Mr. SCHOENE. That is right.

Mr. KEITH. Under another form he can take it at age 62 which sort of complies with the social security formula, and on the third one by reason of more years of service he can take it down to and including age 60.

Mr. SCHOENE. That is correct. But in addition to that there are provisions for disability retirements. An individual who has as much as 10 years of service and becomes totally and permanently disabled for all regular employment can be awarded a disability annuity regardless of age. It is likewise true that if he has 20 years of service and becomes permanently disabled for work in his regular occupation he may be awarded an annuity regardless of age.

Now as to any of these groups who qualify for annuities under age 65, if they have the minimum of 25 years of service and are currently connected with the industry at the time they retire, when they get to be age 65 they will qualify for the supplemental annuity.

Mr. CURTIN. Why is the 5-year limitation put in this agreement? What is the purpose for that?

Mr. SCHOENE. That was for as long a period as the railroads were willing to agree to support the program. Insofar as the unions are concerned, if we could have gotten an agreement running into per-

petuity we would have preferred it. We are limited by what we could negotiate.

Mr. CURTIN. That is a compromise?

Mr. SCHOENE. Yes.

Mr. CURTIN. That is all the questions I have, Mr. Chairman.

Mr. MACDONALD. Do you have any questions, Mr. Adams?

Mr. ADAMS. Mr. Chairman, is this the one we discussed the other morning briefly?

Mr. MACDONALD. Yes.

Mr. ADAMS. I have no questions.

Mr. MACDONALD. Thank you very much, Mr. Schoene.

Mr. SCHOENE. I should refer to title III, having described titles I and II.

Title III provides the amendments to the Railroad Retirement Tax Act and provides the quarter of a percent increase on both employers and employees for the regular retirement account to finance the 7-percent increase. It also provides for the 2 cents per hour tax to finance the supplemental benefits.

Now, Mr. Chairman, the Railroad Retirement Board has suggested certain amendments in connection with Mr. Habermeyer's testimony and I have seen the draft of those amendments and wish to inform you that those amendments are entirely agreeable to our association, and I understand they are also agreeable to the railroads. Mr. Wolfe will speak on that.

Mr. MACDONALD. Off the record a minute.

(Discussion off the record.)

Mr. MACDONALD. On the record.

Mr. SCHOENE. The railroads and the unions have also agreed upon two, really three amendments. There are three amendments that I would like to put into the record. I will only describe them very briefly.

The first amendment is to eliminate the sentence that begins on page 2, line 19, and ends on line 25 of that same page. The bill as introduced would have excluded some employees of the organizations. We found that any such exclusion would be very difficult to administer and might be inequitable, and the railroads have agreed with us to eliminate that exclusion.

Now the corresponding amendment on the tax side appears on page 15 and constitutes the elimination of the sentence beginning in line 18 of that page and ending at the bottom of that page.

Now I also have another agreed-upon amendment which is an amendment to paragraph (2) of the amended section 3(j). The paragraph to be amended appears on page 3 of the bill beginning on line 8. This is largely a revision of language. The paragraph to be amended begins on line 8. The change begins on line 13.

This is a clarification in the section that avoids the pyramiding of these supplemental annuities upon supplemental pensions that some railroads are already paying for. We have agreed that this should not be pyramided on pensions that the railroads are already paying for but the supplemental annuities provided in the bill should be adjusted to them.

If I may, I will hand the reporter a typewritten sheet that embodies the change that I am suggesting.

Mr. MACDONALD. Without objection so ordered.

(The material referred to follows:)

PROPOSED REVISION OF H.R. 17285, PRESENTED BY THE NATIONAL LABOR EXECUTIVES' ASSOCIATION

Page 3 (sec. 1 "(J2)"):

"(2) The supplemental annuity provided by this subsection for an individual shall, with respect to any month, be reduced by the amount of the supplemental pension, attributable to the employer's contribution, that such individual is entitled to receive for that month under any other supplemental pension plan [if such pension is not reduced by reason of the supplemental annuity to which such individual is entitled to under provisions of this subsection]: *Provided, however, That the maximum of such reduction shall be equal to the amount of the supplemental annuity less any amount by which the supplemental pension is reduced by reason of the supplemental annuity.*

Mr. SCHOENE. Now I have just one further comment with respect to this paragraph (2). It uses the term "supplemental pension" to refer to existing pension systems. Now we realize that that is perhaps a rather loose word and may require some interpretation.

