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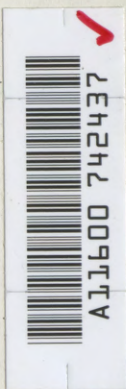
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RETIREMENT FINANCING

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(Part II)

HEARINGS
BEFORE THE
SUBCOMMITTEE ON RETIREMENT, INSURANCE,
AND HEALTH BENEFITS
OF THE
COMMITTEE ON
OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
NINETIETH CONGRESS



SECOND SESSION

ON

H.R. 10912

A BILL TO AMEND SUBCHAPTER III OF CHAPTER 83 OF
TITLE 5, UNITED STATES CODE, RELATING TO CIVIL
SERVICE RETIREMENT

JANUARY 25, 30, 31; AND MAY 15, 1968

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RETIREMENT FINANCING

(Part II)

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RETIREMENT FINANCING

THURSDAY, JANUARY 25, 1968

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON RETIREMENT, INSURANCE, AND HEALTH BENEFITS OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 210, Cannon House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. The subcommittee will come to order.

As its first order of business in this second session of the 90th Congress, the Subcommittee on Retirement, Insurance, and Health Benefits is meeting this morning to resume its consideration of proposals designed to strengthen the financial condition of the civil service retirement system so that there is no question as to its ability to fulfill its future commitments to Federal employees and annuitants.

In past years, several methods for determining appropriations to meet the Government's obligation to the system have been considered in depth, and some have been adopted. However, the attitudes of various administrations, Congresses, and the related committees, have changed from time to time.

The testimony so far presented to this subcommittee most assuredly attests to the fact that any doubt which exists as to the system's ability to meet future commitments results from funding practices which have been grossly inadequate since the program's inception in 1920. While employees have always contributed the full amount set by law, and the Government has contributed substantial sums to the trust fund, it is recognized that the Government has neglected to appropriate, on a regular, systematic, and current basis, sufficient funds to meet those ultimate costs not covered by employee contributions.

In its approach to a most serious and complex problem, this subcommittee, its parent Committee on Post Office and Civil Service, and the Congress, will be faced with considerations of the short and long term implications of the financial operations of the system, the fiscal condition of the Government and the Nation's economic posture, and the Government's responsibility to maintain the program on a sound financial basis.

It is this subcommittee's purpose to direct its best efforts toward the development of a responsible program of action to assure that this vital program will be able to meet its present and future obligations.

Without objection, the administrative report of the Department of State with respect to that part of H.R. 10912 which proposes the

merging of the Civil Service and Foreign Service retirement funds, will be inserted in the record at this point.

(The report referred to is as follows:)

DEPARTMENT OF STATE,
Washington, D.C., January 25, 1968.

HON. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I appreciate the opportunity granted by your letter of November 2, 1967, to report on H.R. 10912, a bill, "To amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement."

The basic purpose of this bill is to place the Civil Service and Foreign Service retirement systems on a sound financial basis. This would be accomplished as follows:

(1) By assuring that the full normal retirement cost is met each year by agency and employee contributions.

(2) By requiring that total retirement costs created by future pay raises and retirement system improvements be identified and met. Future increases in normal cost would be met by increases in agency and employee contribution rates. Future increases in unfunded liability would be amortized over a 30-year period by direct appropriations to the fund.

(3) By authorizing permanent indefinite appropriations to peg the fund at a level sufficient to guarantee availability of funds to pay all benefits when due.

(4) By merging the Civil Service and Foreign Service retirement funds and applying the above procedures to the merged fund. The fund merger would be carried out by:

(a) Transferring the assets of the Foreign Service retirement and disability fund to the Civil Service retirement and disability fund;

(b) Paying all subsequent employee and agency contributions under the Foreign Service retirement system into the merged fund; and

(c) Appropriating the merged fund for the payment of future Foreign Service benefits which are substantially similar to Civil Service benefits.

The Department supports this legislation. The procedures outlined above and incorporated in the legislation are those developed and recommended by the President's Cabinet Committee on Federal Staff Retirement Systems after a most thorough and exhaustive study. Obviously the Government intends to pay retirement benefits that have been promised to its employees under existing legislation. These benefits are now paid through two trust funds—the Civil Service and the Foreign Service retirement and disability funds. It is estimated that these funds will become exhausted in 20 years and 10 years, respectively, if present financing arrangements are continued. Some arrangements must be made to prevent this if the systems are to continue to be financed by these trust funds. In the opinion of the Department the provisions of H.R. 10912 are sound and practical and merit adoption.

The Department in particular, wishes to endorse the proposed merger of the Civil Service and Foreign Service retirement funds. The two retirement systems are similar and their respective financing problems require a similar solution. Both are now financed by matching employee and agency contributions—each at 6½ percent of salary—paid into the respective trust funds maintained by the Secretary of the Treasury. Relatively speaking, both have substantial unfunded liabilities; however, the Foreign Service unfunded liability of \$¼ billion is less than 1 percent of the Civil Service unfunded liability of \$48 billion. These unfunded liabilities arose and continue to grow because of the same basic reasons. These reasons are that in the past, the Government has not always paid its full share of retirement costs and it has not recognized or arranged to meet the full retirement costs of general pay raises or retirement system improvements.

The Foreign Service retirement benefit structure is very similar to the Civil Service retirement benefit structure. Foreign Service participants may retire at age 50 after 20 years of service with annuity computed on the basis of a straight 2 percent formula as may law enforcement personnel under the Civil Service retirement system. The Foreign Service mandatory retirement age is 60 or 65, depending upon class level, whereas the Civil Service mandatory retirement age is 70. The Foreign Service retirement system provides certain benefits to those whose careers are shortened because of the Foreign Service promotion-up or selection-out personnel system. Otherwise provisions of the two systems are substantially the same.

Despite similar benefits, the normal cost of the Foreign Service retirement system is approximately double the normal cost of the Civil Service retirement system. This higher cost stems in part from the career nature of the Foreign Service and from a peculiarity in the law governing transfers between the Civil Service and Foreign Service retirement systems.

The retirement costs stemming from the career nature of the Foreign Service are those created by the relatively high retention rate in the Foreign Service. Of those entering Federal service at age 25, proportionately about eight times as many remain in service until retirement under the Foreign Service as under the Civil Service. This means that benefits must be paid to proportionately eight times as many Foreign Service retirees as to Civil Service retirees and consequently, that the Government's contributions made on behalf of those who quit or otherwise drop out along the way provide only one-eighth as much assistance under the Foreign Service system as under the Civil Service system.

The retirement costs associated with a transfer between the systems arise because only the employee's past contributions are transferred from one fund to the other. The Government's contributions made during the period the employee spends under the first system are not transferred. Since there are more transfers from the Civil Service to the Foreign Service than in the reverse direction, this results in a significant disadvantage for the Foreign Service fund and a corresponding advantage for the Civil Service fund.

Despite the higher relative costs of the Foreign Service retirement system, the Foreign Service is so small in comparison to the Civil Service that the merger of the funds would not create any noticeable impact on the Civil Service financing problem. Chairman Macy said in his letter to Speaker McCormack on June 8, 1967, recommending this legislation that "merging funds could have no significant actuarial effect on financing of the larger system." The increase in the normal cost in a combined system would exceed that applicable only to the Civil Service by five one-hundredths of 1 percent (.05 percent) of payroll—clearly a minuscule amount.

The fund merger would achieve certain administrative simplifications and some overall economies. For one thing, there would be one less trust fund to manage. The alternative to the fund merger would be the application of the same complex financing procedures outlined in this bill to both systems. The merger of the funds would accomplish the same purpose in a far simpler way, at some savings in administration and with no discernible disadvantage to the Civil Service system or to its participants. Accordingly, we recommend your support of this measure.

I am sending a copy of this letter to Chairman Morgan of the Foreign Affairs Committee because of that committee's interest in this subject.

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

Sincerely yours,

WILLIAM B. MACOMBER, JR.,

Assistant Secretary for Congressional Relations.

Mr. DANIELS. Our first witness this morning is the highly respected and well-known Washingtonian, Jerome Keating, the president of the National Association of Letter Carriers. Mr. Keating, will you introduce the other members at the table who are accompanying you this morning?

TESTIMONY OF JEROME J. KEATING, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, ACCOMPANIED BY JAMES H. RADEMACHER, VICE PRESIDENT; CHARLES N. COYLE, ASSISTANT SECRETARY-TREASURER; AND J. DON KERLIN, LEGISLATIVE CONSULTANT

Mr. KEATING. Thank you, Mr. Chairman.

My name is Jerome J. Keating. I am president of the National Association of Letter Carriers, an organization representing more than 200,000 letter carriers located in every State of the Union, the District of Columbia, Puerto Rico, and the Virgin Islands.

I am accompanied this morning by Vice President James H. Rademacher, Assistant Secretary Charles N. Coyle, and Legislative Consultant J. Don Kerlin.

We are much concerned with the legislation that is now before you. We fully recognize the fact that something has to be done to provide sounder financing for the civil service retirement fund. We do not believe, however, that the administrative branch of the Government should be given the authority to adjust the contribution rate without action by the Congress.

The General Accounting Office has stated that the unfunded accrued liability of the fund on June 30, 1967, would probably be \$50.3 billion. The amount of reserve actually in the fund on December 31, 1967, was \$18,049,297,490.

Mr. DANIELS. Mr. Keating, I interrupt at this point because this is the first time I have heard that figure expressed. What is the source of your information?

Mr. KEATING. This is the monthly report put out by the U.S. Civil Service Commission. It is put out every month, and this is the December report.

It is true that the reserve amount seems to be a great deal of money; it is also certain that it will not last very long. The following figures, showing the financial trend of the fund, thoroughly indicate that the Commission is correct in its contention that the civil service retirement fund will be completely eliminated within a very short period unless something is done.

From 1921 to 1958 the contributions made by the employees were sufficient to pay all the expenditures of the civil service retirement system, and add to the surplus as well. Since 1958 the picture has been changing.

	Employee contribution	Government contribution	Interest	Total disbursement
1951.....	\$374, 872, 990	\$307, 117, 450	\$164, 561, 022	\$268, 853, 707
1958.....	675, 098, 086	583, 942, 744	194, 052, 071	696, 609, 189
1966.....	1, 112, 559, 914	1, 164, 453, 174	546, 357, 597	1, 688, 532, 255

It will be noted that in 1951, after all disbursements, there was an excess of \$106,019,283 in the employees' contribution.

In 1958, the total disbursements required all the employee contributions, plus \$21,511,103.

In 1966, the total disbursements required all the employee contributions, plus all the interest, plus \$29,614,744 of the Government contribution.

The trend is clear—and will continue—the income and expenditures will soon be equal. Then a cash deficit situation will develop. The Commission has estimated that in 1987 the fund will be exhausted.

Over the years the Government has failed to make the necessary contribution to the civil service retirement fund. During the first 8 years of operation, no contribution was made by the Government. All of the costs of operation were paid from employee contributions. In only 1 year, 1930, did the Congress appropriate a sum of money equal to the amount recommended by the actuaries. Every other year the amount appropriated was less than the actuaries' recommendation. If the Government had contributed the exact amount recommended by

the actuaries, the interest had been earned on this money, there would be approximately \$13.5 billion more in the retirement fund.

I have a chart prepared here which shows, in the first column, the Government appropriations and agency contributions. This goes through 1965, and then the appropriations recommended by the actuaries. They have recommended appropriations starting in 1921. The total of that is \$22,680,189,037. The difference between the recommended and the actual contribution is shown in the next column, and then the compound interest factor is in the next column. We wind up with a deficit of \$13,530 million in the comparison of the contribution actually made and that recommended.

ANALYSIS PRESENTED BY THE NATIONAL ASSOCIATION OF LETTER CARRIERS

Year	Government appropriations and agency contributions	Appropriations recommended by actuaries	Difference between recommended and actual appropriations	Compound interest factor	Difference between recommended and actual appropriation plus interest
1921		\$9,952,315	\$9,952,315.00	3.6714523	\$36,539,449.80
1922		9,952,315	9,952,315.00	3.5645168	35,475,194.02
1923		16,734,207	16,734,207.00	3.4606959	57,912,001.55
1924		16,734,207	16,734,207.00	3.3598989	56,225,243.69
1925		17,815,930	17,815,930.00	3.2620378	58,116,237.10
1926		18,695,499	18,695,499.00	3.1670270	59,209,150.11
1927		19,572,729	19,572,729.00	3.0747835	60,181,904.18
1928		19,572,729	19,572,729.00	2.9852267	58,429,033.20
1929	\$19,950,000.00	20,106,229	156,229.00	2.8982783	452,795.12
1930	20,500,000.00	20,500,000	0	2.8138625	0
1931	21,000,000.00	37,616,827	16,616,827.00	2.7319053	45,395,597.75
1932	21,000,000.00	38,000,000	17,000,000.00	2.6523352	45,089,698.40
1933	21,000,000.00	44,500,000	23,500,000.00	2.5750828	60,514,445.80
1934	21,000,000.00	52,053,664	31,053,664.00	2.5000803	77,636,653.61
1935	21,000,000.00	69,147,654	48,147,654.00	2.4272625	116,866,995.02
1936	40,150,000.00	72,392,000	32,242,000.00	2.3565655	75,980,384.85
1937	46,200,000.00	74,244,417	28,044,417.00	2.2879277	64,163,598.48
1938	73,234,760.00	94,748,207	21,513,447.00	2.2212890	47,787,583.17
1939	75,086,760.00	90,754,142	15,667,382.00	2.1565913	33,788,139.71
1940	87,171,760.00	100,911,562	13,739,802.00	2.0937779	28,768,093.78
1941	91,559,110.00	105,258,278	13,699,168.00	2.0327941	27,847,587.89
1942	101,761,202.00	140,288,307	38,527,105.00	1.9735865	76,036,574.31
1943	106,137,575.00	135,710,871	29,573,296.00	1.9161034	56,665,493.02
1944	175,993,037.00	413,741,513	237,748,476.00	1.8602946	442,282,206.05
1945	195,790,875.00	455,459,044	259,668,169.00	1.8061112	468,989,588.31
1946	246,220,000.00	453,578,155	207,358,155.00	1.7535061	363,603,789.68
1947	221,293,000.00	426,638,078	205,345,078.00	1.7024331	349,586,257.70
1948	245,530,000.00	308,058,000	62,528,000.00	1.6528476	103,349,254.73
1949	226,032,000.00	362,050,000	136,018,000.00	1.6047064	218,268,955.12
1950	304,508,880.64	389,132,250	84,623,369.36	1.5579674	131,840,450.74
1951	307,117,455.27	349,096,800	41,979,344.73	1.5125897	63,497,524.45
1952	312,776,021.36	381,891,108	69,115,086.64	1.4685337	101,497,833.91
1953	325,304,154.00	377,760,400	52,456,246.00	1.4257609	74,790,064.51
1954	35,303,239.00	663,956,800	628,653,561.00	1.3842339	870,203,570.49
1955	33,678,729.00	691,066,800	657,388,071.00	1.3439164	883,474,609.78
1956	237,252,793.00	837,391,000	600,138,207.00	1.3047732	783,044,248.79
1957	530,632,662.00	1,146,539,000	615,906,338.00	1.2667701	780,211,733.38
1958	583,942,744.00	1,237,479,000	653,536,256.00	1.2298739	803,767,183.95
1959	754,129,236.00	1,637,453,000	883,323,764.00	1.1940523	1,054,734,772.05
1960	749,498,975.00	1,637,453,000	887,954,025.00	1.1592741	1,029,382,103.17
1961	890,192,793.00	1,664,813,000	774,620,207.00	1.1255088	871,841,859.64
1962	895,896,163.00	1,778,695,000	882,798,837.00	1.0927270	964,658,124.76
1963	950,852,817.00	1,927,989,000	977,136,183.00	1.0609000	1,036,643,776.54
1964	1,041,941,019.00	1,969,760,000	927,818,981.00	1.0300000	955,653,550.43
1965		2,364,926,000			
Total			10,304,625,276.73		13,530,403,312.75

Note: Interest on total amount under inadequate appropriations, \$3,225,778,036.02.

These figures are taken from the reports of the actuaries. We have all of the reports going back to 1921. The recommendations are carried in the report of the actuaries.

Mr. THOMPSON. May I ask a question at this point?

I would like clarification of your table. Down at the bottom you have a figure, interest on total amount under inadequate appropriations, \$3,225,778,036.02. What interest rate are you basing this on? How did you arrive at that figure?

Mr. KEATING. Three percent.

Mr. THOMPSON. At a rate of 3 percent?

Mr. KEATING. Yes; an average of 3 percent. Actually, this interest rate is another question which we will discuss. The Government has never paid the going interest rate on the retirement fund. The rate was set arbitrarily until the act of 1956. Then it was set on the basis of the earning of interest on other Government funds. The average interest rate on the entire fund is now about $3\frac{1}{2}$ percent. The money being invested now is paying around 5 percent. So, the interest return is better now than it ever has been.

But, prior to 1956, when the interest return on private investments was running around 5 percent, the Government was paying only $2\frac{1}{2}$ percent. The Civil Service Commission, and particularly the Comptroller's report, indicate, I think the fund is \$1.7 billion inadequate in interest return every year. In other words, if the money were in the fund which should have been there, according to the Comptroller the interest return is deficient in that amount.

Mr. THOMPSON. This figure, then, would have been much larger had the interest rate been the going interest rate.

Mr. KEATING. Yes. You see, there is a little doubling up of the recommendations of the actuaries. The fact that they do not contribute as much as is recommended in 1950 will mean the actuaries have to have a larger contribution in 1951. In other words, if the Government started out in 1921 and contributed the first year, then they would have the interest on that money, and the recommendations of the actuaries would have been smaller as the years went by. It is a rather complicated situation, but I think you understand that the recommendations would be less as the years went by if they had contributed every year from the start.

Mr. THOMPSON. Thank you very much.

Mr. KEATING. But they did not contribute anything. So, the deficiency has mounted.

Mr. DANIELS. Mr. Keating, the Chair would like to ask a question. I note that this chart, and the figures that you have expressed, are predicated on the annual reports of the actuaries.

Mr. KEATING. The recommendations of the actuaries; yes, and the annual reports.

Mr. DANIELS. Have you given any consideration to the recommendations of the Bureau of the Budget?

Mr. KEATING. We are going to discuss that a little bit later on. I want to point out very clearly that in the statement I have made, I have referred to the appropriations made by Congress, but the request for appropriation that they act upon is not the recommendation of the actuaries. It is the recommendation of the Bureau of the Budget. Generally, the Bureau of the Budget some years cut the recommendation away down. When the fund started, of course, there wasn't a Bureau of the Budget in 1921. The original Retirement Act was under the Department of the Interior, under the Secretary of the Interior. I believe Hubert Work was the first Secretary, and he said in his report that there was no necessity to appropriate anything. He did not believe in reserves.