Our unions, a good many of them, maintain pension systems for their officers and employees. We do not conceive of them as supplemental pensions as here referred to. In other words, so far as the union pensions are concerned, we claim no credit against this supplemental system for pensions the unions are providing, they will continue to provide them without reduction.

Mr. MACDONALD. I don't really follow that. Could you explain it again?

Mr. KEITH. It is just as though we belonged to another firm and received some compensation for which a pension was being paid.

Mr. MACDONALD. In other words, whatever the railroads want to do in addition to this by way of pension, it does not affect the pensionee's right to obtain benefits under this bill, is that right?

Mr. SCHOENE. No. What I have said is true of the pension systems maintained by the unions as employers.

Mr. CURTIN. Is this a third pension we are talking about now? The regular pension that the Railroad Retirement Board maintains that both the railroads and employees pay into, that is one. This supplemental pension will be two. Now you speak of a pension maintained by the unions. Would that be a third one?

Mr. SCHOENE. Yes; but only for the unions' officers and employees.

Mr. MACDONALD. Say that he works for the railroad and then he took a job with the union.

Mr. CURTIN. You mean he was secretary or some other union official or employee?

Mr. MACDONALD. Yes; he was business agent and therefore was entitled to a union pension, that this bill does not affect that.

Mr. CURTIN. That does not include all the members of the union?

Mr. MACDONALD. No. Paid employees of the union.

Mr. SCHOENE. Yes. Does that clear it up?

Then I will leave the stand and let other witnesses take over.

Mr. MACDONALD. Thank you, Mr. Schoene.

Mr. Wolfe, chairman of the National Railroad Labor Conference.

STATEMENT OF J. E. WOLFE, CHAIRMAN, NATIONAL RAILWAY LABOR CONFERENCE

Mr. WOLFE. Mr. Chairman, members of the committee, my name is James E. Wolfe. I am chairman of the National Railway Labor Conference which is an organization that was created to handle all of our dealing with the railroad labor unions at the national level. In that capacity, I handle all of the negotiations with the representatives of the railroad unions which culminated in our suggested amendment to the Railroad Retirement Act and the implementing agreement that was necessary to pave the way for the introduction of this amendment in both Houses of Congress.

I subscribe generally to the testimony of Mr. Habermeyer, Chairman of the Railroad Retirement Board, and the testimony just given by Mr. Schoene on behalf of the railroad labor unions.

When we initiated this movement—that is, it was initiated by the unions—notice were served under section 6 of the Railway Labor Act for supplemental annuities on many railroads. Those notices were intended to be handled in conformity with the procedures of the Railroad Labor Act.

A problem was presented which was almost insurmountable. Obviously if the negotiations were to continue railroad by railroad, the time element was so serious as to make it an impossible and intolerable proposition. Moreover, the financial position of the railroads differ. What one railroad might afford to pay, another just could not. Those of us who represented the railroad industry were cognizant of the fact that if there were to be supplemental annuities the only practical approach was on a national basis involving all of the railroads and the many subsidiaries of the railroads, the bureaus, the Railway Express, the Pullman Co., and so forth.

We began these discussions on an informal basis with the hope that something could be developed and agreed upon which would solve a very serious problem. Those negotiations and informal discussions culminated in this amendment you have before you.

Mr. MACDONALD. Not amendment, bill.

Mr. WOLFE. Yes, the bill that is before you.

Now as the railroad industry and the railroad unions, including the one union that does not participate in the activities of the Railway Labor Executives Association, we have an identical agreement with that union. As we have worked out our own problem we feel very sincerely that the bill should be enacted into law and we urge that that action be taken.

Now there were certain things testified to by Mr. Schoene that perhaps I can help clear up if there is any uncertainty in your minds.

One question was why didn't we add or increase the annuities that are called for by the Railroad Retirement Act. Well, that was not a practical approach to it. The supplemental annuity, the railroads did agree to pay the whole bill. We agreed upon the equivalent of 2 cents an hour rather than increase the contributions shared equally by the railroads and the unions.

Another question that was asked was what happens at the end of the fifth year?

Well, the implementing agreement provides that we will enter into discussions, perhaps negotiations, but that neither the carriers nor the unions will sponsor or support any legislation during that period.

Mr. MACDONALD. Sir, could I interrupt you at that point? Does that not start after the fourth year?

Mr. WOLFE. After the fourth year, that is correct.

Mr. MACDONALD. It does not run out, it gives a whole year for negotiations?

Mr. WOLFE. Well, if at the end of the fifth month of the fourth year progress has not been made, then the unions are free to serve section 6 notices and then relieved of the prohibition against sponsoring or supporting legislation if it is felt that some understanding cannot be reached.

This proposition represents a proposal made by the unions; that is the approach we agreed to take.

Now, Mr. Chairman, when you made your opening statement you stated that Congress will reexamine the whole proposition at the end of the fifth year. There is nothing in the bill nor in the implementing agreement that calls for Congress to reexamine anything at the end of the fifth year or during the 5 years. It is left open for discussions and negotiations and then if there is failure to reach an agreement as to what may be done in the light of existing circumstances at that time, why, either side is free to—

Mr. MACDONALD. Mr. Wolfe, maybe I misunderstood you but I thought that this agreement was just for 5 years and the bill just covered 5 years.

Mr. WOLFE. That is correct.

Mr. MACDONALD. Therefore, at the end of 5 years the Congress is going to have to do something again.

Mr. WOLFE. I would not be that positive, Mr. Chairman. Congress may not be required to do anything at all. That depends entirely on what the parties are able to do in the fourth year.

Mr. MACDONALD. Right, sir, but even if you have an agreement as the Government agency involved; namely, the Railroad Retirement Board, you are using their facilities to work this thing out as I understand it, just mechanically handled, isn't that correct?

Mr. WOLFE. That is correct.

Mr. MACDONALD. Therefore I would think that the Congress would have to re-OK them doing that.

Mr. WOLFE. It depends entirely on what the parties agree to and what they seek. If the economy of our country is changed during that period, it is an entirely different situation, then I think the parties will approach the problem in the light of what the situation may be but there is nothing in the bill and there is nothing in the amendment that contemplates a reexamination of this problem by Congress unless other proposed legislation is before Congress.

Now a question was asked by Congressman Curtin as to why we dealt only with those who are currently employed in the railroad industry and who retire on or subsequent to July 1, 1966. The answer is that we were negotiating and under the Railway Labor Act our authority to negotiate was only on behalf of those who are employees as defined in that act.

I think that concludes my testimony except that I repeat both the railroad industry and all the labor unions who represent employees of the railroad industry believe that this is a good thing, we think that our approach to it was a sound and healthy approach to dispose of a perplexing problem and I think we did it in the right way through collective bargaining.

Mr. MACDONALD. Right, sir. I want to congratulate both the unions and the railroads for their conduct in this matter.

Could you put in the record the need for speed as emphasized to me in having this legislation passed?

Mr. WOLFE. Yes, I would be happy to, Congressman Macdonald.

Mr. MACDONALD. I don't think that has been touched upon.

Mr. WOLFE. The contributions that the railroads are going to make to finance this plan begin in the first month succeeding the date the bill is enacted into law. The beneficiaries, however, are those who meet the qualifications of the bill, who retire after July 1. However, those employees do not receive the supplemental annuities until the first month succeeding the enactment of the bill but we do not want a backlog of employees who retire subsequent to July 1 but prior to the passage of the bill.