He believed that it should be operated on a pay-as-you-go basis, and as long as enough money came in, then it wasn't necessary to appropriate any more. He took that position, and until recent years that has been the Government's position as far as appropriations are concerned.

After that, the actuaries' reports have generally been whittled down by the Bureau of the Budget, and, on a few occasions, in the Congress. But, generally, the recommendation reaching Congress has been less than the actuarial reports.

Mr. DANIELS. Thank you.

Mr. KEATING. I want to point out one other thing; \$1.7 billion is the annual deficiency in the interest return because of the failure to make adequate appropriations.

As a matter of fact, until the Kaplan committee made its study, there was some controversy within the Government as to how a retirement fund should be funded. The Kaplan committee made the first clear declaration that it should be the normal cost, plus interest on the deficiency. Since that, it has been fairly clear. Prior to that time it was not clear. There was a little clouded area as to how it should be funded.

The actuaries never went on the basis of a fully funded plan; a fully funded plan being one that would have money enough to take care of all the liability for those retired and those active and to close out the fund in case it should go bankrupt. Some private funds are financed to that extent, but it isn't necessary in a Government fund.

I want to point out a statement that was made by Elmer Staats, the Comptroller General, when he testified. He said:

Also, the Cabinet committee recommended the full normal cost of future changes in the civil service retirement fund designed to improve management be covered solely by agency contributions.

This recommendation has not been incorporated in H.R. 10912.

He also goes on to state that:

Under our alternative approach we have suggested that the Congress may wish to consider covering the full normal costs of the system through deductions from employees' salaries and agency contributions in proportion which may be other than equal proportion, and setting forth in law the specific cost-sharing ratios to be followed.

We believe, and are recommending to the committee this morning, that the provisions of H.R. 10912, introduced by the very able chairman of this subcommittee, be substantially changed. We think the Government contribution should be at least twice what the employee's contribution is for the normal costs.

Part of the reasoning is based upon the fact that they have not lived up to their obligation, and part of it is due to the fact that we believe that the Government ought to take care of all the obligations created by military service. It is not mentioned in any of the reports, I believe, but a substantial part of the unfunded liability of the fund comes from the fact that men who were in the military service get full credit for their military service, but no contribution is made by anybody. We think that a contribution should be made by either the Defense Department or the Government to take care of the military costs. It amounts to about 10 percent of the disbursements from the fund.

That was proposed a few years ago by Senator Olin Johnston, but it never got into legislation. We do believe that that is a fair and just request, and that the Government contribution should be at least

twice the employee contribution into the fund, for those two reasons—the fact that they have not lived up to their obligation up to the present time and, secondly, that the military expense ought to be taken care of and it should not be the responsibility of the individual employee.

We are in agreement with the contention that something should be done to strengthen the retirement fund. The reserves will be completely exhausted, according to the actuaries, in 1987 if nothing is done.

We believe that H.R. 10912 retains the present rate of contributions. It grants authority, however, to the Civil Service Commission to adjust the rate of contributions without congressional approval. I do not think that authority should be granted to the Civil Service Commission without congressional approval.

We have a very fine operation in the Retirement Division. It is one of the finest in our Government. Mr. Ruddock and his staff are very capable men. I would have considerable confidence in them in administering the plan. But Mr. Ruddock will not be there all the time, and you may have a man who comes in with entirely different ideas. The Commission will have the authority to change the contribution. They have some authority to control the way costs are assessed and how they are figured. I think that is far too much authority to give to the Commission without the review of the Congress.

Mr. POOL. Are you recommending, then, a provision similar to that which we have on the Salary Commission for Executives and Congressmen, where Congress has to take action?

Mr. KEATING. I would rather the Congress would act upon the individual increases when they are granted, than just to have a veto power. Of course, under the Commission there is a veto power. The Congress has veto power. I would prefer that they would actually vote on the increase and the recommendation.

Mr. POOL. You think you would get better legislation if they actually considered all the points without having to veto?

Mr. KEATING. That is right.

Mr. POOL. I agree with you.

Mr. DANIELS. Then, Mr. Keating, you recommend that, instead of the Commission having the sole authority to adjust the contributions, the Commission make recommendations to the Congress and the Congress pass the necessary enabling legislation?

Mr. KEATING. Yes.

We also recommend that, while considering the future financing of the civil service retirement fund, some of the injustices presently existing be corrected. Last January, President Lyndon B. Johnson asked Congress to liberalize the Social Security Act. He pointed out that many people under social security were receiving annuities below the poverty level. The poverty level was placed at around \$3,000, as I understood the message, and the Congress did liberalize the social security benefits, and this has resulted in increases to all who are under social security. Congress did not go as far as the recommendation, but it did provide a liberalization of about 15 percent.

We believe that the same thing must be done for the civil service annuitants. We are well aware of the fact that retirement annuities are adjusted according to a cost-of-living figure. When the Consumer Price Index goes up 3 percent, there is an adjustment made in the annuities accordingly. This provision of the law was passed in 1962.

There have been two cost-of-living increases, and there will undoubtedly be another one coming up this year. However, the day after the cost-of-living adjustment is made, then, on the cost-of-living basis, the annuitant is getting less real income than he was getting on October 11, 1962.

You see, he is brought up to what is considered the cost-of-living basis, but with the cost of living continuing to go up—and the experts predict it will go up $3\frac{1}{2}$ to 4 percent this year—the day after he is brought up to balance it starts going down again. So, he enjoys attaining the cost-of-living increase for approximately 1 day.

Mr. DANIELS. I am the author of the present provision of the law with reference to the cost of living.

Mr. KEATING. Mr. Chairman, we appreciate what you have done in advancing the cost-of-living percentage. I think, however, it is insufficient, although it was a forward step. We recommended at the time that it be made 5 percent because, basically, it does not take into consideration the change in the standard of living. The needs and necessities of annuitants must be taken into consideration. You cannot any more live on a standard of living of the horse-and-buggy age than you could drive a horse and buggy on the streets of Washington. You have to adjust with the life of the community. Unless a person wants to go out in the woods some place, he cannot entirely set his own standards.

The income of many of our retirees is far below the poverty level. Thirty-five percent of our retirees receive less than \$200 a month. When you consider survivor annuitants, 59 percent get less than \$100 a month.

In the 1966 report, which is the latest one available, all of those who retired before Public Law 854 was passed, July 31, 1956, had an average income of \$153 a month. Those who retired after the passage of that law, which liberalized the benefits, have an average of \$243 a month. The average of all of them was \$217 a month.

The report for 1967 would show some little increase, but it would not show much of an increase because between 1964 and 1966, the average went up \$1. It went from \$152 a month to \$153 a month. The reason it went up is that some of the older ones who were getting the smaller annuities died off, and for no other reason.

So, these people are entitled to an improved standard of living. I think it is a very recognizable need. As long as we are in the situation of financing, I think we ought to consider the future needs of the retirement plan, and an increase for these people certainly should be listed No. 1 among the future needs.

Mr. POOL. Have you any information on union contracts in the automobile industry along this same line? What are they doing in those contracts?

Mr. KEATING. Yes. One of the reasons that the Comptroller General suggested a larger contribution by the employer and one of the reasons we suggested it is that the employers are contributing more than 50 percent to take care of retirement. I do not have material here this morning, but we can furnish some figures on the outside programs. The private plans have increased tremendously in the last few years. Private plans at the end of 1950 had reserves of \$12 billion.

As of today they have reserves of over \$100 billion. That indicates how they have grown. They have liberalized the benefits substantially.

We would be glad to furnish you a supplemental statement on that particular matter. I do not have it here today.

Mr. POOL. I think it would be helpful to the committee, and I would appreciate it if you would.

Mr. KEATING. We will be happy to do that.

We believe, while we are looking at the whole picture, some necessary amendments should be considered to the present retirement law. We feel that the formula for computing annuities, which provides 1.5 percent of the highest 5-year average salary for the first 5 years of service, and 1.75 percent for the next 5 years, is not adequate and should be changed to 2 percent so that there would be a uniform 2 percent factor used in computing the annuities of those who retire in the future.

Presently, there are 20 million Americans over the age of 65. By the year 2000, it is estimated there will be 65 million people over the age of 65. That is an increase of more than 200 percent. The problems of the aged are very critical problems and very real problems. This committee is in a position to perform a great social service by considering the needs of the aged, under civil service retirement, when you take up the question of financing the retirement fund. We recommend that these things be taken into consideration.

We greatly appreciate the opportunity of testifying before this committee.

Mr. DANIELS. Mr. Keating, we want to thank you for your very clear and forthright statement. I realize you are in a hurry to get away because of another appointment. I will ask the members of the committee to be as brief as possible in their questioning.

Mr. Hanley of New York.

Mr. HANLEY. Mr. Chairman, I simply want to commend Mr. Keating for his fine statement. I want to say I concur completely with his suggestion that the Defense Department be made aware of its obligation in the matter. I think this is probably one of the most serious shortcomings we have in the system. This shortcoming is certainly directly related to our military requirement. I concur with your suggestion.

Just one question. Do I interpret you as saying that a civil service retiree, in some instances, will actually draw less than a social security beneficiary, in recognition of having made the identical contribution to the system?

Mr. KEATING. Actually, the civil service employees contribute more than the social security. The social security contribution will eventually go up to 5.9 percent under the law passed this year, but the civil service contribution is 6½ percent, and always has been more. There was no social security until 1936. Of course we go back to 1921. We have people who draw far less.

I think we had a hearing on providing minimum benefits. I think that ought to be considered, too, particularly for survivors and for those who receive real small amounts. I think the minimum benefits for civil service retirement ought to be increased.

I want to bring out briefly a point which was made in the last hearing we had, that many of our people are also under social security. We have a reasonably good way of measuring that because we operate

our own health benefits department, and we have a record as the claims come in of those who have medicare. Anyone who is under social security is under medicare. But only 24 percent of the people who have submitted claims are under medicare, which would indicate that 76 percent of our people, unless they have some private means, depend solely upon their civil service retirement annuity.

I think that is important. There are so many who depend solely on this. I know cases where the survivors get as little as \$36 a month. There are some who get \$50, \$60, \$70. Some of the active employees get less than \$100. Generally, they are those with short service. There are some who have retired early—early retirement goes back a long way—who get very small annuities. I think they need attention and care.

Mr. HANLEY. There is no question that this aspect certainly deserves serious consideration and a real hard look to assure that in no case would a civil service retiree draw less than a social security beneficiary.

Thank you.

Mr. KEATING. Many of them do.

Mr. DANIELS. Mr. Johnson of Pennsylvania?

Mr. JOHNSON. Thank you.

In the earlier hearings, when confronted with the figures that you have given here this morning—that the unfunded accrued liability of the fund is estimated at \$50.3 billion, and you state that at the end of this last year there were some \$18 billion actually in the fund—I believe the position of the administration was: Don't worry about the \$18 billion or the fact that we should have \$50 billion in the fund because the full faith and credit and honor and integrity and the strength and power of our great Federal Government are back of the promise to the employees that they will receive their pensions and annuities and, therefore, the \$18 billion is relatively sufficient.

What do you think of that statement?

Mr. KEATING. Actually, the contention of the administration is that there should be \$70 billion in the fund, \$18 billion plus \$52 billion. The deficiency is \$52 billion. So, it should be \$70 billion.

I think it necessary to maintain enough money in the fund to operate the fund for a reasonable number of years. The reason for that is that you can provide stability with the fund. If you are on a budgetary basis wherein the Government gets in a tight spot and they are in a position to reduce the annuities, this situation does not give the people the security they are entitled to.

If there is any person in the world who needs security, it is the aged. Many of them are sick. They cannot go out and support themselves. They cannot get another job. They do need security and they need a guarantee of security. The Government has to maintain a substantial fund.

Contrary to what has been said often, we are the best financed fund under the Federal Government. We have proportionately more reserves than any other retirement plan that the Government operates. But we agree that we should have a more substantial fund than we have at the present time. We have taken on a lot of liabilities. Even in this bill if we take on the merger with the Foreign Service—it is passed off in the report that it is a small organization. It is a small organization, but in the early years they made no contribution. Their contribution has always been less than ours. They have larger annuities.

It is an additional obligation on the fund. I think when we would do that, that ought to be taken into consideration, and the money ought to be put into the civil service retirement fund to take care of it.

Mr. JOHNSON. In view of the situation that you have pointed out which exists in the fund, what, in a real short, clear, concise statement, is your recommendation that we, this committee, should bring to the floor of Congress this year with respect to this fund? What are you recommending?

Mr. KEATING. Specifically, we think that the normal contribution should be sufficient to maintain the normal costs, and the policy that was adopted by the Kaplan committee was the normal cost plus interest on the unfunded liability as the yearly expenditure. The unfunded liability has grown and probably will always continue to grow. I think that is reasonably sound in that it keeps the fund stable. You reach a certain point. They contribute that much and it keeps it stable.

In fact, this is the recommendation of the administration. We think that would certainly provide a very sound, stable fund if we could reach that point.

I might point out, too, while we are talking about it—we talked a little bit about the private funds—many of the private funds in existence are fully funded, but many are not. Many of them have a very large unfunded liability as well as the Government.

Mr. POOL. What protection does the employee of that kind of company have?

Mr. KEATING. What has happened, really, is the same as has happened here. The fund goes into the retirement program. If it is a company which has a good deal of excess capital, they might fund it immediately, but most of them are not in that position. So, they give full credit for all of the retirement service for the employees that they have. Immediately they have an unfunded liability. Most of them set up a 25- or 30-year plan to eliminate the unfunded liability by paying so much a year. On rare occasions they put out the cash. Most of the retirement plans are new, so I would say in all probability—I have not made a recent check, but I did 2 or 3 years ago—in all probability most of them still have unfunded liability. They try to set up the payment of so much additional money per year. They increase their percentage of contribution to take care of it.

Mr. JOHNSON. Thank you, Mr. Keating.

Mr. DANIELS. The gentleman from Texas, Mr. Pool.

Mr. POOL. I want to add to what the other members have said: We appreciate your testimony.

I also want to compliment the chairman of the subcommittee for the excellent job he is doing in this field, which is not very glamorous and probably is not appreciated, but it is certainly important. I am sure the Federal employees appreciate what you are trying to do.

Mr. DANIELS. I thank you for that comment, and I appreciate the confidence of all the members of this subcommittee.

The gentleman from Georgia, Mr. Thompson?

Mr. THOMPSON. Mr. Chairman, I, too, appreciate the fact that you scheduled hearings on this particular bill. I think Mr. Keating has focused attention on something which has long needed attention. There are several areas that I am delighted were brought out.

One is the fact that, had this fund been fully funded, there would be \$1.7 billion more interest at the current low level paid into the fund which would accrue to the employees' benefit.

Second, the credit for military service is a burden that the fund has to bear, whereas in our military retirement system, if I am correct, there is no contribution made by the service personnel for their retirement. It is not a funded type of retirement, but Congress appropriates each and every year 100 percent of the cost of the retirement for all the military personnel.

A fact which has not been brought out here is that by having this fund, from this \$18 billion, the Government accrues a very real value in that they can use this fund as a market to sell their bonds and control, so to speak, the market of their bond sales. I feel the employees are being penalized somewhat because of the low interest yield which they get from the securities that the fund is limited in purchasing.

You talk about your company pension plans and the fact that many of the companies are paying two-thirds of the cost. Not only are they paying two-thirds of the cost, but they are yielding a higher rate of interest. This interest accrues to the value of the employee.

So, Mr. Chairman, I frankly feel it would not be in order to increase in any way the contribution of the employee toward this fund. I think what we will have to do is to seek to do equity in this particular instance. If a contribution increase has to be made, I feel it should come from the Government, because the Government derives a very real benefit by having the use of this fund and the low interest that it pays.

Thank you.

Mr. DANIELS. If the Chair may comment on what Mr. Thompson has said regarding the restriction on the Government in investing this fund, what is your thought, Mr. Keating, with regard to changing the law to permit the money in the fund to be invested in stocks and other securities, which is not permitted today by law?

Mr. KEATING. Of course, we would be for it. We would get a better return.

Mr. DANIELS. Would that be an advisable move?

Mr. KEATING. For Congress to make it, it would be an unpopular move with the investment market and the investment people. We have a good many Government funds. They invest only in Government investments, which is Government debt. You have to have a debt to have Government investments. We have plenty of debt right now.

If you go on the outside, of course, actually this is getting into another field. The investment market has changed. There is a lot of money available in insurance. People have bought more insurance. There is a hundred billion dollars available in private retirement funds. There are other trust funds of various sorts for social benefit, private funds, private companies, labor unions and others, which have provided a large sum of money for investment. That is why we are able to build so many buildings so fast and all this sort of thing, why we move ahead as fast as we do. The investment money is there, and much of it comes from these trust funds.

If we move the Government into competition with private funds, the Government can take over the market. We have other investments. Social Security has money to invest, too. Proportionately, not as much, but they do have substantial money.

I think as far as we are concerned it would be all right, but I think it would be a rough deal for Congress to get public support for that.

Mr. DANIELS. Thank you, Mr. Keating. It is a pleasure to have you here.

Our next witness is John F. Griner, national president, American Federation of Government Employees.

TESTIMONY OF JOHN F. GRINER, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, ACCOMPANIED BY THOMAS G. WALTERS, LEGISLATIVE REPRESENTATIVE; DR. W. J. VOSS, DIRECTOR OF RESEARCH; AND STEPHEN A. KOCZAK, ASSISTANT DIRECTOR OF RESEARCH

Mr. DANIELS. Mr. Griner, before you proceed, the Chair would like to express his appreciation to you for yielding to the previous witness, Mr. Keating, the first witness to testify here this morning. You were scheduled to be the first witness. You were kind enough to yield your place to Mr. Keating, who had another commitment this morning and who asked the Chair if it would not be possible to testify first. I appreciate your yielding to him.

Mr. GRINER. Mr. Chairman, and members of the committee, for the purpose of the record, my name is John F. Griner. I am national president of the American Federation of Government Employees. On my immediate left is Mr. Stephen Koczak, assistant director of research; on my immediate right is Dr. W. J. Voss, our director of research; and next to Dr. Voss is Mr. T. G. Walters, the director of legislation.

First, I would like to express our appreciation to the chairman and members of the committee for the opportunity to appear before you and give you our recommendations with respect to this bill. We would like to express our appreciation to the chairman for introducing this bill. It is certainly a most needed piece of legislation.

The American Federation of Government Employees has a deep and continuing interest in whatever measures are needed to provide a better and sounder retirement system for the Federal civil service. This interest arises from the fact that the AFGE is the largest organization of Federal employees. Our membership is presently more than 265,000 persons who are employed in every State and in numerous foreign countries in virtually every type of work outside the postal service.

Because of our enduring interest in a retirement system that periodically provides added benefits, we are grateful to Representative Daniels, chairman of this Retirement Subcommittee, for sponsoring H.R. 10912. It is a bill that accomplishes what is of tremendous importance in that it deals effectively with the financing of the civil service and foreign service retirement systems.