It would be of great benefit to us if this bill is enacted into law no later than the month of October so that the railroad contributions can be made to the Railroad Retirement Board in November and then those people who retired on or subsequent to July 1, and who retire thereafter may receive their benefits and the financing will be assured.

In other words, if there were a year lapse between July 1 and the passage of the bill, it is highly doubtful—well, let's say this, that the finances available would be seriously strained because you would have a 5-year bill but 6-year spread of those who would be qualified for the supplemental annuities.

I may not have been as clear as I would have liked to have been but I hope I made it understandable.

Mr. MACDONALD. It is to the benefit of the industry to have the bill passed as expeditiously as possible.

Mr. WOLFE. To the industry, to the unions, and to the employees, and I think the Railroad Retirement Board.

Mr. MACDONALD. And the beneficiaries.

Thank you very much.

Mr. CURTIN. I have one or two questions. Thank you, Mr. Chairman.

Do I understand that your group represents the carriers?

Mr. WOLFE. Yes, sir.

Mr. CURTIN. Now is this bill for the purpose of equalizing the pension of railway employees as against the increased benefits that people on social security get?

Mr. WOLFE. Certainly that is one of the primary reasons. Another compelling reason is this: Under the Railroad Retirement Act beginning in July 1967 the retirees may count all of their years of service.

In other words, if an employee had 35 years of service in 1972, he may use the 35 years for purpose of computing his annuity.

Also, there are increases built into the Railroad Retirement Act as it now stands.

Now this bridges the lapse in the increases to a certain extent. Those two things I would say were the reasons why the carrier representatives felt that we should do something to alleviate the inflationary effect on the employees who are currently in service, who are our employees as defined in the Railway Labor Act.

Mr. CURTIN. This 7-percent increase as provided for in title 2, how is that going to be financed?

Mr. WOLFE. Well, that is going to be financed by increasing the contributions of the employees and the carriers by one-fourth of 1 percent. There are increases already in the Railroad Retirement Act that Congress has already provided for.

Now we just increase the increases that the act requires by one-quarter of 1 percent.

Mr. CURTIN. That increase of 7 percent is going to be handled through the regular railway retirement program, is that correct?

Mr. WOLFE. Yes; it is a part of the Railroad Retirement Act and as Mr. Schoene and Mr. Habermeyer explained if they get supplemental annuities under this bill they would not be entitled to the 7 percent.

Mr. CURTIN. What is this 2-cent per hour—provided for in the supplemental—going to cost the railroads per year?

Mr. WOLFE. Oh, in the neighborhood of \$30 million a year.

Mr. CURTIN. That is all the questions I have, Mr. Chairman.

Mr. MACDONALD. Mr. Adams?

Mr. ADAMS. I would again try to be brief.

As I understand the way you are using the 7 percent is that the benefits across the board will increase 7 percent but there will be deducted from that whatever social security benefits are being received so that in effect the 7 percent applies to those employees above the social security guarantee minimums to the top of the annuity recipients; is that right?

Mr. WOLFE. I think that is substantially correct, but I think I can answer you much more briefly. The 7 percent applies to those who did not get the 7 percent under the 1965 act and it excludes those who otherwise would have had it who are going to get the supplemental.

Mr. ADAMS. That is the next thing. The supplemental payments as I understand it apply to a certain group and that group will not receive the 7-percent increase which goes above the basic payments?

Mr. WOLFE. That is correct.

Mr. ADAMS. I have no further questions.

Mr. MACDONALD. Mr. Keith.

Mr. KEITH. I have no questions.

Mr. MACDONALD. Do you have an extra copy of the agreement with you?

Mr. WOLFE. I do not but I could supply you one, Mr. Chairman. That is the implemental agreement?

Mr. MACDONALD. Yes.

Mr. WOLFE. I will be happy to do that.

Mr. MACDONALD. There is one in the record but I think the committee would like to have.

Mr. WOLFE. We will supply it.

(The agreement referred to appears on p. 2.)

Mr. MACDONALD. Our next witness was to be Mr. Robert B. Byrnes, Washington representative of the National Railroad Pension Forum, but I notice that my esteemed colleague from Massachusetts, Congressman Burke, has entered the room. He is the author of one of the bills

STATEMENT OF HON. JAMES A. BURKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. BURKE. Mr. Chairman, on September 12, 1966, I introduced H.R. 17659, providing a 7-percent increase in benefits to beneficiaries under the railroad retirement system who were not affected by the increase in social security benefits last year.

This measure would further provide a supplemental pension plan to be financed by railroad employers only.

In view of the rise in the cost of living, it becomes imperative that this measure be enacted during this session of Congress for the relief of those persons compelled to exist on the allotment received from their retirement program.

I know that it is not necessary to call to the attention of this committee the tremendous load being carried by all retirees caused by inflation and the rising cost of living. Food items such as bread, milk, butter, bacon, eggs, flour, ground beef have all been increased during during the past 3 months. It is my opinion that if this spiral in the cost of living continues, the House Ways and Means Committee will soon have to recommend another increase in social security payments and, of course, this will have to be followed by an increase to recipients of the railroad retirement system. Time is of the essence and this bill should receive high priority and be sent along.

I am aware that the Chairman of the Railroad Retirement Board has recommended the passage of this measure, and that support has been indicated by the administration. I therefore strongly urge favorable action by taken today by your subcommittee in order that final action can be scheduled before the close of this session of Congress.

I don't have to point out to this committee the importance of acting in an expeditious manner in this legislation. I think that next year the House Ways and Means Committee, of which I am a member, beginning in January, will have to face the spiraling costs of living again and recommend another increase in social security payments which of necessity will have to follow along for the railroad retirement recipients, the cost of food having gone up so much, and I think that not 1 day should be wasted.

I want to commend the chairman and the other members of the committee for the sympathetic attitude they have given to this legislation.

Mr. MACDONALD. Thank you very much, Congressman Burke.

Mr. Robert Byrnes.

STATEMENT OF ROBERT B. BYRNES, WASHINGTON REPRESENTATIVE OF THE NATIONAL RAILROAD FORUM, INC.

Mr. BYRNES. Mr. Chairman and members of the House Subcommittee on Commerce and Finance, my name is Robert B. Byrnes. I live at 1514 16th Street NW., Washington, D.C.

I am Washington representative of the National Railroad Pension Forum, Inc., and have been associated with this group for the past 20 years.

Our organization is a nonprofit, voluntary membership association of working and retired employees of the railroad companies, the Pullman Co., the Railway Express Agency and the transportation bureaus, and many survivors of deceased workers and annuitants.

The National Railroad Pension Forum was established in 1946 when railroaders all over the Nation disagreed with unpopular provisions amended into the Railroad Retirement Act by the 79th Congress in that year. Some of the objectionable features that were enacted at that time have since been repealed. The forum has supported every bill designed to bring this about.

Our sole purpose is to improve provisions of the Railroad Retirement Act of 1937 so that it will adequately benefit railroaders when time comes for them to seek retirement.

I have been instructed by our president, Mr. George W. Finnigan and by the board of governors of the forum in Chicago, to support your bills H.R. 17285, H.R. 17659, and H.R. 17940.

Also, Mr. Chairman and members of the subcommittee, let me express the regret of our organization that provision for tax increases, amounting to one-half of 1 percent on wages of employees to finance the proposed 7-percent increase in annuities is included in the bill.

Our officers are of the opinion that because of the financial interchange arrangement between the railroad retirement and the social security systems, no tax increase at this time should be necessary.

They understand that under terms of that arrangement the social security system contributes 7 percent increased pension on the major portion of every railroad retirement annuity, which the railroad retirement system adds to its reserve. We believe that the pension increase provided for in this bill can be met by railroad retirement resources without any increase in employer and employee taxes.

Retired railroaders as well as retired Pullman Co., Express Agency and bureau employees and their families will be grateful to you for the real help those additional dollars in their pensions will mean, talking about the 7-percent increase now.