We do have certain reservations about the intent and effect of this measure, but it is not because of dissatisfaction but because of the purpose we share with the distinguished chairman of this subcommittee to protect the integrity of the retirement system and yet improve its advantages for Federal workers.

I might point out that our principal reservations to certain features of this bill coincide with similar comments by the Comptroller General of the United States. They are in fact identical with the observa-

tions by the Comptroller General of the United States in his report to the Congress of the United States, dated April 1967, entitled "Financing the Civil Service Retirement System Administered by the U.S. Civil Service Commission."

The bill, H.R. 10912, is basically a good bill and we hope that the fact that desirable changes in it have already been incorporated in the Comptroller General's report are indications that the bill will be passed swiftly by the Congress. We pledge our own efforts to this end.

As we noted, there are some improvements to be made in the bill already indicated in the report of the Comptroller General. The main improvement, which we heartily endorse, concerns section 2 appearing in the current H.R. 10912 print on page 3 as lines 4 through 25, inclusive, and on page 4 as lines 1 through 3, inclusive.

The present lines in section 2 of the bill contain language which anticipates that deficits in the financing of the so-called normal cost of current benefits would be met on an equal basis by the employee and by the Federal agency or department. Under this concept, the Civil Service Commission is authorized to increase the present $6\frac{1}{2}$ percent, or $7\frac{1}{2}$ percent for Member, employee contributions in equal amounts for the Federal agency and the employee.

For reasons already cited by the Comptroller General, we reject this concept and this language. We are unalterably opposed to giving the Civil Service Commission the right to increase employee deductions without specific approval of Congress.

As the Comptroller General, using the figures provided by the Civil Service Commission, pointed out, the current deficit of "normal cost" for benefits amounts to 0.6 percent of total payroll. In dollar terms, the Comptroller General estimated this to amount to \$105 million per annum and recommended that this amount be paid into the fund as a lump sum by a direct appropriation. Subsequently, the Comptroller General accepted a modification in his own proposal regarding the means of making the payment by the Federal Government, but not the employee, of this 0.6 percent. Instead of a single lump-sum payment, this \$105 million could be distributed among the budgets of the various Federal departments and agencies and paid pro rata by each agency into the retirement fund.

We interpret the Comptroller General's new proposal to mean that the entire 0.6 percent is to come from contribution of the Federal agency or department and none from a deduction from the salary of the employee.

In support of our interpretation, I quote, directly from the report of the Comptroller General, the following language which appears at the end of page 18—

The Congress may wish to consider covering the full normal cost of the system through agency contributions and deductions from employees' salaries in proportions other than equal proportions and establishing in law the specific cost-sharing ratio to be followed.

We endorse this suggestion of the Comptroller General of the United States. In our testimony hereafter, and in our specific proposals for contributions, we will base our calculations on his premises.

Having already stated that this is basically a good bill, we would like to suggest to your subcommittee that it meet the challenge of writing one of the most comprehensive civil service retirement bills

yet enacted. The precedent for significant legislation is already here in this Congress which enacted, in its first session, the 1967 Postal Revenue and Federal Salary Act. That act not only included a long-overdue pay increase for 1967 but, far more important, it provided a rational system of future pay increases, based on true comparability.

Just as the 1967 Postal Revenue and Federal Salary Act provided not only for pay increases but also for greater income, new legislation on retirement benefits can equally provide for new income.

We have noted the consensus of all parties who have appeared before you that the present deficit in the fund, already exceeding \$50 billion, arises solely from the failure of the Federal Government, as an employer, to meet its obligations to the fund. This deficit is so huge now that current interest loss alone every year now exceeds \$1.7 billion.

The impact of this loss of current interest can be grasped only if we realize that \$1.7 billion is more money lost in 1 year than the entire payments of benefits of all kinds made to beneficiaries of all categories in 1966. Loss of interest income in 1966 was \$1.7 billion; total benefit payments of all kinds in 1966 was \$1.68 billion.

This loss of interest payments should be made up as quickly as possible by some formula. This is the current debt of the Federal Government to the retirement fund of its employees. As to the specific manner of meeting this obligation by the Federal Government, we make the one stipulation that none of this debt is to be paid by Federal employees as contributions from their current earnings. For this reason we could accept a formula devised by the Congress which does not force Federal employees to pay their employer's debts.

So much for omissions of the past in financing Federal Government contributions to the retirement fund.

There is, however, one other omission of the past that is a grave burden and represents a serious inequity for our civilian Federal employees. Civilian employees already retired were not provided with any improvements in their income in the great 1967 legislative acts increasing Federal pay rates and social security benefits for the entire population. As a result, a great injustice to Federal employees already retired still needs to be rectified.

In writing retirement legislation, we urge most earnestly that your subcommittee show charity and justice to those retired civilian employee annuitants and survivor annuitants who today exceed 750,000 citizens, many of them living literally in virtual poverty.

The extent of their need is shown by the fact that of these 750,000 annuitants and survivor annuitants, fully 130,000 receive less than \$50 per month in income. If we take \$100 as our base of calculations, more than 300,000 of the 750,000 annuitants receive less than \$100.

Let us not leave these men and women and children entirely forgotten as we raise standards of living for everyone else.

Our organization, therefore, proposes that this bill be modified to include language to provide, for example, a minimum of at least a \$15 increase in monthly annuities to all persons receiving less than \$200 per month and flat 7.5 percent increase in annuities to all persons receiving \$200 per month or more. Of course, we would be happier if the subcommittee decided to increase the amount by a minimum of \$25 a month.

Simple justice requires that we not do less.

We estimate that the additional cost of such legislation for annuitants would be between \$150 and \$165 million per annum. This would equal an increase of "normal cost" expenditures over current rates of approximately six-tenths of 1 percent per year.

Your subcommittee has previously received testimony from administration spokesmen that the current "normal costs" exceed current income by approximately six-tenths of 1 percent of payroll, or a total of approximately \$105 million per annum.

In addition, your subcommittee is aware that there are several other proposals to provide additional benefits to Federal employees through changes in the coverage or the computation of retirement benefits. For example, one proposal would alter the formula now used for calculating both the base and the multiplier in computing annuities by using for the base of the average salary the highest 3 consecutive years of service instead of the present highest 5 consecutive years. In addition, the multiplier would be changed by using a flat 2 percent for every year of service instead of the present multiplier schedule of 1½ percent for the first 5 years, 1¾ percent for the next 5 years, and 2 percent thereafter.

There are, moreover, other proposals to compute the retirement annuities of employees performing hazardous duty at 2½ percent instead of the present 2 percent per annum. Finally, still other proposals would bring additional categories of employees, such as firefighters, under the provisions of hazardous duty legislation. We are told this would cost an additional eight-tenths of 1 percent.

The magnitude of the increase to cover these benefits which we can already observe, is in the area of 2 percent of total payroll within the next year. We arrived at that figure on the basis of the following computations which we submit for consideration by your subcommittee:

	Percent
Current "normal cost" shortfall as determined by Civil Service Commission -----	0.6
Additional "normal" shortfall to meet provisions of certain additional benefits -----	.8
Additional "normal cost" shortfall to meet provisions of AFGE proposal of \$15 and/or 7½ percent increase in annuities -----	.6
Total imminent increases -----	2.0

If we add this 2 percent to the 13 percent already being contributed, it is obvious that the total contributions to meet past and new benefits total at the minimum, 15 percent.

The money to pay this must come, of course, from somewhere. I could again remind this subcommittee of the loss of \$1.7 billion interest income alone because the Federal Government, as employer, did not meet its obligations to its employees. I shall not dwell on this point, however, since it is solutions we are seeking and not scapegoats or judgments as to who was at fault.

Our organization subscribes to the view that Federal employees should pay for what they get and they should be paid what they deserve. We are, therefore, always ready to agree to increases in employee contributions provided these increases are not to make up the failure of the Federal Government, as employer, to pay its share. Moreover, just as in the case of pay scales and pay rates, our organization is dedicated to the concept of comparability with the private sector of the economy.

In the private sector, there is a strong tendency to have the employer contribute all or the greater part of the cost of company retirement and pension plans. The full cost is paid by employers such as Douglas Aircraft, E. I. du Pont de Nemours & Co., Eastman Kodak, General Motors, Gimbel Bros., Goodyear Tire & Rubber, International Business Machines, and over 80 other large corporations. Averaging out the retirement plans in private industry, the ratio is already higher than 60-percent contribution by the employer and less than 40-percent contribution by the employee.

This would be an ideal solution for Federal employees, also. However, we are practical and we appreciate the problem of Federal financing. Therefore, instead of a 6-4 formula, such as the average in the private sector, we are prepared to consider a more modest formula of a 5-to-4 ratio of payments to the retirement fund.

Applying such a formula of a 5-to-4 sharing ratio, or a percentage falling between 55 and 57 percent on the agencies and 43 to 45 percent on employees, we find that an increase of agency contributions from 6.5 percent to 8.25 percent and an increase of employee contributions from 6.5 percent to 6.75 percent produce a ratio exactly 5 to 4 or a 55-percent contribution by the agency and a 45-percent contribution by the employee.

Inasmuch as a 15-percent contribution is enough to cover only past and immediately desirable benefits, we believe that it would be prudent for Congress to empower the Civil Service Commission, by specific language, to raise contributions according to a precise table up to 16 percent, with 9 percent the maximum to be paid by the Federal agencies and 7 percent by Federal employees. This would be a percentage of 57 percent by Federal agencies and 43 percent by Federal employees.

To achieve this goal of flexibility, we urge the subcommittee to incorporate specific language and an explicit table, beginning at 13 percent and ending at 16 percent. Using text of H.R. 10912 as the base, we recommend that the present language of section 2 of this bill, beginning page 3, line 4, be deleted and in its place the following language substituted as a new section 2:

SEC. 2. Section 8334 of title 5, United States Code, is amended—

“(a) (1) The employing agency shall deduct and withhold 6½ per centum of the basic pay of an employee and 7½ per centum of the basic pay of a Member. Beginning July 1, 1968, 7 per centum shall be contributed from the appropriation or fund used to pay the employee, and 8 per centum, in the case of a Member or of an elected official, from an appropriation or fund available for payment of other salaries of the same office or establishment. When an employee in the legislative branch is paid by the Clerk of the House of Representatives, the Clerk may pay from the contingent fund of the House the contribution that otherwise would be contributed from the appropriation or fund used to pay the employee.

“(2) The percentage of deductions and contributions prescribed by paragraph (1) of this subsection shall be adjusted by the Civil Service Commission as necessary to meet fully the normal cost of the benefits then in effect. The adjustments shall be under the

following schedules, in percental terms, for employees, Members and agencies, departments, funds or contingent funds:

"Employees	Agency or department	Total
6.50	6.50	13.00
6.50	7.00	13.50
6.50	7.25	13.75
6.50	7.50	14.00
6.75	7.75	14.50
6.75	8.00	14.75
6.75	8.25	15.00
6.75	8.50	15.25
6.75	8.75	15.50
7.00	9.00	16.00

"Member or elected official	Fund of Member or elected official	Total
7.50	7.50	15.00
7.50	8.00	15.50
7.50	8.25	15.75
7.50	8.50	16.00
7.75	8.75	16.50
7.75	9.00	16.75
7.75	9.25	17.00
7.75	9.50	17.25
7.75	9.75	17.50
8.00	10.00	18.00"

As we indicated earlier in our table of computations for financing normal costs of the retirement fund, we very much endorse efforts to modernize current retirement provisions. We respectfully recommend the following amendments to the retirement system:

(1) Modify the computation of retirement benefits by altering the formula for calculating both the base and the multiplier. First of all, it alters the base by computing average pay on the highest 3 consecutive years instead of the present highest 5 consecutive years of earnings. It is generally conceded that this would mean, in almost every case, a resulting higher average pay base for employees.

(2) Raise the multiplier to a flat 2 percent for every year of service replacing the present, and I say, outmoded multiplier schedule of $1\frac{1}{2}$ percent for the first 5 years of service, $1\frac{3}{4}$ percent for the next 5 years of service, and 2 percent per annum for each year of additional service. This obviously would also increase retirement costs.

(3) Increase the multiplier used in the formula for computing annuities for hazardous duty to the flat rate of $2\frac{1}{2}$ percent per annum instead of the current 2 percent.

(4) As to S. 1507, which has passed the Senate and is before this committee, a bill to include firefighters within the provisions of laws relating to the retirement of Government employees in hazardous occupations, we most heartily endorse that bill as a matter of sheer equity. Knowing the high standards of the values this subcommittee places on human dignity and human respect, I know that you will consider with great care the early enactment of the extension of the hazardous duty provisions incorporated in S. 1507 to firefighters.

This type of retirement benefit is a matter of serious concern to many Federal employees whose duties fall within the so-called hazardous category, that is, employees whose duties are primarily the

investigation, apprehension, or detention of persons suspected or convicted of offenses against the criminal laws of the United States. There are numerous examples of the need for making adequate provision for this group of employees who spend their energy, good health, and often their lives in the performance of duty. In recent months, two more members of the Immigration Border Patrol were murdered in California.

Mr. Chairman, our organization has presented to your subcommittee a comprehensive plan for modernizing and rationalizing the Federal Government's retirement system.

As we stated throughout, the principles of our presentation and of our concepts are identical with those of the author of this bill, Congressman Dominick V. Daniels, the chairman of the subcommittee. The only difference, we wish to emphasize, between the original bill and our proposals is the comprehensiveness and the extensiveness with which we have applied these principles. We have done so only because we wish H.R. 10912 which is a good bill to become a better bill.

Just as the bill provides, we also see no reason for a fully funded retirement fund, because that means only that there is in the system at all times enough resources to liquidate all past, current, and projected future obligations. All we are concerned about is to provide funds sufficient to pay the obligations of the fund as they become due. In practice, there is no possibility or likelihood of such an eventuality as instant liquidation of all indebtedness.

It has always been a great pleasure as well as a privilege to be able to testify before this subcommittee and it is, therefore, with a sense of deep appreciation that we thank you for the opportunity we were given to testify today.

Mr. Chairman, something that my statement did not contain, and which was brought to my attention by Mr. Keating, and that was the pay for this military service.

I happen to have worked for the Railroad Retirement Board for many years. The railroad retirement system gives credit for military service under certain conditions, that is, in connection with the railroad retirement plan.

There is a provision in that law that, based on a sample computation each year, permits them to bill the Federal Government for the cost of the additional benefits which they have to pay out because of the inclusion of military service. Certainly the civil service retirement fund should not have to bear that obligation that is a part of the normal cost of the civil service retirement system.

I certainly recommend that that be taken into consideration in connection with your deliberations.

Mr. DANIELS. It appears from your testimony that you have given this bill a great deal of careful study and consideration. I want to commend you for coming here this morning and letting this committee have the benefit of your views.

I take it from what you have stated that you more or less support the position of the Comptroller General who previously testified in the last session of Congress.

Mr. GRINER. Yes, sir. We thought his position was firm.

Mr. DANIELS. He, as well as Chairman Macy, would peg the future unfunded liability. The Comptroller General would provide for appropriations to be made over a period of 20 years instead of 30 years as

Chairman Macy provided, and that the buildup of funds be \$59 billion.

Do you recall that?

Mr. GRINER. Yes, sir; I recall that. I believe you have Chairman Macy's recommendation incorporated in the bill which was for the contributions over a 30-year period rather than a 20-year period; yes, sir.

There is one thing I would like to point out, Mr. Chairman. We are of the opinion that if we are to have comparability we mean not only comparability in pay but in fringe benefits, comparability in the manner in which these fringe benefits are financed.

Certainly I have pointed out to you this morning some of the largest companies or industries within these United States—and of course the Government is larger than any or possibly all of them combined—who are now paying 100 percent of the cost of retirement plans. There are about 80 of them. I did point out some of the large ones.

Mr. DANIELS. I noted that.

Mr. GRINER. We think that the ratio the Government should pay, if we are going to continue to follow the comparability principle, certainly should fall in line with what some of the largest companies in this country are doing.

With this formula we threw out here it was to give you something additional to consider. We have made quite a study of this question.

Mr. DANIELS. Would you give the Civil Service Commission authority in ascertaining what the normal cost of the fund would be from year to year, to charge that cost between the Government and the employee?

Mr. GRINER. No, sir. I think that is a matter that Congress and Congress alone should decide.

We have a great respect for the people who are now administering our retirement system in the Civil Service Commission. I, like Mr. Keating, know these people will not be there from now on. We don't know how long it will be before we may have another adjustment in the financing of our retirement system.

Certainly I would rather take my chances with Congress than some unknown who might come into the Commission several years from now.

We have a lot of faith in Congress.

Mr. DANIELS. However, Congress would have to be informed as to what the situation would be, so therefore is it your suggestion that the Civil Service Commission should recommend to Congress and that Congress, based upon the recommendations made, would use its own judgment?

Mr. GRINER. That is right, sir. That gives us a chance to present our side.

Mr. DANIELS. The gentleman from New York, Mr. Hanley?

Mr. HANLEY. Thank you, Mr. Chairman. I want to commend Mr. Griner on a very fine statement. I believe with it he has made an excellent contribution to the deliberations of this committee.

I am especially delighted with his kind and accurate observation of the recently enacted Federal pay and postal rate legislation and particularly with respect to his reference to the comparability aspect of it.

I believe that you have projected a very interesting set of figures designed to underwrite the possible expanded benefits. I think that this set of figures should be given thorough analysis by this committee to hopefully implement the improvements that you have suggested.

Mr. GRINER. Thank you, sir.

Mr. HANLEY. Thank you, Mr. Griner.

Mr. DANIELS. The gentleman from Georgia, Mr. Thompson.

Mr. THOMPSON. I, too, would like to congratulate Mr. Griner for an excellent statement.

I must submit that I am somewhat amazed that you have indicated that you would have a willingness to go along with an increase in the employee contribution so long as the Government achieved the formula you are seeking.

In view of the fact this is not a fully funded program, you have a good point that perhaps it need not be fully funded.

At the same time, I think we must bear in mind that had it been fully funded the employees would probably have had higher benefits than they have now because there would be more money in the program.

I think you show a very reasonable approach in suggesting that there be a modest increase in the employee's contribution along with the additional increase you suggested for the Government contribution.

My personal inclination is not to increase the employee contribution at all in order to achieve this formula which you seek, but at the same time I realize we have some budgetary problems and I am delighted at the reasonableness you have shown in your presentation.

Mr. GRINER. Congressman, I don't think any of us can stick our heads in the sand and refuse to see what is happening. Certainly, as I stated at the beginning, I have found that Federal employees are a group of reasonable people and they are willing to pay for what they get.

I do not believe they would object. In fact I do extensive traveling because we have a good membership in our organization and it is a well-known fact as to what we are recommending and I have had no objection from the membership along that line.

Mr. THOMPSON. Thank you very much.

Mr. GRINER. Of course, if we can get it all without increasing the Federal employee's part, sure we will take it. Let us not misunderstand each other.

Mr. DANIELS. Thank you very much, gentlemen.

Mr. GRINER. Thank you, gentlemen, and members of the committee.

Mr. DANIELS. Our next witness will be Mr. C. L. Dorson, president of the Retirement Federation of Civil Service Employees of the U.S. Government.

You may proceed, Mr. Dorson.

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

Mr. DORSON. Thank you, Mr. Chairman.

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

We thank the committee for its interest in the proper financing of the civil service retirement system, a thorny problem for more years than most of us can remember.

At the outset, let me make it clear that we do not pretend to be actuaries nor fiscal experts. Neither do we know the best method of financing the civil service retirement system and, if the many differing proposals we have seen over the years are a fair indication, we are not alone in our lack of knowledge. We are, however, convinced that the system is not, nor has it ever been, properly funded and we become increasingly concerned.

In the course of testimony before this subcommittee last November, representatives of the Civil Service Commission and the General Accounting Office offered differing proposals for arresting the growth of the system's unfunded accrued liability. The Commission proposes that the growth of the liability be arrested gradually over about 48 years during which an additional \$36 billion of liability would accumulate. GAO proposes that the growth of the liability be stopped immediately. During this same 48 years, the balance in the fund would grow to about \$21 billion under the Commission proposal and to about \$59 billion under the GAO proposal.

The principal difference in achieving these ends seems to lie in the pockets from which the necessary funds are to be removed and the rapidity of removal. The Commission proposal would tap the "direct appropriation pocket" lightly in the earlier years and heavily in the later years while tapping the "interest pocket" relatively lightly over the entire time.

The GAO proposal would tap direct appropriations at a constant rate, heavier in the early years and much lighter in the later years, while gradually shifting the greater source of funds to the interest pocket. Combined income from both sources would be about the same after about 30 years.

Since we are not experts, we are willing to endorse any method for improving the funding of the civil service retirement system so long as that method does not saddle the employee with more than his fair share, of the cost. Of the two proposals for stabilizing the funds, we favor the GAO proposal because it seems the most stable and, therefore, the safest from our point of view. We realize, however, that there are budgetary and other matters which you must consider in reaching a decision.

The Civil Service Commission has also proposed, and the proposal is contained in H.R. 10912, that it be given the authority to adjust the percentage of employee deductions and agency contributions as necessary to meet fully the normal costs of benefits then in effect. The proposal appears reasonable and practical to us, on the assumption that employee and agency percentages will remain equal, if one safeguard is provided. Proposed changes in rules and regulations, in other similar circumstances, are published well in advance of the proposed effective date and interested parties are provided a reasonable opportunity to comment before the final change is published in the Federal Register. We think such an opportunity for arguing the merits of proposed increases in deductions and contributions should be provided. Accordingly, we ask that section 2 of H.R. 10912 be amended so as to provide that proposed increases in the deduction and contribution rate be published in the Federal Register at least 60 days

in advance of the effective date and that interested parties be given 30 days in which to comment.

There is a provision in H.R. 10912 to which I believe it important to call your attention. It amends section 8348(g) of title 5, United States Code and begins at line 3 on page 6 of the bill.

This provision requires the Secretary of the Treasury, upon notice from the Civil Service Commission in any fiscal year, to credit to the civil service retirement and disability fund "such sum as may be necessary to make the fund balance at the end of the fiscal year equal to the employee equity at that date or to the fund balance at the end of the preceding fiscal year, whichever is the greater."

This feature of H.R. 10912 appears designed to prevent the fund balance from falling below a level sufficient for the payment of benefits even if necessary appropriations are not made. We are sure the subcommittee knows, far better than do we, that appropriations are not always provided even though authorized.

Mr. Chairman, if any one provision of H.R. 10912 may be considered the most important, we think this is that provision. Therefore, we urge that it be retained in this bill or any other legislation for the purpose of financing the civil service retirement system.

Mr. Chairman, again we thank the subcommittee for its interest and effort. We hope that, at long last, you will find and enact a solution to this longstanding problem.

We appreciate the opportunity you have afforded for the expression of our views.

Mr. DANIELS. Mr. Dorson, you state that any method for improving the funding of the retirement system would be satisfactory to you so long as the employee is not saddled with more than his fair share of the cost.

Mr. DORSON. Yes, sir.

Mr. DANIELS. What do you consider a fair share of the cost?

Mr. DORSON. The employees' fair share of the cost as we have always understood it, Mr. Chairman, has been 50 percent. We are satisfied with that. We certainly would not object if the employees' share were considered by the Congress to be less, but we are satisfied with the 50-50 sharing of normal costs, not 50-50 sharing of the unfunded liability.

Mr. DANIELS. As presently provided by law?

Mr. DORSON. Yes, sir.

Mr. DANIELS. Also, I infer from what you have said that you do not object to giving the Civil Service Commission the authority to adjust rates.

Mr. DORSON. That is correct, sir, so long as the same ratio and same proportion is maintained, or certainly that the employee's share does not grow any larger.

Mr. DANIELS. You agree with both Mr. Keating and Mr. Griner's statements?

Mr. DORSON. No, sir.

Mr. DANIELS. They objected to these provisions.

Mr. DORSON. I heard them.

Mr. DANIELS. That is not the position you take?

Mr. DORSON. No, sir.

I don't agree with their positions. Let me make it clear this is not something we have advocated. However, as a practical matter, I don't

see that the employee would necessarily suffer as a result of this so long as he had a chance to voice his opinion with regard to it.

I think if the Commission got too far out of line, as long as the employee had an opportunity to voice his objections, I don't believe they would get out of line. This is not something we advocate but I think it is something which, as a practical matter, we can live with, and I can see some advantages in it.

As long as the agency has to come up with this out of its money and out of its appropriation, come up with a matching amount to the employee, I can't see the Commission getting out of line.

Mr. DANIELS. I want to commend you for your frankness and honesty this morning.

Mr. DORSON. Thank you, sir.

Mr. DANIELS. The gentleman from New York?

Mr. HANLEY. Thank you, Mr. Chairman, I, too, want to commend you, Mr. Dorson, for your fine testimony.

I take that the provision which you comment on, whereas mention would be made in the Federal Register relative to any changes in the program, that this particular type of mechanism would suffice insofar as your position is concerned.

Mr. DORSON. So far as the increases in the contribution rate are concerned, Mr. Hanley, yes. I believe this is current practice, at least with regard to some changes in rules and regulations. Proposed changes are published in the Federal Register and a certain period of time elapses when interested parties are given an opportunity to comment before a final change is put into effect.

I think that we should have the opportunity to comment on them, indeed to voice any objections that we might have at that time if we find them out of line.

Mr. HANLEY. Thank you, Mr. Dorson.

Mr. DANIELS. The gentleman from Georgia, Mr. Thompson.

Mr. THOMPSON. Mr. Dorson, you say you have no objection to continuing a 50-50 contribution between the Government and the employee.

Had you considered the fact that this fund is limited by law and certain types of Government obligations? It yields a low rate of interest when you compare it to other retirement plans and the yield is much less. This is a restriction which really benefits the Government, as I see it, by giving the Government a market for some of its securities in using this fund, and to some extent penalizing the employee because he does not have the rate of return that he could otherwise have were he to have his money invested in a private pension fund if he had been working for some other employer.

In view of this, do you still feel there should not be some adjustment made in the contribution between the Government and the employee?

Mr. DORSON. Mr. Thompson, I am sure this is a matter which could be rectified both ways. I think it would be just as easy, perhaps, to increase the interest rate which the Government pays as it would be to go the other route.

I certainly agree with you that the loss of interest is a very large factor. I am not really sure at this point just what effect this loss of interest has on normal cost of the benefits from the fund.

Certainly the employee is penalized, at least to some degree, by the low interest rate which has been traditionally paid to the fund, although in the earlier years it was not as low, proportionately, as it is now.

However, I would think that this is something which could be adjusted by an amendment, as it has been in the past, and the interest rates allowed in accordance with the rates in the market. An amendment to change that could come about as easily as an amendment to change the other.

However, I agree with you it is something which should be corrected. Of course, the route of change is your choice.

Mr. THOMPSON. The interest rate we receive from the Government securities in which the fund is invested is limited by the very nature of the type of investment we make. I refer primarily to the fact that your various company pension plans, General Motors and others, are able to invest in other types of securities and yield a higher rate of interest.

Whether we advocate a freer investment policy for the retirement fund or not is a different question.

The question is simply this. The yield is so much lower for this particular fund and yet this accrues to the benefit of the Government by providing the Government with a source to place its bonds at a low rate of interest. Should not the Government then make some offsetting contribution to the fund in addition to what the employee makes? That is basically the position I feel we should consider.

Mr. DORSON. Mr. Thompson, I do not mean to appear to argue with you or say that I disagree with your position. I would not have any objection to that whatsoever, but realistically, I think there are a number of avenues open to correct this which would solve the problem.

Mr. THOMPSON. Thank you very much.

Mr. DANIELS. Thank you very much, Mr. Dorson.

Mr. DORSON. Thank you, Mr. Chairman.

Mr. DANIELS. Our next witness is Mr. Daniel Jaspán, legislative representative of the National Association of Postal Supervisors. I understand Mr. Jaspán is accompanied by Mr. Donald N. Ledbetter, national secretary. We welcome both of you and you may proceed.

**TESTIMONY OF DANIEL JASPÁN, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS, ACCOMPANIED BY DONALD N. LEDBETTER, NATIONAL SECRETARY**

Mr. JASPÁN. Thank you, Mr. Chairman.

My name is Daniel Jaspán. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 32,000 postal supervisors, with members in all 50 States and in Guam, Puerto Rico, and the Virgin Islands. Our members are employed in post offices, branches, stations, motor vehicle facilities, maintenance units, airmail facilities, and mobile units. As you mentioned, Mr. Chairman, I am accompanied by National Secretary Donald N. Ledbetter.

We appreciate the interest of this committee in a problem that has been of serious concern to our association for many years. Resolutions have been adopted over the years expressing our apprehension over

the condition of the fund. At our most recent national convention in Boston in 1966, the "Resolved" of the appropriate resolution adopted read that—

The National Association of Postal Supervisors seek legislation or such other methods as they deem appropriate, to insure that the Congress will appropriate funds as may be necessary to guarantee that the surplus or funded liability in the retirement fund will be sufficiently adequate at all times to cover future annuities of all who may be entitled to them.

Another resolution adopted mandates us "to oppose any increase in retirement deductions unless benefits are increased proportionately."

We believe there is general recognition that one of the main reasons for the fund's condition is that the Government has not assumed its fair share of the liability over the years. During the first 8 years of the existence of the retirement system, 1920-28, no appropriations were recommended by the President or enacted by the Congress. For many years thereafter, appropriations were generally recommended by the President and approved by the Congress. During the 1950's prior to 1957, the Government made only token contributions to the fund and at no time prior to 1957, except during the period 1936-40, did the Government contributions match those of the employees. As of June 30, 1966, the employee withholdings amounted to almost \$2 billion more than the Government appropriations.

Not only did this lack of equal appropriations adversely affect the fund, but the interest lost on money that should have been appropriated has contributed greatly to the present poor condition of the fund. It was only in recent years that the money has been invested to receive an equitable amount of interest. We believe that the interest rate could be increased even more, especially since any kind of long-term investment today yields 5 percent or more. In our opinion, the interest potential of the fund has not been fully utilized.

We should not overlook the fact that prior to fiscal 1964, employee contributions to the fund were always greater than the amount paid to retired employees. Thus, for a period of almost 45 years, the employees paid their full share of the money needed for retirement purposes. If the Government had assumed its fair share from the beginning, and especially if the money had been invested at the appropriate or going rates, the fund would be reasonably solvent now.

When President Eisenhower vetoed an appropriation to the fund during his term of office, he made a statement to the effect that the full faith and credit of the United States will stand behind the retirement system. Since the Government reneged on assuming a fair share of its liability prior to 1957, it is our opinion that the Government should now assume a greater share than the employees.

Along with solvency of the fund, it appears an appropriate time to also consider liberalization of benefits that have been long overdue.

One of the most important reforms needed is a change in the formula for computing annuities.

The inflationary spiral has made obsolete the present computation factor of 1.5 percent, 1.75 percent and 2 percent. In our opinion, a 2½ percent factor would not be unreasonable.

This liberalization would not bring great benefits to the employee with long service. It would merely reduce the period to receive the maximum 80 percent annuity from 41 years and 11 months to 32

years. We believe that 32 years of service should qualify an employee for the maximum annuity.

We also strongly urge that the "high five" be reduced to "high two" to determine the average salary. With salaries increasing, and with the number of years it takes to reach the top step of a level, many employees find that the maximum annuity is merely the illusory "pot of gold at the end of the rainbow." We have members who have more than 40 years of service who are not yet in the top steps of their levels. Their high five will never reach the maximum since they will reach the retirement age prior to that time. Changing the high five to a high two would at least make this illusion become a reality so that more employees could attain their goal of a reasonable annuity upon retirement.

We suggest also that this committee take another and close look at the survivor annuity section of the present Retirement Act. The surviving widow, or widower, now receives 55 percent of the basic annuity of the employee. It is extremely difficult for survivors to adapt themselves to receiving half of the amount paid to them before the death of the retired worker. We know that living expenses are not cut in half and we are certain that the members of this subcommittee are in favor of permitting the survivors who have lost the most important person to continue with a reasonable standard of living.

Under social security, the widow receives 82.5 percent of the employee's annuity. We believe that this wide disparity should be eliminated or at least reduced. We believe it equitable to request the committee to consider changing the 55 percent figure to 75 percent. This is still below the percentage granted under social security.

We also urge this subcommittee to amend the law so that annuities will be based on total gross earnings, rather than on base salary. Inasmuch as taxes are paid on total earnings, there appears to be no reason why the same should not apply to annuities.

Another section of the Retirement Act that should be changed is the necessity for the retiree to have his annuity reduced in order to provide for a survivor annuity. Even more unjust is the fact that if the survivor annuitant predeceases the annuitant, he still must continue with the reduced annuity as long as he lives and cannot provide a survivor annuity for his new wife, if he remarries.

Under the provisions of social security and the Railroad Retirement Act, the annuitant receives his full annuity without any reduction as long as he lives. In fact, under social security he not only receives his full annuity, but this amount is increased by 50 percent if his wife is living. Upon his death her share is increased to 82.5 percent of the employee's basic annuity. Obviously, it is time to take a close look at this part of the Retirement Act so that the employee can retire, provide for his wife, and not have his own annuity reduced forever.

Although a major step forward was made when the optional retirement age was reduced to 55 with 30 years' service, one of our major objectives is to have the age requirement removed and permit optional retirement, at the option of the employee only, upon the completion of 30 years' service. We do not believe that there would be a rush of 30-year employees to retire, but it would be most helpful to those employees who have been ill but cannot qualify for disability retirement.

With the great emphasis that has been placed on equal rights, particularly between the two sexes, we respectfully urge the subcommittee to consider changing the provision that to qualify for an annuity if a

female employee dies in the service, the husband must be proved to be "dependent." Since this qualification is not necessary if the female employee lives long enough to retire, and since there is no such qualification for a wife to receive an annuity if the husband dies in the service, it is our considered opinion that this restriction is basically unfair and should be removed from the law.

Since the social security laws were first enacted, resolutions have been passed at every national convention of our association opposing any tie-in, coordination, or merger between the civil service retirement system and social security. We are still firmly opposed to such action.

It is our opinion that our own system can be sufficiently liberalized without any coordination or other action with social security. Rather than provide social security coverage between the 18-month and 5-year period, we believe that our own system can be changed to provide this protection and at less cost than the amount necessary to provide the same protection under social security.

It has always been the opinion of our members that the social security system would like to absorb the civil service retirement system. We are unalterably opposed to any such action.

As pointed out earlier in our testimony, the Government not only did not assume a fair share of the cost of the retirement system, but during many years contributed little or nothing to the fund. The 50-50 division began in 1957. That was the first time that it was compulsory for the Government to contribute the same amount of money as the employees. We can see nothing sacrosanct about the 50-50 division.

On the other hand, we believe that in order to make up for the many years the Government lagged behind in contributions, the Government should pay a greater share than 50 percent. The employees have assumed the burden far too long. Even if the Government increased its share to more than 50 percent, it would take many years for these contributions to equal the money lost over the years, plus the additional interest that should have accrued to the fund if the proper contributions were made.

In summary, Mr. Chairman and members, based on our convention resolutions we have the following proposals:

(1) The Government should contribute a larger amount than the employee since it had not contributed a fair share for almost 40 years.

(2) This was not a convention proposal since the bill had not been introduced at that time, but we are strongly in favor of eliminating paragraph 2 of section 2 from the proposed bill, H.R. 10912. This is the section that gives the Civil Service Commission authority to adjust contributions annually. We do not believe that the Commission should be given a blank check to make these changes, but that it should come before the Congress any time it feels that it is necessary to increase the contributions.

(3) Change the computation factor to a straight 21½ percent.

(4) Reduce the "high 5" to "high 2."

(5) Increase the survivor annuity from 55 to 75 percent.

(6) Eliminate the deduction to provide survivor annuity.

(7) Permit optional retirement after 30 years' service, regardless of age, with the option to be exercised by the employee only.

(8) Rescind the necessity for a widower to be "dependent" in order to qualify for a survivor annuity if his wife dies before her retirement.

(9) Do not coordinate, merge, or permit our retirement system to be absorbed by social security. If necessary, make the adjustments in the Civil Service Retirement Act to take care of the employees who would benefit more by being under social security.

(10) Base annuity on gross earnings.

We do not object to paying our fair share for the liberalization of the Retirement Act. However, we strongly suggest that this committee recommend that the Government pay a greater share of the cost than the employee does. It now pays a lesser share for life insurance and health benefits, in fact, much less than is common in industry.

We appreciate the opportunity of appearing before this subcommittee to present our views, and we also hope that there will be a retirement bill known as the Daniels bill of 1968.

Mr. DANIELS. Mr. Jaspán, I think I ought to note one point. You neglected to make any mention of increase in benefits for the present retirees.

Mr. JASPAN. Mr. Chairman, they have a very able spokesman who will appear before this committee.

Mr. DANIELS. You have a very ambitious program here, Mr. Jaspán. I do not know that we can accomplish everything you have advocated this morning, but it is an ambitious program. I have introduced legislation on some of the matters you have addressed yourself to.

Mr. JASPAN. We know, Mr. Chairman, and we appreciate it.

Mr. DANIELS. But we have to take into consideration the international situation and the domestic situation as it exists today, and it will take some time to accomplish this ambitious program.

Mr. JASPAN. Mr. Chairman, we are willing to wait a year or two to get the whole program.

Mr. DANIELS. I would say you are most optimistic. However, it is always a pleasure to have you appear before the committee to testify. You always present some very illuminating views and I am sure this committee will study them.