Although the cost of rent, taxes, utilities and the necessities of life are going up for retired railroaders, as for everyone else, retired men and women of the railroads have had no pension increase since 1959.

The National Railroad Pension Forum favors all other provisions in your bill and we earnestly hope that H.R. 17285 will be approved by this committee and that with its senate companion bill S. 3777, will be enacted during this session of Congress.

In answer to a question of Mr. Curtin a little while ago about a third pension plan, there is a third pension plan that is very, very much affected by this new law, and that is the supplemental pension of the railroad employees. In many cases they contribute part of it, the railroad contributes a part of it and that pension, whatever it will be, will be reduced by the amount of the supplemental pension according to the bill.

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

Mr. MACDONALD. Are there any questions of the witness?

Mr. CURTIN. I don't understand this third pension plan.

Mr. BYRNES. There is a supplemental pension that they have only for supervisory employees like on the Baltimore & Ohio, the Pennsylvania Railroad and the New York Central—it includes all employees. Now the amount of that pension will be reduced by the amount of the supplementary pension.

Mr. KEITH. Is this caused by the fact they have been able to negotiate separately and that now the rest are catching up?

Mr. BYRNES. They have no negotiating power.

Mr. KEITH. They have gotten additional pensions.

Mr. BYRNES. Yes.

Mr. KEITH. And others are being brought up a little bit where others have earlier received a supplemental pension; rather than their getting more, they just do not get the supplemental.

Mr. BYRNES. That is right. I mean now that a railroad employee upon retiring after July 1 would be entitled to a railroad supplementary pension of \$90 a month will not receive only \$20 a month, the other \$70 will be part of the supplementary plan that is going to be enacted into law.

Mr. MACDONALD. Well, perhaps when I get a chance to explore the record I will understand that but at the moment I don't, frankly, Mr. Byrnes.

Mr. BYRNES. A great many railroads have a supplementary like the Baltimore & Ohio, the Pennsylvania, and the New York Central.

Mr. MACDONALD. What is the supplemental pension?

Mr. BYRNES. The pension is based on years of service, 1 percent of their earnings multiplied by number of years of service.

Mr. MACDONALD. What is the need of this bill if that is the case?

Mr. BYRNES. This bill covers the rank-and-file employees.

Mr. MACDONALD. Who are you talking about?

Mr. BYRNES. The supervisory employees who will also be affected, however, by the enactment of this bill.

Mr. MACDONALD. In what way will they be affected?

Mr. BYRNES. The pension.

Mr. MACDONALD. Will they get more or less money?

Mr. BYRNES. They will get exactly the same amount of money.

Mr. MACDONALD. But it will come from a different source?

Mr. BYRNES. From two sources.

Mr. MACDONALD. It does not really matter, then.

Mr. BYRNES. They think that it matters.

Mr. MACDONALD. The paycheck is the same.

Mr. BYRNES. They have contributed to the railroad supplementary pension out of their own paychecks and they feel that they are being hurt, discriminated against by this.

Mr. MACDONALD. How?

Mr. BYRNES. Because of the act.

Mr. MACDONALD. I don't want to discriminate against anyone, I am the author of the bill.

Mr. BYRNES. \$90 from the railroad and the \$70 from the supplementary pension plan.

Mr. KEITH. They are not going to get in on the new one?

Mr. BYRNES. It is complicated, but like a lot of things in the railroad, it is a complicated figure.

Mr. MACDONALD. Are there any other questions?

Mr. CURTIN. Could you get permission to sit for a while longer?

Mr. MACDONALD. This is the last witness.

Thank you very much, Mr. Byrnes.

The hearings are adjourned. Thank you all very much for your cooperation.

(The following material was submitted for the record:)

STATEMENT OF GEORGE FINNIGAN, PRESIDENT OF THE NATIONAL RAILROAD PENSION FORUM, INC.

Mr. Chairman and Members of the Committee, my name is George W. Finnigan. I reside at 2832 East 78th Street, Chicago, Illinois and am president of the National Railroad Pension Forum, Inc., the national headquarters of which are located at 2403 East 75th Street, Chicago.