Mr. Hanley, any questions?

Mr. HANLEY. Thank you, Mr. Chairman.

I want to commend Mr. Jaspán on his very fine, comprehensive statement.

Mr. Jaspán, another witness this morning made reference to the recently enacted Federal pay bill that pretty much took care of the comparability aspect of our problems, but we still have a long way to go to take care of the fringe benefits to make them comparable to the private sector.

I think your statement this morning included many of the things we have to do to provide absolute comparability with the private sector. Certainly it is my opinion, and I think it would be shared by almost everyone, that the person who has served an employer for 30 years should be entitled to maximum retirement benefits. You have divulged a number of points which this committee has a distinct responsibility to correct. You have provided this committee with much

to deliberate and, hopefully, in due time, as the chairman has said, we can implement the suggestions you have made in your testimony.

Mr. JASPAN. We appreciate your interest, too, Mr. Hanley. We know you are interested in all our problems, as well as are other members of the committee, as evidenced by the comparability bill of last year.

Mr. HANLEY. Thank you.

Mr. DANIELS. Mr. Thompson, any questions?

Mr. THOMPSON. Yes; thank you, Mr. Chairman.

Mr. Jaspán, I have a question relating to the third paragraph from the bottom of page 3 of your statement. You say:

Even more unjust is the fact that if the survivor annuitant predeceases the annuitant, he still must continue with the reduced annuity as long as he lives and cannot provide a survivor annuity for his new wife, if he remarries.

Now, this seems somewhat strange to me. In other words, what you are saying, if I may put it in my words—and if I am wrong please correct me—should I elect to provide a survivor annuity for my wife and she predeceases me and several years later I remarry, I would not be able to provide a survivor annuity for my new wife?

Mr. JASPAN. That is right.

Mr. THOMPSON. Let us say I was 22 years old, working for the Government, and I had a young wife and something happened to her 2 years later and I worked 30 years more and then retired. Do you mean I would not be able at any time to change that even if I did not remarry?

Mr. JASPAN. No. So long as you remarry before you retire, you can marry as many times as you want before you retire and your last wife would receive the survivor annuity if you predeceased her. I was referring to remarrying after retirement.

Mr. THOMPSON. I think your statement makes a lot of sense in many areas. I will have to admit I could not go along with your No. 6. I think if you provide for a survivor annuity there should be some offsetting reduction in the retirement benefit.

Mr. JASPAN. Of course there is none under social security and I do not think there is any under the Railroad Retirement Act.

Mr. THOMPSON. And your No. 8, with the drive women have been making for equal rights with men, I assume this is an attempt to have equal rights for men with women in survivor benefits. I doubt that I would go along with this at this time, but the other matters would have my serious consideration.

Mr. DANIELS. I might say, at this point, that I have introduced a bill to restore the reduction to the annuitant. In other words, if he retires and designates his wife he has to take a reduction in his annuity because he provides a survivor annuity. If his wife predeceases him I think it somewhat more equitable that he be restored his full annuity so long as he remains a widower.

Mr. JASPAN. The reason we did not recommend restoring the reduction, specifically, is that we prefer eliminating the reduction at retirement.

About the dependent provision, if the woman works long enough to retire she can provide a survivor annuity for her husband. It is only if she dies in service that he has to prove dependency.

Mr. THOMPSON. Thank you very much.

Mr. DANIELS. Thank you, Mr. Jaspan and Mr. Ledbetter. We appreciate your coming here this morning and giving us the benefit of your views.

The committee will adjourn and we will reconvene next Tuesday morning, January 30, at 10 a.m.

(Thereupon, at 11:52 a.m. on Thursday, January 25, 1968, the subcommittee adjourned until Tuesday, January 30, 1968, at 10 a.m.)

RETIREMENT FINANCING

TUESDAY, JANUARY 30, 1968

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON RETIREMENT, INSURANCE, AND HEALTH BENEFITS OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m. in room 210, Cannon House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. The subcommittee will come to order.

The Subcommittee on Retirement, Insurance, and Health Benefits is meeting again this morning to continue hearing testimony on a matter of serious concern to both public officials and Federal employees and annuitants; namely, the financial stability of the civil service retirement system.

On behalf of my colleagues, the Chair wishes to express his appreciation to those representatives of Federal employees, retirees, and annuitants who have already appeared before the subcommittee and those appearing this morning for the time they are devoting to this problem. It is, indeed, a very complex problem and one to which we must devote our best abilities.

The first witness this morning is Mr. Patrick J. Nilan, legislative director of the United Federation of Postal Clerks, who is accompanied by Mr. E. C. Hallbeck, president, and Mr. Walter Froh, staff economist.

If you gentlemen will step forward to the witness table.

**TESTIMONY OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR,
UNITED FEDERATION OF POSTAL CLERKS, AFL-CIO, ACCOMPANIED BY E. C. HALLBECK, PRESIDENT, AND WALTER FROH, STAFF ECONOMIST**

Mr. HALLBECK. Mr. Chairman and members of the committee, if I may, my name, as I think most of you know, is E. C. Hallbeck. I am president of the United Federation of Postal Clerks, and I want to express first of all my appreciation for the time and study being given to what I consider one of the very important problems in connection with the civil service retirement system. I would not go as far as to say that I was covered by it from its inception, but it goes almost that far back and I have seen many changes in it, most of them for the best.

We realize the present financial structure of the system leaves something to be desired and we realize that something must be done. I hope the suggestions we make today will prove of value to the committee. I am certain, from past experience, that the suggestions will

at least be given every possible consideration, and I want to thank you in advance for that very helpful attitude.

At this time Mr. Nilan, our legislative director, will make the statement for our organization.

Mr. DANIELS. This is a highly complex and involved question, and one that does entail very substantial sums of money. It is a problem which the Appropriations Committee, and other committees, have urged that some action be taken upon in order to assure the integrity of the fund, so as to guarantee that annuitants will receive their payments when they become due. So, this committee is charged with a great responsibility and we hope to discharge that responsibility as promptly and feasibly as possible.

Mr. HALLBECK. From past experience, I am sure you will.

Mr. DANIELS. We appreciate your coming here today to give us your views and the views of your organization, and I am certain the committee will give them the attention they deserve.

Mr. Nilan, you may proceed.

Mr. NILAN. Mr. Chairman and members of the committee, for the record, I am Patrick J. Nilan, national legislative director of the United Federation of Postal Clerks, AFL-CIO. I am very pleased to appear before this committee with our national president, E. C. Hallbeck, and our staff economist, Walter Froh, in regard to the pending legislation, H.R. 10912.

We speak in behalf of the Nation's 319,000 postal clerks for whom we are the exclusive national representative for labor-management relations with the Post Office Department. Our membership is exclusively in the postal clerk craft and employed in post offices in all 50 States, the District of Columbia, Puerto Rico, Virgin Islands, and Guam.

Mr. Chairman and members of the committee, this is our first opportunity to appear before the Committee on Post Office and Civil Service since the convening of the second session of the 90th Congress. Before we present our statement on H.R. 10912 we would certainly be ungrateful if we did not express our appreciation and that of our membership for your valuable contributions to the enactment of Public Law 90-206 signed by President Lyndon B. Johnson on December 16.

While our organization may have preferred a somewhat different compensation method and an even larger wage increase for our skilled and dedicated postal clerks, we certainly commend members of both the House and Senate Post Office and Civil Service Committees particularly, and the 90th Congress generally, for the important salary increases and improved life insurance benefits provided in Public Law 90-206.

Mr. DANIELS. Mr. Nilan, at this point let me say to you and Mr. Hallbeck that the committee also feels indebted to you for the contribution your organization made in connection with that legislation.

Mr. NILAN. Thank you, Mr. Chairman. We appreciate that.

I am sure we all recognize the long, arduous, and oftentimes controversial path which the combined salary and postal rate legislation traveled prior to final enactment. You may be certain we do appreciate your support, patience, and determination which contributed so much to the improvement of wages paid our postal clerk membership through the enactment of this law.

Mr. Chairman and members of the committee, the United Federation of Postal Clerks, as well as yourselves, is extremely concerned with the very serious problems confronting the financial integrity of the civil service retirement system. I would be less than honest if we did not also advise you that we are convinced that substantial improvements in annuitant and survivorship benefits are long overdue and essential to progressive and realistic equity between the employee, or annuitant, and the Federal Government.

It is because of this deep concern with the existing problems of the retirement system, both funding and benefits, that we have done extensive research and analysis of related data which we are confident this committee will be interested in and will give studious consideration to prior to arriving at final determinations on the pending legislation as well as improved benefits we suggest in this statement.

However, we would like to make it perfectly clear, Mr. Chairman, at this point in our statement, that while we recognize improvements must be made concerning the civil service retirement fund and benefits, we are also absolutely and unalterably opposed to granting the executive branch of Government, particularly the Civil Service Commission, unilateral authority to make future adjustments in the employee-Government contribution rates to the civil service retirement system without affirmative action by the Congress.

The purpose of our statement is to demonstrate, that in our opinion, Government has an obligation to its employees because of the way the civil service retirement fund has been administered and to suggest and recommend what the Government can do to make what we think is an equitable repayment.

Our statement will recognize that the Government has failed over the years since the fund was established in 1920 to make its fair share of contributions resulting in unfunded liability of approximately \$50 billion. And I understand in the very near future this could be \$52 billion, as far as the unfunded liability is concerned.

Mr. DANIELS. I understand it is now approximately \$53 billion.

Mr. NILAN. It is going up all the time.

Mr. DANIELS. Due primarily to the raises granted in 1967 in the postal revenue and pay raise bill.

Mr. NILAN. Thank you, Mr. Chairman.

Further, that the fund has represented a captive market for Government securities, facilitating the payment of a relatively low rate of interest in the Nation's money market.

Our statement will also recommend that the Government can, to repay its employees, follow documented and well-established precedents in private industry and State and local governments by paying substantially more than half the cost of the civil service retirement system. Further, the Government can effectively and appropriately make progress toward improving retirement benefits for postal clerks and other Federal employees by (1) changing the high-5-year average salary in the calculation of annuities to a high-3-year average; (2) changing the graduated series of multipliers in the calculation of annuities from $1\frac{1}{2}$, $1\frac{3}{4}$, and 2 percent to a straight 2 percent; and (3) providing for 30-year optional retirement, regardless of age, without a reduction in annuities.

We also suggest, Mr. Chairman, that this committee give serious consideration to other liberalization of benefits, particularly for pres-

ent annuitants and survivors as well as future retirees including (1) exemption of survivor annuities from State inheritance and Federal estate taxes; (2) restore the amount deducted from the annuity of a retiree who elected a reduced annuity in order to provide a survivor pension, if predeceased by the person named as survivor; or on the death of a spouse, named as survivor at time of retirement, permit the retiree to remarry and designate the new spouse to receive the survivor annuity; and (3) permit a survivor annuitant to remarry after reaching age 60 without loss of survivor annuity; and where the survivor annuity has been terminated prior to age 60 because of remarriage, to reclaim the survivor annuity in the event of dissolution of the remarriage by death or divorce or on reaching age 60.

As the report to the President of the United States by the Cabinet Committee on Federal Staff Retirement Systems; namely, "Federal Staff Retirement Systems," so well stated, the Civil Service Retirement Act, since its enactment in 1920, has made provision for mandatory employee retirement system contributions to be held in trust under the civil service retirement and disability fund. Employee contributions, expressed as a percentage of salary withheld, have increased by amendment to the act, from the original $2\frac{1}{2}$ percent to the current $6\frac{1}{2}$ percent that became effective in fiscal year 1958.

During the entire history of civil service retirement, employee contributions have approximated one-half the normal cost—the estimated level percentage of payroll that is required each year of service to pay for benefits to which covered employees and their survivors become entitled.

The Cabinet Committee's report continues to state that the Civil Service Retirement Act, in contrast to the specific requirements covering employee contributions, contained, prior to 1958 when equal contributions were provided, a statement to the effect that the Government's share would be financed by the submission of appropriation estimates necessary to finance the system and to continue this act in full force and effect. As a result, a number of methods were used between 1920 and 1958 for determining appropriations to cover the Government's share of costs.

For example, from 1920 to 1929, during the first 8 years, appropriations were neither recommended nor enacted. Benefit payments were financed solely and exclusively by employee contributions.

In the 1929-World War II period appropriations were generally recommended on a basis sufficient to cover normal costs and to amortize the unfunded liability by the end of the century.

During the period 1929 through 1949, enacted appropriations coincided with Presidential recommendations. From 1950 through 1957 appropriation requests reflected four different methods, only two of which met fully with congressional approval. These were—normal costs plus interest in 1950, 1951, 1952, and 1954; reduced by Congress. Normal cost plus amortization in 1953; reduced by Congress. Cost of recently increased annuities in 1955; agreed to by Congress. Government's share of current disbursements minus interest on its equity in 1956 and 1957; increased by Congress.

This history of employee and Government contributions to the fund, documented and reported by the Cabinet Committee, as the Committee itself stated on page 244 of its report—

Supports the conclusion that deficiencies, that is, accrued liabilities for which contributions to the fund have not been made, are the responsibility of the Government as employer.

The report reiterates on page 262—

The committee places full responsibility for the existing unfunded liability, and increments thereto that would be created by future action, entirely on Government. It is recognized that the existing unfunded liability has resulted primarily from inadequate employer financing in the past and that it will continue to grow indefinitely into the future because of compound interest loss.

Employees of Government have been, and continue to be, deprived of the benefits of contributions the Government should have made to carry its fair share of the cost burden of the system. Some of these benefits would have been psychological, coming from the knowledge that the Government was using an orderly and systematic way of financing and funding their retirement—and not applying it belatedly.

Some of the benefits would have been real, representing a bookkeeping reflection of a larger fund balance and a smaller or nonexistent unfunded liability. And some of the benefits could even have been rewarding as well, in the form of larger annuities and other improved benefits which could have been paid out of a better financed and funded system.

Therefore, Mr. Chairman, it is obvious, we believe, that the Government has benefited by being able, within the framework of the Civil Service Retirement Act, to make contributions to the system in far lesser amounts than those contributed by employees—actually to contribute far less than its fair share.

Another way in which the Government has benefited from existence of the civil service retirement fund is by being able to use the fund, along with other Government retirement funds, as a captive market for its securities. It is able to pay a low interest rate, 3.5 percent on recent issues, to the fund for its holdings of “gilt-edged” Government securities, which yield an investment return rate from which all other less secure investment return rates in the U.S. money markets flow upward.

Even within the spectrum of Government security markets, the average yield on long-term Treasury bonds was 5.29 percent for the week ending October 27, according to the “U.S. Treasury Bulletin,” November 1967. For the same week, Moody’s AAA corporate bonds yielded 5.9 percent.

Private pension or annuity funds, not limited to Government securities in their investments, are able to earn well above the “gilt-edge” rate. Many insurance company contracts with private pension funds guarantee 4, 4 $\frac{1}{4}$, 4 $\frac{1}{2}$, and even 4 $\frac{3}{4}$ percent return. In some cases a sharing arrangement is made for returns in excess of the guarantee.

In 1965, corporate bonds made up about 34 percent of all insured pension and annuity assets, mortgages accounted for more than 35 percent and common stocks nearly 6.5 percent as reported in “Private and Public Pension Plans in the United States” published in March 1967, by the Institute of Life Insurance, New York City. Such funds are constantly managed to readjust their investment portfolios so as to achieve higher earnings and capital gains resulting from increases in the market value of common stocks. Astute and responsible management is necessary, of course, because, for example, the dividend rate on common stocks is about 2 $\frac{1}{2}$ or 3 percent. Proper and sometimes fortui-

tous timing is required in the acquisition and sale of various stocks to achieve capital gains and to yield the 7 or 8 percent return accruing to some private funds in recent years.

Mr. Chairman, in referring here to various and more lucrative investment opportunities within and even without Government as possible sources of improved revenue for the civil service retirement fund, we are only suggesting that all facets be considered by the Congress in reducing and ultimately eliminating the unfunded liability of the fund. We are suggesting the committee and the Congress examine and explore the many varied opportunities to receive an improved interest rate on funds held within the civil service retirement system. We are not, of course, at this time recommending that the civil service retirement fund be invested in private securities.

The benefits which have accrued to the Government over the years from the existence and administration of the civil service retirement fund relative to the short- and long-term welfare of its employees demand something in return, we believe, a quid pro quo—some changes are in order.

One change we believe that should be made in the civil service retirement program is a change in the contribution formula which currently provides for an equal sharing by employees and the Government with each responsible for contributing 6½ percent of basic salary. There is a well-established precedent in private industry and in State and local governments for the employer to pay substantially more than half the cost. In this very important aspect of a decidedly major fringe benefit, private industry and State and local government are taking the lead, setting an example for the Federal Government to follow. Frankly, we sincerely believe it should be the other way around.

State and local government retirement funds do set a good example, nevertheless. In 1965, as reported in "Private and Public Pension Plans in the United States," total contributions to State and local retirement plans amount to \$4.2 billion; State and local governments, as employers, paid over \$2.5 billion of these contributions. The average employer contribution to these plans was 60 percent.

A better example, yet, is provided by pension or annuity plans in private industry, to which the Government can look for guidance in terms of equity and employee morale. We have previously stated that postal clerks and other Federal employees are pleased with the recently enacted pay legislation and we are grateful to the Post Office and Civil Service Committee and its individual members whose efforts made that legislation possible. It certainly represents a significant step in the movement toward comparability with our counterparts in private industry.

Compensation, however, is not the only basis upon which postal clerks and other Government employees compare their positions with alternatives in the private sector of the economy. Fringe benefits are also very important in this comparison, and among them perhaps the major one is an adequate retirement program which will offer employees a comfortable living in their declining years without draining from them an intolerable amount of liquidity in their productive and family- and career-building years. Permit us, Mr. Chairman, to look at how private industry retirement plans attempt to give such assurance to employees.

The Bureau of Labor Statistics of the U.S. Labor Department, in its Bulletin No. 1485, reports that in 75 percent of the pension or annuity plans in manufacturing and nonmanufacturing industry, the entire cost of retirement benefits is financed by the employer. Out of 15,818 private plans reporting to the Labor Department's Office of Labor-Management and Welfare-Pension Reports, approximately 12,000 are paid for solely by the employer. These plans covered 15.6 million workers. About 11.8 million of these workers made no contribution whatever to their respective plans. They are covered by what are characterized and described as noncontributory plans.

Mr. DANIELS. What was the date of that report, No. 1485?

Mr. NILAN. The date of issue was June 1966. Oddly enough, we received the report on June 2, 1967, but the date of the report is 1966, a comparatively recent publication.