Speaking for the Forum membership, consisting of several thousands of current railroad workers without union affiliation, several thousands who are members of one or another of the organized crafts and about an equal number of retired workers, ex-workers and survivors of workers, I wish to register general approval of the revisions in the Railroad Retirement Act, as contemplated in Bill H.R. 17285.

The establishment of supplemental pension payments will, to a large degree, furnish career railroad employes with a retirement future that would favorably compare with those in effect for several years in the steel, coal, auto and trucking industries. This move has been advocated by the Forum during 1965 and 1966. Agreement by the employers will likely improve employe relations, adding another weapon in the battle for resurgence of the railroads. An employe who decides to cast his lot with the railroads will not be so easily discouraged after a few years and be tempted to take his talents and experience elsewhere in the labor market. One of the disturbing elements has been the heavy monthly assessment for retirement taxes, only to learn that the retirement and family security available under railroad retirement meant only slightly more than would be derived from Social Security, which could have been purchased for less than half the cost.

The proposed authorization of a 7% increase in annuities, to those not eligible for supplemental pension payments, is very satisfying. It is unfortunate that the increase was denied present annuitants, about one third of those on the rolls, the majority of whom are career workers in the \$130 to \$165 annuity bracket. Having been awarded a set monthly annuity, the retiree found it necessary to establish a retrenched standard of living to fit the reduced monthly income. The cost of living and dying have increased sharply since annuities were last increased in 1959, so that annuities, savings and life insurance have been seriously devalued. Those conditions were taken into consideration when Social Security revisions of 1965 provided a 7% across-the-board increase for all Social Security beneficiaries. We must not lose sight of the fact that every employe covered by railroad retirement is also a bona fide paid member of Social Security, by reason of the interchange arrangement between that system and railroad retirement, whereby, full Social Security taxes for the employes entire working career, back to the inception of Social Security are or have been paid to Social Security, by the Railroad Retirement Board, from retirement taxes collected from the employe and employer. Social Security has disbursed the increased monthly payment, on the work record of each retirement annuitant, to the Board, retroactive to January 1, 1965. However, only two-thirds of those on the rolls were so rewarded. Payment of the increased amount to the fortunate two-thirds was forced by the application of the railroad retirement provision that guarantees none shall receive benefits less than 110% of the amount that would be payable if the benefits had been calculated under the Social Security formula. Failure to adjust the Railroad Retirement Act to provide for increased payments to the remaining one-third has resulted in an obvious discrimination against some 320 thousand persons, for a period of twenty one months. The passage of Bill H.R. 17285 would end the discrimination.

So far as I can determine, other provisions of the bill are either proper or necessary but I am compelled to lament the fact that it again becomes necessary to dip into the pockets of the employes and the railroads for additional tax income.

As was proposed to the entire Congress in February of 1965, I firmly believe in and urge a full dress study of the financial setup of railroad retirement, involving certain benefits, the tax schedule and functions of the Board, with a view toward a better financial stability, revision of the benefits and a lessening of the cost to the employes and the employers. So not to digress from the subject at hand, I shall let the matter rest for the present. When proper interest develops, we shall be happy to cooperate.

Upon deliberation and consultation to the extent time would allow, I earnestly recommend prompt approval of Bill H.R. 17285, with appropriate added amendments to effect the following:

1. Eliminate the so-called "last employer" clause from Section 2(d) of the Railroad Retirement Act of 1937.

2. Amend the Railroad Retirement Act of 1937 to provide extended benefits to children of deceased railroad workers, beyond age 18 and through age 21, provided such children are full time students in an accredited school and otherwise qualified.

To my knowledge, no other major retirement program contains such stringent and burdensome restrictions as are present in Section 2(d) of the Railroad Retirement Act. To qualify for railroad retirement annuity, an employe must not only satisfy the age and work requirements but must resign from his present railroad employer, sign a pledge never to work for any employer covered by the Railroad Retirement Act and sever connection with any outside employer and *agree to never again work for the last outside employer for whom he worked before application for railroad retirement, no matter how far back the employment relationship.* Now, he may be earning pin money as a lightly paid officer of his lodge or as a weekend clerk in the local drug or hardware store, or perhaps working around a filling station. On the other hand, he may have departed railroad service to accept another position, so as to be at home nights or possibly to avoid relocation in another city. When he reaches age 60, 62 or 65, he meets all of the ordinary requirements for annuity but is forced to resign the outside employment or be denied the annuity. I have no particular quarrel with separation from the the railroad industry, I do think, however, it is grossly unfair that a man can fulfill all of the work and age requirements, pay handsomely for promised security at a given age, then be denied an annuity, with the approval of Congress, for so redundant a reason.

In the case of a retiring military man, a civil servant or any of the thousands of occupations under Social Security, there are no such restrictions. As a matter of fact, under Social Security, he need not leave his current employer, he can remain at the very same desk where he earned his pension credits and can even add to his benefits by work performed after he becomes a beneficiary. The "last employer" feature is particularly unfair in the case of a worker without dependents who would become eligible for benefits if the employe were to die. The restriction deprives the employe of his rightful annuity, yet, upon application, the untouched residual lump sum would be paid to a beneficiary. To withhold the annuity from the one who worked for and paid for it, only to disburse the money to some decedent or other beneficiary, is a travesty and can be ended by the elimination of the clause from Section 2(d). The offended persons are not of such numbers to cause a deluge of demands but I believe the Congress would do itself honor to step in and correct this wrong, simply because it is wrong.

The extension of benefits to children of deceased workers, beyond the age of 18 and up to age 22, can be accomplished by the appendage of the legislative language appearing in any one of the numerous bill now in the hands of the committee. The need for the change has been clearly established and it is shameful that today benefits are not available to many such children because of the delay in progressing the legislation, in spite of the fact that most of the funds would be forthcoming from Social Security, immediately upon revision of the Act.

I wish to commend the chairman and the members of the committee and the staff for the effort put forth on the important features of the bill.

My thanks to the chairman and the members for the opportunity to present my views and those of the Forum on these important matters. I hope that Bill H.R. 17285 will swiftly progress through the Congress and become law before adjournment of this session, on which note I respectfully close.

BROTHERHOOD OF LOCOMOTIVE ENGINEERS,
Cleveland, Ohio, September 1, 1966.

HON. HARLEY O. STAGGERS,
Chairman, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is to inform you that the Brotherhood of Locomotive Engineers and its 65,000 members are in complete accord with the provisions of H.R. 17285 to amend the Railroad Retirement Act as introduced by Representative Macdonald on August 25, 1966.

Labor and Management have met their obligations and through collective bargaining have determined that employees in the railroad industry are in dire need of a supplementary pension; also, that employees already on pension, their wives and orphans are in need of increased annuities.

We think you will agree that the 429,000 retired employees now receiving monthly annuities under the Railroad Retirement Act in the amount of \$141.00 a month; the 197,000 wives who are averaging \$63.00 per month; and the aged widows averaging \$79.00 a month are deserving of the 7% increase in railroad retirement benefits. We further believe that in this age of affluence no peoples should be relegated to incomes below the poverty level. This \$45 to \$70 monthly supplementary pensions proposed by H.R. 17285 and the 7% increase in railroad retirement benefits, although not sufficient, will certainly go a long way toward alleviating the economic needs of retired employees and lend incentive to those who have sufficient years of service to consider retirement.

Under the proposed legislation, the total cost of the supplementary pension will be shared by the participant railroads. The 7% increase in railroad retirement benefits will be supported by one-quarter of one percent increase in the railroad retirement tax.

We pray that you will give this agreement the force of law to avoid any occurrence of lost pensions as experienced in other industries in the event one road or system may go out of business.

Sincerely yours,

E. L. McCULLOCH, *Assistant Grand Chief Engineer.*

(Whereupon, at 11:20 a.m. the subcommittee was recessed subject to call.)