A very significant statement made in the BLS bulletin is that, "industries with mostly negotiated plans had mostly noncontributory plans." Collective bargaining is a well-established and salutary feature of labor-management relations throughout this country. Employees should have a voice in the determination of policies and practices which affect them in their working lives, as well as a voice in matters affecting their working conditions. I might add, Mr. Chairman, that the United Federation of Postal Clerks is very hopeful that the House Committee on Post Office and Civil Service and the second session of the 90th Congress will favorably consider enactment of your legislation, H.R. 460, which proposes to establish Federal employee-management relations by law.

We recognize, of course, that we are not here today to bargain with you, but we are here to reflect the views of our members and what we think is in the best interest of all Government employees in relation to their retirement program.

The plans reported by BLS, as described above, were effective in the winter of 1962-1963. Later data reporting the same financing characteristic of private pension plans are presented in table 3, page 387, of the Cabinet Committee's report to the President. Of the 16,371 private industry pension plans reported upon for the period, early 1965, 12,343 or 75.5 percent were noncontributory. Of the 16.4 million workers covered by these plans, 12.9 million or 78.2 percent made no contribution to the plan at all. They parted with some liquidity in making their social security contribution on a limited portion of their earnings, but this fell far short of the burden of a contribution of 6.5 percent of salary as Federal employees are required to make to the civil service retirement system.

There is still another study which reports the great preponderance of noncontributory annuity plans on the industrial scene and is a study by the Industrial Union Department AFL-CIO, of 77 major pension plans. Of these 77 major plans studied, 63 of them, or 82 percent, are financed solely by the employer. In the 14 contributory plans, the average contribution of the employer is 62 percent.

This study by IUD, AFL-CIO, was concerned with annuity plans in effect July 1, 1964. It is unlikely that any of these plans have retrogressed since then in the progressively increasing trend toward noncontributory plans. More likely, Mr. Chairman, there have been even further accelerated improvements in this important fringe area.

Tabulated in appendix A at the end of my statement are the names of 63 companies in which annuity plans are financed entirely by the employer. In appendix B are tabulated the names of 14 companies having contributory plans and the percentage contributions made by each employer.

The names of companies covered by this study reflect well that large employers of this country, with whom Government should be compared, have taken the lead in this progressive step toward providing annuity systems for their employees at no cost to the employees. Being realistic, we realize that at this time, the Government would be unable to go this far. However, we do hope, with your guidance, that it will take a large step in this direction.

A study reported by the State of California in 1967 adds further emphasis to the fact that most private pension plans are noncontributory. California's Division of Labor Statistics and Research analyzed 1,743 collective bargaining agreements covering 1,533,000 workers. Retirement benefits were found in 1,177 agreements covering 1,240,000 workers and were provided through 460 separate pension plans.

From this universe of 460 pension plans, the division selected 119 for analysis, including all plans, covering 2,000 or more workers. Thirteen plans covering fewer than 2,000 workers were added so that the majority of workers under negotiated plans in each industry would be represented.

The smallest plan applied to about 300 California workers; the largest to more than 100,000. In total, the 119 plans covered 1,048,000 California workers, 84 percent of the total under all 460 plans in the State.

In 107 of the 119 plans analyzed the employer paid the full cost of the plan, with the employees making no contribution. In the other 12 plans considered employees made a contribution, but in only one case was it as much as 50 percent, that being a plan in which molders shared the cost with the California Metal Trades Association and General Metals Corp.

The other contributory plans had financing which provided that the employer would pay the balance of the cost after the employee contributed, for example, 2 percent of the first \$3,600 in base earnings plus 4 percent of additional base earnings. The plans ranged down to a contributory plan for engineers and architects which provided that they contribute 2½ percent of earnings in excess of the amount subject to social security tax.

Mr. Chairman and members of the committee, we believe this study in the large and diverse State of California appears to be representative of the broad spectrum of American industry because it covered such companies as Dow Chemical, Richfield Oil, Lever Bros., Montgomery Ward, Western Union Telegraph, Southern California Gas, Prudential Insurance, and other major rubber, automobile, and steel manufacturing companies. It covered types of workers including retail clerks, hotel and restaurant employees, musicians, stage employees, building tradesmen, laborers, electrical workers, machinists, and clothing workers.

On the basis of the documentation we have presented, which, without question, reflects the trend in State and local government and private industry toward noncontributory pension and annuity plans,

we certainly believe the civil service retirement system contribution formula should be changed at least to ultimately provide for a 75-percent contribution by Government. However, because of the political and practical difficulties involved in taking such a step at this time, we seriously and strongly recommend that the Congress enact an immediate increase in the Government's contribution to the civil service retirement system to 60 percent with the employee making a 40-percent contribution of basic salary.

Mr. Chairman, as we mentioned earlier in the statement, we are completely opposed to the Civil Service Commission and administration proposal that the Congress give up its right and responsibility to determine contribution rates to the civil service retirement system. It is our firm belief that any change in the respective contribution rates should be prescribed and initiated by Congress rather than unilaterally by the Civil Service Commission as has been suggested.

We and the American public, we are confident, would rather put our mutual faith in the wisdom of the Congress and its responsiveness to the needs and desires of Government employees and the public at large, rather than in an independent commission. While we have faith and confidence in the Commission, especially as it is presently constituted, it is our firm conviction that the proper approach in this matter is to retain the initiating authority for changes and contribution rates, as well as benefits, to the elected legislators in the Congress of the United States.

Mr. DANIELS. At that point I would like to ask you this question. Would you call on the Government agency to make the Congress aware of what the situation is by submitting a report on the finances of the fund?

Mr. NILAN. I think that would be appropriate.

Mr. DANIELS. Would you have any objection to the Civil Service Commission annually making a report to the President and to the Congress as to the status of the fund?

Mr. NILAN. I would have no objection. I feel it would be appropriate for such information to be carried to the Congress and to the executive branch, but we still think the Congress should take any step in initiating the legislation.

Mr. HALLBECK. I might say, Mr. Chairman, under present law the actuaries are required to submit a 5-year actuarial report, and it would seem to me it would be a very easy thing to bring this down to a current basis each year. There is some difficulty with actuaries, but it is not an impossibility and I think it would be very helpful to the Congress.

Mr. DANIELS. I understand the actuaries make an annual report.

Mr. HALLBECK. They make an annual report and a 5-year evaluation, and I think it would be as easy to make an annual evaluation.

Mr. NILAN. The United Federation of Postal Clerks would also like to strongly urge this committee to seriously consider enactment of legislation such as H.R. 463, which has been introduced by the distinguished chairman of this committee and our good friend, the Honorable Dominick V. Daniels, which we support and which would change the present high-5-year average salary in the calculation of annuities to high-3-year average. We suggest H.R. 463 be considered in conjunction with the pending legislation, H.R. 10912.

A retiree's annuity should certainly reflect his maximum work for the Government in his productive years. Because of salary increases which we expect will be projected to permit employees to achieve higher standards of living as well as keep pace with any degree of inflation which may be taking place, a shorter time period is necessary to reflect the employee's true worth in terms of salary. Salary step increases and adjustments in final years of employment would also properly be given more weight with a reduction of a high 5 to high 3. We strongly urge this committee to favorably consider this equitable change and amend the pending legislation with the provisions of H.R. 463.

We also urge this committee to approve another change in existing civil service retirement law which we believe is entirely reasonable at this time and is also proposed in H.R. 463. This is a change from the graduated series of multipliers applied to the prescribed salary average of $11\frac{1}{2}$ percent times 5 years of service, $13\frac{1}{4}$ percent times the next 5 years, and 2 percent times additional years to a straight 2 percent. It is extremely difficult for long-service career employees to understand why their earlier years of service should be credited at a lower—in effect, punitive—rate. Employees with 10 years of service or less may actually need the benefit of a larger multiplier to give them an adequate annuity, especially after having made substantial contributions to the system. For these reasons we urge you to support the change to a uniform 2 percent multiplier.

Mr. Chairman and members of the committee, we certainly appreciated the improvement concerned with the optional retirement age which was enacted into law by the Congress last year, actually 1966, and which for the first time permitted an employee to retire at age 55 with 30 years of service and without any reduction in his annuity. We would hope the committee and the Congress would agree that when a postal clerk or other Federal employee has completed 30 years of dedicated and loyal service to the citizens of this great country of ours, he or she should have the opportunity to optionally retire and enjoy the fruits of his labor. This has been a long-sought goal of the United Federation of Postal Clerks and all other postal and Federal employee unions. We urge this committee to give serious consideration to this recommendation in any final legislation reported out by the committee.

While in the latter part of this statement we have stressed improved retirement benefits for employees of the Government who have not yet retired, we would like to again refer the committee to our proposals, outlined earlier in the statement, which are intended to improve benefits for those already retired as well as for their survivors. Certainly our retired employees should not be the "forgotten men and women" of the Federal service. The Congress should, in addition to the recommendations we offered earlier in this statement, seriously consider a flat increase in all present annuities of at least 10 percent and a minimum across-the-board dollar increase for all annuities at least commensurate with similar benefits paid by the social security system and the railroad retirement system.

Mr. Chairman and members of the committee, we would like to also make another final recommendation; namely, that the Congress give serious consideration to requiring the Military Establishment to make contributions to the civil service retirement system as a means of improving the financial solvency of the fund. I was recently advised that,

because the Defense Department does not make any contribution to the fund commensurate with years of service and benefits available to employees with military service, approximately one-tenth of the existing deficit in the fund could be charged from this lack of contributions.

Mr. Chairman, on behalf of the United Federation of Postal Clerks, we want to conclude by reiterating our unalterable opposition to any coordination, merger, or combining of the civil service retirement system with the social security system. Our position is well known in this regard, and I will not belabor this point further.

Mr. Chairman and members of the committee, on behalf of the United Federation of Postal Clerks, may we express our sincere appreciation for your patience and indulgence regarding our presentation of this rather lengthy statement on the Federal civil service retirement system. We are very much concerned with the problems as well as potential improvements of benefits under the system and have made every effort to be responsible, honest, and factual in the presentation of this statement. If President Hallbeck or myself can provide the committee with any additional information, we shall be happy to do so and, of course, will respond to any questions which you may have concerning our testimony.

(Appendixes A and B, attached to the foregoing statement, follow:)

APPENDIX A, TABULATION OF NAMES OF 63 COMPANIES IN WHICH PENSION PLAN IS FINANCED BY EMPLOYER ALONE

PENSION PLANS; INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Lockheed Aircraft; Burbank, California.
 General Dynamics; San Diego, California.
 Armour & Co. (interstate).
 California Processors and Growers.
 Swift & Co. (interstate).
 United Knitwear; New York City.
 Amalgamated Cotton Garment (interstate).
 Amalgamated Insurance (interstate).
 Coat & Suit industry, New York City.
 Better dresses and popular priced dresses; New York City.
 Easter Women's Headwear Assn.; New York City.
 Infants' Wear; New York City.
 Weyerhaeuser; Tacoma, Washington.
 Firestone Tire (interstate).
 B. F. Goodrich (interstate).
 Goodyear Tire (interstate).
 U.S. Rubber (interstate).
 Glass containers (interstate).
 Aluminum Co.; Pittsburgh, Pa.
 Armco Steel; Middletown, Ohio.
 Wheeling Steel; West Va., Ohio.
 Youngstown Sheet & Tube; Ohio, Ill., Ind.
 Bethlehem Steel (interstate).
 Colorado Fuel & Iron (interstate).
 Great Lakes Steel; Michigan.
 Inland Steel (interstate).
 Jones & Laughlin Steel; Pittsburgh, Pa.
 Republic Steel; Cleveland, Ohio.
 National Steel; West Va., Ohio.
 American Can Co. (interstate).
 Continental Can Co. (interstate).
 Caterpillar Tractor; Illinois.
 John Deere & Co., Iowa, Illinois.
 International Harvester (interstate).
 General Motors (interstate).

Raytheon Co.; Waltham, Mass.
 Western Electric; New Jersey.
 American Motors (interstate).
 Bendix Corporation (interstate).
 Boeing Co.; Washington.
 Chrysler (interstate).
 Ford Motor Co. (interstate).
 North American Aviation; Cal., Ohio, Mo.
 New York City Transit; New York City.
 Central States (interstate).
 New York State Teamsters; Utica, N.Y.
 Western Conference of Teamsters, Seattle, Wash.
 New York Shipping; New York City.
 Pacific Maritime; West Coast (Longshoreman).
 Pacific Maritime; West Coast (Masters, Mates & Pilots).
 AT&T (interstate).
 New York Bell; New York City.
 Northwestern Bell (interstate).
 Ohio Bell; Cleveland.
 Southern Bell; Atlanta, Ga.
 Southwestern Bell; St. Louis, Mo.
 Western Union (interstate).
 Consolidated Edison; New York City.
 Realty Advisory Board; New York City.
 Amalgamated Laundry Workers (interstate).
 New York Construction; New York City.
 Plumbers; San Francisco, California.
 Plumbers; Chicago, Illinois.

APPENDIX B, TABULATION OF NAMES OF 14 COMPANIES IN WHICH PENSION PLAN
 IS FINANCED PARTLY BY EMPLOYER

PENSION PLANS; INDUSTRIAL UNION DEPARTMENT, AFL-CIO

	<i>Employer percentage contribution</i>
U.S. Steel (interstate)-----	85
Prudential Insurance (interstate)-----	79
National Cash Register; Dayton, Ohio-----	72
United Aircraft; E. Hartford, Conn-----	69
McDonnell (interstate)-----	63
Crown Zellerbach (interstate)-----	62
Motion Picture Industry; California-----	62
Hughes Aircraft; California-----	61
International Paper Co. (interstate)-----	60
Newport News; Virginia-----	60
General Electric; New York City-----	58
Hawaiian Pineapple; Honolulu, Hawaii-----	56
Douglas Aircraft; Santa Monica, Cal-----	52
Westinghouse (interstate)-----	32

Mr. DANIELS. Mr. Nilan, Mr. Hallbeck, the Chair desires to commend both of you gentlemen for a well-prepared statement.

It contains a great deal of meat and plenty of food for thought for this committee to consider in its deliberations.

Mr. NILAN. Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Nilan, on page 3 of your statement you refer to liberalization of benefits. The first suggestion you make is exemption of survivor annuities from State and Federal inheritance taxes. You realize this committee has no jurisdiction over that.

Mr. NILAN. I realize that.

Mr. DANIELS. That would be an item for consideration by the Ways and Means Committee which has jurisdiction.

Mr. HALLBECK. Unless you get a waiver, which I doubt.

Mr. DANIELS. I do not think the present chairman, Mr. Mills, would acquiesce.

Further, Mr. Hallbeck, I was wondering, in view of your exhaustive study on this subject matter, if you could submit to the committee a list of the corporations involved who pay the entire cost of the pension fund without any contributions from the employees; also, the number of persons employed by each corporation.

Mr. NILAN. I would be very happy to try to provide that information to the committee at the earliest possible date.

(The information requested is as follows:)

PRIVATE INDUSTRY PENSION AND ANNUITY PLANS, 1965¹—NUMBER OF PLANS AND WORKERS COVERED BY CONTRIBUTORY AND NONCONTRIBUTORY PLANS

	Number of plans	Percent	Number of workers	Percent
Contributory.....	4,028	24.5	3,578,000	21.8
Noncontributory.....	12,343	75.5	12,859,000	78.2
Total.....	16,371		16,437,000	

¹ Table developed using data reported in appendix to the "Report to the President of the United States by the Cabinet Committee on Federal Staff Retirement Systems," Apr. 6, 1967, in table 3, p. 387.

Names of 45 companies having noncontributory pension or annuity plans and the number of active employees covered by each¹

<i>Company</i>	<i>Employees</i>
General Motors.....	358,000
Western Conference of Teamsters; Seattle, Wash.....	248,111
Western Electric, New Jersey.....	145,650
Bethlehem Steel.....	114,500
Ford Motor Co.....	128,730
Chrysler.....	89,200
New York Bell, New York.....	72,910
Southern Bell, Atlanta, Ga.....	72,559
International Harvester.....	69,700
Boeing Corp., Washington.....	68,575
Republic Steel.....	55,376
Southwestern Bell; St. Louis, Mo.....	54,698
Swift & Co.....	51,771
General Dynamics; San Diego, Calif.....	43,218
Caterpillar Tractor, Illinois.....	32,452
American Motors.....	31,657
Lockheed Aircraft; Burbank, Calif.....	31,638
American Telephone & Telegraph.....	31,470
Coat & Suit Industry, New York City.....	31,257
Aluminum Co.; Pittsburgh, Pa.....	30,732
Jones & Laughlin Steel; Pittsburgh Pa.....	30,678
Firestone Tire.....	30,108
Inland Steel.....	27,765
U.S. Rubber.....	27,047
Bendix Corp.....	26,397
John Deere & Co.....	25,725
Western Union.....	25,416
Consolidated Edison.....	25,128
Continental Can Co.....	24,250
Goodyear Tire.....	23,758
New York Shipping.....	23,609
Northwestern Bell.....	22,906
Armour & Co.....	22,515
American Can Co.....	20,656
Youngstown Sheet & Tube.....	20,651
Ohio Bell.....	20,047
New York State Teamsters.....	19,164

Footnote at end of table, p. 46.

*Names of 45 companies having noncontributory pension or annuity plans and the number of active employees covered by each*¹—Continued

<i>Company</i>	<i>Employees</i>
Armco Steel Corp.....	14, 287
Knit Goods, New York City.....	12, 039
National Steel Corp.....	11, 844
Infants' Wear Retirement Benefits Fund.....	11, 333
Weyerhaeuser; Tacoma, Wash.....	10, 717
Wheeling Steel Corp., (West Virginia; Ohio).....	10, 415
Colorado Fuel & Iron.....	9, 505
Great Lakes Steel.....	8, 408
Total	2, 266, 572

¹ Employment figures as of July 1964.

Mr. DANIELS. The gentleman from New York, Mr. Hanley.

Mr. HANLEY. Thank you very much, Mr. Chairman.

I can only echo your evaluation of Mr. Nilan's statement. I look upon it as a most comprehensive one. Certainly it has provided this committee with much material to assist it in its deliberations.

I particularly was delighted with your analysis of the recently enacted Public Law 90-206, which in effect pretty much takes care of the problem of comparability which has been sought for so many years.

We recognize that the mission from this point on is in the fringe-benefit area.

I think that your statement probably included most of the points that we must take into consideration if we are going to bring about comparability of fringe benefits between the Government and the private sector. Obviously, you have put a great deal of effort and time into the compilation of the material that you have relevant to how the private sector takes care of its retirement funds.

Certainly it was an interesting statistic to me to note that 75 percent of private industry and business have noncontributory pension plans.

I think that this is a direction that we in the Congress have to move in. I concur with your position also relevant to the abdication of this responsibility to the Commission.

In essence, I can only say that I pretty much agree with all that you have said, and as your statement has indicated, I can only say I assess it to be responsible, honest, and factual.

Mr. NILAN. Thank you very much Mr. Congressman.

Mr. HANLEY. Thank you.

Mr. DANIELS. Mr. Nilan, getting back to your statement that in 75 percent of the pension plans in private industry the employer pays the entire costs of retirement benefits.

Relating that to the Federal Government, I would like to hear your views on the Federal Government paying the entire cost. Do you make any distinction between the two? I realize that in private industry the employer, when he absorbs the entire cost, also gets a benefit because that is a taxable deduction. By doing so, the Government receives less income tax. Where, as the Government is the employer, anything that is contributed toward the pension system is a cost to the Government. There is a distinction between the two?

Mr. NILAN. Certainly there is.

Mr. DANIELS. I would like to hear your views on it.

Mr. NILAN. I would like to suggest, Mr. Chairman, if the annuities of our people are increased, the Government would get a proportionate amount through income taxes. I am assuming a small portion of it.

Mr. DANIELS. You recommend that they be tax exempt?

Mr. NILAN. I am talking about the present time, Mr. Chairman.

Mr. DANIELS. Do I detect an inconsistency in your statement?

Mr. NILAN. We mention in here we are realistic not to expect in the very near future Government is ever going to get up to the 75 percent or complete payment of the fund. We have always believed, however, that Government itself has a responsibility to be a leader and not a follower.

Mr. DANIELS. What would you recommend as a fair and equitable contribution by the Federal Government?

Mr. NILAN. At the present time, 60-40.

Mr. DANIELS. Sixty percent of normal costs to be contributed by the agency.

Mr. HALLBECK. Can I say something?

Mr. DANIELS. You may speak any time you desire.

Mr. HALLBECK. It strikes me that you have done your homework. You put your finger on exactly the reason for some liberality, shall we say, on the part of the private employer. He gets a tax deduction as a result.

In the early days, when any retirement plan was a dream in the minds of some few employees and a very few Members of the Congress, there was a great deal of argument about whether retirement plans should be contributory or noncontributory. At that time, among all of the organizations, there must have been at least 100 organizations interested solely in retirement. That was prior to the 1920's. That would be the 1900 to 1920 era.

They finally formed what was then known as a Joint Conference on Retirement which was broadly representative of all of the employees, and they decided that the ideal situation would be for a contributory plan for this reason: The employees having a stake in the plan would necessarily have the right to come before a committee such as this to express their views with respect to the plan, how it could be improved, since they were paying part of the freight. I hope the day never comes when it is completely a noncontributory plan. When that happens, our ability to get improvements will greatly diminish. It is a two-edged weapon. There is some merit to contributory plans, believe me.

Mr. DANIELS. Do you share Mr. Nilan's view that a fair and equitable contribution by the Federal Government would be 60 percent?

Mr. HALLBECK. I think that is correct. I think that is a very reasonable attitude. As you know, whether negotiated with private industry, the organization could have a say because they negotiate the contracts. I do not want to lose, in the Federal Government, that right to have some say as to the disposition.

Mr. DANIELS. I am happy to have that observation you made with regard to the history of the retirement system. I think no one in Government has made any comment on that point. I think that is a valuable addition to our testimony here this morning.

Gentlemen, thank you very much. It is a pleasure to have you here. Mr. NILAN. Thank you, Mr. Chairman.

Mr. DANIELS. Our next witness is Mr. Nathan Wolkomir, president of the National Federation of Federal Employees, accompanied by Mr. Irving Geller, director of the legal staff.

I note that you have another gentleman with you. Will you kindly introduce him.

TESTIMONY OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES, ACCOMPANIED BY IRVING GELLER, DIRECTOR OF LEGAL STAFF; AND BENJAMIN HINDEN, ATTORNEY, LEGAL AND LEGISLATIVE STAFF

Mr. WOLKOMIR. Mr. Geller is to my right, the director of the legal and legislative staff.

This is one of our attorneys from our legal and legislative staff, Mr. Benjamin Hinden.

By way of introduction, the members of our organization would like to go on record thanking you for the pay bill recently passed in the last session of Congress, and other fringe bills. Our membership has written to us by the thousands expressing their thanks. Like our previous speakers, we have some trepidation with reference to two phases, both the pay bill and the retirement bill. The first one is, we are proud of the fact that the three-phased program on pay was adopted, which we originally proposed, if you will recall, at the pay hearings.

We, however, did have some trepidation about the fact that there was a certain amount of abrogation of powers to the executive branch of Government in the manner in which future pay increases would be determined. Similarly, we have the same fears with reference to the Commission's executive power and right to determine the contributory rates to the retirement system. Generally, this sums up the reason for our opposition in both these respects.

We feel Congress is abrogating some of its rights for appropriations in this matter.

Mr. DANIELS. Under the recent pay bill, even though it provides for the establishment of a Presidential commission to study salaries and compare them with private industry, with a report or recommendation to the President to increase or decrease salaries, the ultimate decision lies with Congress because any recommendations made by the President to the Congress may be accepted and approved by the Congress or rejected.

Mr. WOLKOMIR. We are most appreciative of this, Mr. Chairman. Isn't this sort of wearing the left shoe on the right foot? Who has the right of veto and appropriation? In our eyes, the right of appropriation reverts to the executive branch. You have the right of veto. It should be the other way around.

Mr. DANIELS. I don't entirely agree. The President makes a recommendation to Congress, and if Congress fails to act, that is one thing. On the other hand, Congress has the right and the responsibility to exercise its prerogative.

Mr. WOLKOMIR. We are appreciative of that. I believe that there are several nuances, and we have discussed some of this privately,

that are involved here. That is really more philosophical in terms of the intergovernmental responsibility of branches.

It is not a critical issue, but it could lead toward a trend. This is what we are really fearful of.

Mr. DANIELS. When we have alert labor representatives like you and other gentlemen who appear before this committee, I am quite sure that the Congress of the United States is not going to abdicate its responsibility.

Mr. WOLKOMIR. We are quite sure of that too. Thank you.

Mr. Chairman and members of the committee, my name is Nathan T. Wolkomir. I am president of the National Federation of Federal Employees, which is the oldest and largest of all independent general unions of Federal employees. Our organization has a long record of support of constructive legislation for Federal employees.

As the union which sponsored and secured enactment of the original Sterling-Lehlbach retirement law passed in 1920, and has worked unremittingly for improvement in the civil service retirement system since that time, we have a very special interest in the highly important and basic issue now under consideration by this subcommittee.

The subcommittee is addressing itself to proposals to strengthen the financial condition of the civil service retirement system—a system in which we have paternalistic feelings going back, as I stated, to 1920. The existing methods of financing this system are entirely inadequate. The present unfunded liability is estimated to be around \$50 billion and the unfunded liability grows by billions every year. The Government has not contributed its share in a systematic way. The employees have done so, but the Government has not matched the contributions of the employees. The Government is responsible for that part of the cost not met by the contributions of the employees. The Government has appropriated amounts to the civil service retirement fund from time to time, but not regularly.

Because the Government has not made systematic contributions to the civil service retirement fund, the fund has lost additional amounts that it would have had if regular payments had been made and invested at interest. It is estimated that this loss will run over \$1½ billion per year. Interest has been lost and continues to be lost every year due to the fact that regular payments are not being made to the fund by the Government.

The NFFE is very much concerned, as I am certain that the members of this subcommittee are concerned, about the huge and still mounting deficit in the civil service retirement fund. The Chairman of the Civil Service Commission has appeared before your subcommittee in support of H.R. 10912, a bill to improve the financing and funding of the Federal retirement system. The Civil Service Commission proposal and H.R. 10912 would finance the unfunded liability over a 30-year period.

The Chairman of the Civil Service Commission proposed that:

Government discharge its responsibility for the unfunded liability attributable to legislation already enacted by authorizing permanent, indefinite appropriations to "peg" the trust fund at a predetermined level high enough to assure an ample margin of safety and confidence.

We feel that the unfunded liability of the approximately \$50 billion, with the increases each year, should be totally met by the Government. It is recognized that Government payments under an amortization

schedule are necessary because of the size of the unfunded liability. We recommend that such amortization schedule pay off in full the unfunded liability in not more than 20 years. The total interest earned by the fund would obviously be larger under shorter rather than longer term amortization. The Chairman of the Civil Service Commission recommends that the pegging be accomplished through transfers of amounts from the general fund of the Treasury to the civil service retirement fund as the Government contributions are needed to maintain a designated level of adequacy. We feel that the same method together with other means may be used if the unfunded liability is paid off in full under an amortization schedule of 20 years. The Government should make systematic contributions equal to meet its full share of the full cost of the unfunded liability plus the accruing interest on the deficiency. A full funding of all unfunded liability can be accomplished within a period of 20 years without drastic impact upon the administrative budget. And this will preserve the financial integrity of the fund.

Mr. DANIELS. May I interrupt you at this point?

I want to make sure I understand clearly what you have just stated.

Do I understand you to say that the entire unfunded liability which presently exists, together with that which might accrue in the future, should be entirely funded by the Government?

Mr. WOLKOMIR. Yes, sir; this is on our statement.

Mr. DANIELS. Were you present when Chairman Macy of the Civil Service Commission appeared before this committee to testify?

Mr. WOLKOMIR. Yes, sir.

Mr. DANIELS. If you are not fully familiar with it, I would suggest that you get a copy of the report of the hearing and review his testimony. If there is anything further you would like to add to your statement this morning you may do it by filing a supplemental statement.

If I recall correctly, Mr. Macy recommended that the present unfunded liability not be eliminated, and that the funding should be as to that which will accrue in the future. That is where the "pegging" and "amortization" came in; that it should be pegged at such a sum of money to guarantee the integrity of the fund in the future.

Mr. WOLKOMIR. We agree with you, Mr. Chairman. We have read his testimony this year, and also the testimony to the Senate in the famous Humphrey letter, very carefully. We are aware of the fact that Mr. Macy did make exactly the recommendation that you stated.

However, in our eyes we feel that he indicated that he was attempting within the 30 years merely to make the fund an adequate and safe fund, not a solvent fund. This is the point that we are making.

Mr. DANIELS. He also stated that it was unnecessary to put all the money in there because it would be accumulating entirely too large a sum of money, too far in advance of our needs. That seemed to be the opinion of not only Mr. Macy, but the Bureau of the Budget, as well as the GAO which had a different plan of financing than that recommended by Mr. Macy.

Mr. WOLKOMIR. We completely studied their study, too.

Realizing that actually in our eyes—and I don't dare perhaps use the statement—we felt that there was footwork in terms of the solvency of the fund and making it adequate enough to meet current needs after 30 years. We say this is not sound business because any-

thing can happen, including increased costs of additional fringe benefits which are obviously due during the next 30 years.

If we don't make provisions to place the fund on a solid, financial, solvent basis rather than simply making it secure, this is the distinction between our recommendation and the one that the GAO and the Civil Service Commission made.

Mr. DANIELS. Therefore, you believe that the present unfunded liability, plus that which may accrue in the future, should be entirely funded?

Mr. WOLKOMIR. Entirely funded over a period of 20 years.

Mr. DANIELS. I wanted to be sure I understood your position.

Mr. WOLKOMIR. The reason may be subjective. We feel, from a fiscal point of view, the Commission and GAO are thinking in terms of future cost. They are thinking in terms of liabilities the Government has in every direction. We are thinking in terms of an obligation to a fund. My mortgage is due in 20 years. I want to be alive when my mortgage is paid and I want to be alive to see our retirement fund on a solvent basis.

I do not want my grandchildren paying for it.

Mr. HANLEY. Will the gentleman yield?

Mr. DANIELS. Yes.

Mr. HANLEY. On the basis of that statement, Mr. Wolkomir, would you estimate what the cost will be from the Treasury on an annual basis?

Mr. WOLKOMIR. If I may, in the next paragraph I think I do get to this.

If it is considered too great a drain upon the general fund of the Treasury to pay off the unfunded liability in full within a period of 20 years, there is the possibility of floating a bond issue, if permissible. Many Federal employees would buy such bonds to support the objective behind the bond issue. It could be made attractive to investors generally—both large and small investors.

We feel quite sure the costs are going to be a drain over 20 years, if over a period of 30 years—and I think this is simple logic—we are merely going to place, according to the Commission and GAO reporting, our fund on a sound, safe basis, but not completely paying off the liability. We appreciate that the drain will be severe.

Mr. HANLEY. If the gentleman will yield, if you proceeded with this theory, wouldn't we again be incurring expanded responsibility as a result of the interest obligation associated with the issuance of this type of bond?

Mr. WOLKOMIR. Is this any different, Congressman Hanley, from the same obligations that we presently have, regardless of how we fund them? This is another debt that the Government owes.

Mr. HANLEY. Basically we are not effecting a cure for the problem we are seeking?

Mr. WOLKOMIR. The cure only in terms of a sound retirement system, not a cure in terms of the great Government's indebtedness. That is far above us to solve.

Mr. HANLEY. Thank you.

Mr. WOLKOMIR. Any increases in the unfunded liability because of liberalizations in the retirement laws should likewise be met under such amortization schedule. Employee contribution rates should not

be raised to cover deficiencies on account of the fact that the Government has not contributed its full share to the fund. Employees have paid their share in the past for increased retirement benefits, the contribution rates have been raised from 2½ percent to 6½ percent over the years, and are willing to pay their fair share for added benefits.

As an aside to your previous question, Mr. Chairman, to the gentleman who addressed you formerly, we would like to say we feel perhaps there is something illogical in the statement that if private industry does have a tax deduction because of their contributions to any pension funds they may have, how do we take care of funding the Government for this tax deduction under the Government program?

We don't see a correlation in the fact, in actuality. Our members have, for the past 50 years, very definitely at every national convention stated we are willing to pay our due share to the retirement fund for any future fringe benefits. Generally I can say, what is the due share? The due share could be anything subject from 40 to 60 to the Government paying the entire share of the pension fund. I don't know the answer, as I am sure no gentleman today knows the true answer. What is a fair share of the contribution? Would it be the amount of the tax deduction that the private industry pays and say that this should be the share of the employee? Is he obligated for a loss of taxes to the Government, or isn't he?

I believe it is illogical to compare apples and oranges in this sort of thing. We don't have anything in the black in Government. We are in the service and everything we do is in the red. How could we draw such a comparison in the private sector?

Perhaps we can rationalize on this sometime in private.

The NFFE also offers for very serious consideration a proposal that the agency make additional contributions to the civil service retirement fund. In other words, such agency contributions could be used in order to augment the fund. We feel that the unfunded liability should be met as soon as practicable. It is realized that this cannot be done overnight. The recommendations which we are making today can pay off in full the unfunded liability in a period of not more than 20 years. It also may be well to consider raising the Government's contribution to the fund. This is in line with what is being done in the private sector where a number of corporations and companies contribute the greater part to the company pension plan. The contribution of the Government, if raised to 60 percent—with the employee contributing 40 percent—is not out of line with private industry. Various private sector plans are wholly paid for by the employer. Remember, too, that the Government does not require any contributions from those in the military service for military retirement.

It is realized that the full faith and credit of the United States backs the fund. However, in order to assure that there is no delay in payments of retirement benefits while awaiting appropriations and to avoid possible reduction of benefits when large annual appropriations would be suddenly required to meet benefit payments, prompt legislative action should be taken to improve the present inadequate financing on the part of the Government. It is believed that the objective can be best accomplished through legislation which the NFFE would wholeheartedly support. Timely payments by the Government

of the unfunded liability under an amortization schedule of 20 years would mean that by not later than 1988 the civil service retirement fund would be solvent. Enactment of legislation at the earliest possible date is imperative to reduce the total Government cost since the longer the delay in funding the unfunded liability the greater the ultimate cost will be to the Government.

Mr. DANIELS. At this point I would like to ask you this question: In view of the fiscal problems that the Government is faced with today; in view of our international commitments and the war in Southeast Asia, which is very costly; and in view of recent developments in another part of the East; why do you recommend a 20-year schedule of payments rather than a 30-year or 40-year schedule of payments?

Mr. WOLKOMIR. It is just as subjective in our minds. When I say subjective, I mean this literally in a 30-, 40-, or 60-year plan. We are saying that in the light of all of the obligations we have worldwide, in the light of all the great society concepts that must be met financially, does this in any way affect our rationale in terms of a program that should be made solvent? Are we going to continuously think in terms of the expediency of our needs today and consequently force upon us a problem of constantly putting off the solvency of certain considerations, such as the retirement system?

Mr. DANIELS. You would be putting it off if you had a 30-, or 40-year schedule. I am particularly interested in knowing why you are recommending a 20-year schedule. One newspaper, a very prominent newspaper, commented last week that it doubted very much whether this committee would take any affirmative action, or that the Congress would take any affirmative action on improving the funding of the retirement fund.

I don't know what caused this writer to draw the conclusions he did, or how he came about drawing those conclusions.

The costs naturally would be higher if we had a shorter number of years to meet this liability. If it was stretched out for a longer period of time, perhaps there wouldn't be too much of a financial drain.

Mr. GELLER. May I speak, Mr. Chairman?

Mr. DANIELS. Yes.

Mr. GELLER. We don't set ourselves fourth as financial wizards and knowledgeable in the intricacies of the Government and its budget system. That is why, also in answer to Congressman Hanley's point, we offered the question of a bond. We don't know if this is legal, if this is permissible, but again if a bond would avoid the drain of money being taken from the general fund, except in terms of interest payments, the employees are concerned about the integrity of the fund.

Attacks have been made on the social security system. We don't want that to spill over into the retirement system. I don't think that as responsible citizens, as responsible organizations, we are obliged to get so deeply entrenched in the financial era of the past. We are concerned rather with improving the benefits under the system. If we are constantly saddled with this problem of how do you finance the fund, then we feel we are running far behind municipal and State governments and private industry. I have, and I believe the committee is acquainted with, a Sunday issue of the New York Times, setting forth unusual gains for municipal workers in the city of New York.

Some 120,000 people are affected by a recently negotiated agreement and under the new plan they receive a pension equivalent to 55 percent of their last salary after 25 years of service.

The Federal Government must feel what is going on in the municipalities, in the States, and in the private sector. I think the proper comparison—and the Federal Government should set itself forth as a model employer and lead the municipalities and the States in terms of retirement programs—is to make the comparison with large metropolitan areas which have good systems. That is why we are a little puzzled about the comparison with private sector and the municipality in taking a tax advantage. This is why they make the larger contribution, perhaps why we should not restrict our comparisons to other divisions of government.

We should not, on the other hand, compare it solely with the private sector. I think a large metropolitan area, a large State government which has a good system, should be a guide. We do not want to get too deeply involved in this analysis of how to fund the system, properly, except as responsible citizens we are aware of the problems of the world.

That is why we offered the bond as a suggestion for preventing a drain on the general fund when we have other deep financial obligations in the world. We are aware of that.

MR. WOLKOMIR. By way of comparison of the interest rates in terms of 20 years versus 30 years, I think simple arithmetic gymnastics would prove the fact that I think there would be less of an indebtedness considering the interest charges that would be due to future generations because of the fund liability.

We realize time is of the essence and there are other witnesses. If I may continue—

MR. DANIELS. Surely.

MR. WOLKOMIR. Our recommendations provide that the unfunded liability should be totally met and we think that this is what the Government should do. We do not feel that the Government discharges its responsibility for the unfunded liability by authorizing appropriations "to assure only an ample margin of safety and confidence." If the Government's contribution is raised to a higher percentage under the foregoing recommendation of the NFFE, future increases in retirement benefits could be met, to a large extent.

This is one of our major considerations in the funding problem.

MR. CHAIRMAN, I have made our testimony succinct since I do not wish to burden the record with repetitious statistical data already ably presented by the Civil Service Commission and which in fact have been on the record for a long period of time in their major outlines as well as in specific detail.

The facts in this matter are not in dispute. This subcommittee, many other Members of Congress, as well as the Civil Service Commission and others in the executive branch, are fully agreed, as are we, as to what the facts are and what the implications are for the present and the long-term future.

The real need now is precisely what you, Mr. Chairman, have strongly stated it to be and which we in the NFFE have repeatedly urged; namely prompt and comprehensive action.

For various reasons of which we all are cognizant, this matter has been allowed to drift far too long. It has almost literally been swept

under the rug. There has been a continuing unwillingness to face up to inevitable fiscal realities. We believe, with the subcommittee, that the deficit now has reached a point where action by the Congress is an urgent imperative. A start must be made, now, in getting the retirement fund's house in order.

A house in order however calls for faith in order, which is the basis of all science, so we ask for a thorough, well ordered approach to this gigantic problem. Thomas Jefferson once stated that "eternal vigilance is the price of liberty." It should, however, not be nibbled away for expedients. If this program is adopted, it will put the retirement fund on a sound fiscal basis, which all authorities are agreed is long overdue. It provides a practical means of wiping out the huge deficit in the fund and without seriously impacting the Federal budget over a period of years.

We ask that the proposals set forth in attachment 1 relating to needed retirement legislation be made a matter of record and considered as part of NFFE's testimony. The NFFE, regards liberalization in Federal retirement benefits as absolutely essential if the Government wishes to get and keep qualified personnel now and in the years ahead.

May I add we should not forget the 37-percent turnover of Government employees last year, a very costly figure indeed, and percentage.

Attachment No. 1 outlines the need for long-delayed improvements in the civil service retirement system. It is obvious that the attainment of these vitally needed improvements to update the retirement system would be materially enhanced by making a start on strengthening the retirement fund. While they should not be delayed until such a program gets underway, none can doubt that the removal of the deficit now overhanging the fund would be extremely helpful in the big and still remaining task of improving the retirement system in line with progressive personnel practice.

(Attachment No. 1 is as follows:)

ATTACHMENT No. 1

1. Government employees be permitted the option of retirement at full annuity after 30 years of service regardless of age.
2. The enactment of legislation to obtain a straight 2 percent calculation factor in the annuity formula.
3. The computation of annuities for employees engaged in the investigation, apprehension, and detention of criminals and other hazardous duties be changed from a straight 2 percent calculation to a 2½ percent calculation.
4. The annuity formula be changed by using for the base of the average salary the highest 3 consecutive years of service rather than the present highest 5 consecutive years of service.
5. Enactment of legislation permitting a married employee retiring from service to provide for his widow or widower without a deduction from his annuity.
6. Enactment of legislation to permit the crediting of the accrued sick leave to the total length of service in the computation of the annuity.
7. The accumulative total contribution made by each employee to the civil service retirement fund be reported to each contributing employee on an annual basis.
8. Enactment of legislation to grant optional social security coverage with the retention of the civil service retirement system as a separate entity.
9. Upon the death of a female employee, the dependency clause on a survivor annuity to the widower be eliminated.
10. The enactment of legislation exempting annuities under the civil service retirement laws from Federal and State income and inheritance taxes.
11. When the survivor annuitant predeceases the retiree, the full annuity be restored to the retiree.

12. That procedure be developed between the Civil Service Commission and the Federal agencies whereby an application for retirement may be sufficiently ahead of the effective date so that payment of annuities will actually begin on the first day of the month following the specified date.

13. The percentage of the cost of living increase to retirees and survivors be changed from the present 3 percent to 5 percent.

14. Enactment of S. 1507 to include firefighters within the retirement laws of Federal employees in hazardous occupations. S. 1507 has passed the Senate.

15. In addition to the foregoing, the rights and benefits should be equalized for those who retired prior to July 18, 1966, with those who retired on and after July 18, 1966, both with respect to their own annuities and their survivor annuities. An equalization should also be made in the annuities of those who retired prior to October 11, 1962, and who elected a reduced annuity in order to provide a survivor annuity for a spouse. If legislation to cover the foregoing cases were enacted it would afford no greater rights and benefits than those have who retired on and after July 18, 1966. It is fair and equitable to accord similar rights and benefits to these earlier retirees. In this connection, the National Federal of Federal Employees wholeheartedly supports H.R. 3378 and S. 844.

16. Again, I say that we should not forget present retirees and survivors, many of whom not only live on less than subsistence incomes but resort to food-stamp programs to survive. As I indicated we are in favor of equal annuities for all Government retirees and survivors based on equal service regardless of date of retirement. The escalation of wages, cost of living and other factors are well known to this committee. A new look should be taken on liberalizing survivor annuitant restrictions, medicare, and minimum retirement benefits. This is our lost tribe of devoted civil servants who deserve social conditions commensurate with Great Society concepts.

Mr. WOLKOMIR. I express the appreciation of all of our members to this subcommittee and to you, Mr. Chairman, for the initiative it has taken in calling these hearings and in once again putting the spotlight on a very serious situation.

It is respectfully urged that the views set forth herein be carefully considered. I appreciate the opportunity to present them in behalf of the NFFE.

Mr. DANIELS. Mr. Wolkomir, the Chair desires to commend you for a very fine statement. You have gotten through to the nub of the problem. Your statement analyzes the problem very clearly and we appreciate the views that you have expressed here this morning.

Mr. WOLKOMIR. Thank you very much, sir.

Mr. DANIELS. In the interest of saving time, the Chair is going to forgo asking any further questions.

Mr. HANLEY, do you have any questions?

Mr. HANLEY. Mr. Chairman, I simply would like to commend Mr. Wolkomir for his very fine statement evidencing their tremendous interest in the problem which we are discussing here.

I think that you have pretty well hit the nail on the head when you said through the course of years these matters were swept under the rug. I think it is especially enlightening these hearings are underway and certainly this, in my estimation, is the way we are going to bring about a resolution of this problem.

I am sorry that I cannot agree with you with respect to calling upon the General Treasury at this particular point. I look upon this as somewhat unrealistic in view of the set of circumstances that surround this Nation today. I further believe that a bond issue could complicate rather than assist the problem. I think that you have an excellent suggestion with respect to the possibility of agency contributions. I think that avenues such as this, perhaps calling upon the Defense Department to recognize their responsibility in this matter; perhaps

devising a format that would require agency contributions to assist in the liquidation of our problem; I think that these are the things that are going to bring about the solution to the problem.

Of course, this is not going to be done today or tomorrow. I think, as has been said here this morning, the chairman certainly deserves accolades for getting the show on the road. I think the results will provide the resolution of the problem.

Mr. WOLKOMIR. Thank you very much, sir, and thank you, Mr. Chairman. We are most appreciative of the fact that the chairman of this committee has grabbed the bull by the horns at a time which is, indeed, very trying.

Thank you very much.

Mr. DANIELS. Mr. Geller, you made reference, in the course of your comments, to the recent action taken by the city of New York in giving more liberal retirement benefits to a certain group of employees.

I would like you, if you would, to file that article with the committee.

Mr. GELLER. I would be happy to.

I might want to observe that one issue of the Sunday Times which emanated from the State of New Jersey, your State, Congressman, is a little different from the one published in the District of Columbia.

I would like to get the more accurate reporting of that negotiation that took place. It is hard to believe. I can submit both copies for the committee's consideration.

Mr. DANIELS. We would like to have the accurate account rather than two conflicting statements. If you can lay your hands on the most accurate account, file it.

If there is no objection, it will be filed in the record at this point of the proceedings.

Mr. WOLKOMIR. We would appreciate it. We will get it in this week. (The information follows:)

[From the New York Times, Jan. 28, 1968]

120,000 CITY WORKERS GET AN IMPROVED PENSION PLAN

(By Paul Hofmann)

The city and bargainers for more than 120,000 nonuniform municipal employees agreed early yesterday on an improved pension formula that establishes some retirement benefits after 20 years of service.

However, most of the employees who choose to retire after at least 20 years would have to await their 55th birthday before drawing pension payments. An exception is heavy-duty workers—laborers, vehicle and machine operators and others—who would be entitled to some or full pension money at the age of 50 under the new agreement.

The 120,000 employees, including hospital and welfare workers, and professional, clerical and other personnel in most municipal agencies, are represented in the negotiations by District Council 37 of State, County and Municipal Workers. School teachers are not affected.

Yesterday's accord was reached at 2 A.M. after long negotiations.

As before, the system retains the "25-55 plan," meaning that workers who have been in service for at least 25 years may retire at the age of 55. Under the new plan, they receive a pension equivalent to 55 per cent of their last salary.

But a new element is what the experts who devised the improved formula call a "vesting feature." This gives employees the right to certain benefits after 20 years of service. However, these benefits can be collected only at a certain age—55 years for most employees, and 50 years for heavy-duty workers.

"Vesting feature means that you get out more than you paid into the pension fund," the city's Director of Labor Relations, Herbert L. Haber, explained in an interview yesterday.

Under the old system, employes and the city each paid 50 per cent in the fund. Under the new formula the city pays two-thirds, and the employe one-third.

Under the old system the employe who retired early was entitled only to a refund of his own contributions. Under the new formula, he receives some city money after the 20-year "vesting feature" period.

Mr. Haber heads the city delegation in the talks that led to yesterday's accord in the critical pension issue, and that will resume Wednesday on other citywide nonpay questions, such as summer hours and overtime.

The District Council's executive director, Victor Gotbaum, leads the team that is bargaining for the Municipal employes.

"Needless to say, we are very happy," Mr. Gotbaum said in commenting on the new pension pact yesterday afternoon. He added that 40 people had participated in the bargaining and that the agreement was unanimous.

Mr. Gotbaum said that he hoped that the remaining issues would be cleared up by the end of this week.

The chairman of the city's new Office of Collective Bargaining, Arvid Anderson, acted as mediator in the negotiations.

The talks that led to the pension accord were conducted alternately in city offices and at the headquarters of District Council 37, at 71 Worth Street.

District Council 37 does not bargain for transit or sanitation workers, policemen or firemen, all of whom now have 20-year retirement pensions.

The union is bargaining on working conditions and such fringe benefits as pensions and overtime pay. Wages are being negotiated with specialized unions involving, according to Mr. Haber, some 100 labor groups and 200 contracts.

Mr. Haber stressed that improvements gained by city workers in their pension rights would be considered in future talks on the renewal of wage contracts. He conceded that the new pension formula would cost the city more money, but declined to estimate how much.

The accord, since it affects Civil Service, is subject to approval by the State Legislature, as is the whole contract package now under negotiations. Mr. Haber said he expected quick passage in the Legislature.

Pressure on the city for improved pension right for the 120,000 employes increased greatly after the Jan. 1 settlement between the Transit Authority and the Transport Workers Union, providing for retirement at half pay at the age of 50 after 20 years of service.

With the pension issue out of the way, the question of summer hours remains a major difficulty. The city has sought to have the workers give up the 9 A.M.-to-4 P.M. day that they work in summer and have them work from 9 A.M. to 5 P.M. throughout the year.

Mr. DANIELS. Another member of the committee has arrived. I am sure he has a good excuse for not being here earlier this morning. I would like to call upon my colleague, the gentleman from Georgia, Mr. Thompson.

Do you have any questions?

Mr. THOMPSON. Thank you, Mr. Chairman.

I would like to apologize for being late.

Mr. DANIELS. You don't have to apologize. I am sure you have a good excuse.

Mr. THOMPSON. I appreciate, immensely, your comments. I would like to ask one question. Basically, are you advocating that we fund all of the unfunded obligation in the retirement fund?

It has been proposed to us that we peg this at a certain level. Do you feel that we will accomplish any specific goals by funding it as opposed to the pegging of it?

Mr. WOLKOMIR. We feel if funded, as proposed in 20 years, our chances for equalizing the Government retirement program with those both in the private sector and in other communities, such as municipal and State and county, will stand a better chance of coming into being. In other words, if we have a sound fund rather than merely a safe fund, our chances of meeting comparability, if I may, retirement, with others are much better.

Mr. DANIELS. I would like to know the difference between a sound fund and a safe fund.

Mr. WOLKOMIR. Well, may I draw a very simple illustration, Mr. Chairman.

Mr. DANIELS. If it is safe, isn't it sound?

Mr. WOLKOMIR. No, sir.

I could have a hundred dollars in the bank and have an AAA rating with Dun & Bradstreet because I may pay my bills in 30 or 60 days. If you have \$5,000 in the bank and buy up to \$5,000, I am in good, sound condition—not safe condition. This is a simple comparison.

Mr. THOMPSON. Let me ask you one further question.

Assuming that we were to use a schedule of payment whereby we fully fund this fund rather than a schedule for a 20-year period which would peg the fund at a certain level, we would then place in the fund, out of the General Treasury, enough money to make up for all of the unfunded liability. Do you feel that there should be some offsetting benefit to the employees by virtue of the fact they are losing interest on the difference between the pegged fund and the fully funded fund, should we use the "pegged fund" method?

Mr. WOLKOMIR. Not being an economist, I am just wondering if this so-called funding of interest is not in itself something that is ethereal. Do we really get it?

Mr. THOMPSON. That is the point I am trying to make.

Mr. WOLKOMIR. I think we can get it with proper investment. We are not getting it now because we have no investment per se.

Mr. THOMPSON. Your basic interest in having the fund fully funded is simply that you feel if it is fully funded there would be more money that would be generating interest, and the chances of getting adequate retirement for the employees would be a more realistic proposition than if you are down at the lower level, which is a safe fund but is not a fully funded one?

Mr. WOLKOMIR. This is actually the core of our testimony.

Mr. THOMPSON. Thank you very much.

Mr. WOLKOMIR. Thank you, sir.

Mr. DANIELS. Thank you, Mr. Wolkomir.

Mr. WOLKOMIR. Thank you, Mr. Chairman.

Mr. DANIELS. Our next witness is Mr. Clarence M. Tarr, president, National Association of Retired Civil Employees, who is accompanied by Mr. Luther L. Miller, vice president; Mr. James O. Bellenger, director of field operations; and Mr. John A. Overholt, general counsel.

TESTIMONY OF CLARENCE M. TARR, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES, ACCOMPANIED BY LUTHER L. MILLER, VICE PRESIDENT; JAMES O. BELLENGER, DIRECTOR OF FIELD OPERATIONS; AND JOHN A. OVERHOLT, GENERAL COUNSEL

Mr. TARR. Mr. Chairman and members of the subcommittee, my name is Clarence M. Tarr, and I am president of the National Association of Retired Civil Employees. I am accompanied by Luther L. Miller, vice president; James O. Bellenger, director of field operations; and John A. Overholt, our general counsel. Our association has

more than 130,000 members, principally retired civilian employees of the United States, but including some of their dependents and survivors and widows of employees who died in the service. We have over 1,000 chapters throughout the United States. We speak today for nearly 600,000 retired Federal employees and 250,000 survivors of former Federal employees who have died.

We are most seriously concerned with the safety and security of the civil service retirement fund from which our annuities are paid. Most of our members gave a lifetime of service to our Government, at a time when Government pay rates were unconscionably low, when working conditions were much more severe than they are now, and in the face of many other hardships, in the secure feeling that there would be a period of guaranteed security at the end of our careers. We gladly contributed our dollars to the retirement fund, dollars that were two and three times more valuable than the dollars we receive today. We placed our trust in the justice and honor of our great Government, the Government that we served so faithfully for so many years.

Now we are beset with doubts and questions. We are told that our civil service retirement fund, of which the cash balance keeps growing every year, is actually in debt more than \$50 billion, that this deficit is increasing every year, and that unless corrective action is taken there will be no fund balance in 1987. These revelations are most disturbing to many of our members who fear that a bankrupt Government may not be able to pay the annuities earned by their long devoted service.

Fortunately we have many assurances that the Government is not going to go bankrupt, even if the retirement fund is in difficulty, and that the security of our annuity benefits is guaranteed by the Government. We are grateful for these assurances.

Mr. DANIELS. Mr. Tarr, is there any thought in your mind that the U.S. Government will go bankrupt now or in the immediate future?

Mr. TARR. No, I am sure it will not.

We know the reason for the deficit—it is simply that the Government has failed to make payments it should have made during the past 48 years. Many years it made no payments at all. No effort was made to compensate the fund for the necessity of paying annuities based on service prior to 1920, or in the Armed Forces or during periods of leave without pay. For many years, the Government would not even pay reasonable interest for use of the money in the fund. But the most important factor is inflation. Payments into the fund were based on salary rates much lower than those on which retirement was based. For every dollar in anticipated annuities, the fund must now pay out up to \$2 or \$3. The unprecedented salary increases over the past 10 or 12 years, although fully justified, have caused the soaring rate of increase in the deficiency. And from all present indications, the rate of inflation is still rising.

We can contribute very little to aid in solving the problem. Our active days are over. We are the innocent victims of the inflationary tide that we are powerless to check. While the pressures that have brought this inflation upon us are mounting day by day, our dollars buy less and less. While employees received salary adjustments increasing their income from 65 to 75 percent in a 10-year period, our incomes were tied to the Consumer Price Index formula that resulted

in income adjustments of only 15 to 25 percent. To everyone else, the so-called deficiency in the retirement fund is a problem. To us, it is a threatening catastrophe.

For years, every time our association has appeared at hearings in appeals for adjustments of inequities in the retirement system, and for more liberalized benefits, we have been admonished about the status of the retirement fund. In spite of the justice of our pleas, they were opposed on the grounds that they would add to the fund deficiency. In a sense, the retired Federal employee has served as the "whipping boy" in the matter of the actuarial deficiency of the fund.

Mr. Chairman, we are very tired of this role as a whipping boy. We did not bring about the deficiency. We never failed in any of our obligations to the fund. We paid every contribution expected of us throughout our service. We are not responsible in the slightest degree for the inflation sweeping the country today. If it were possible for us to stop inflation, you can be assured that we would make a quick end to it, because it hurts us more than anyone else. But we are helpless here, too.

We join in the requests of others before you that some action be taken to remove the peril of the deficit in the retirement fund. As others have said, it is not too important which method is followed, but it is most important that a solution be reached.

Furthermore, we plead that the solution will not prejudice needed liberalizations of benefits for many of the present retirees and survivors. We are grateful to Mr. Griner, of the American Federation of Government Employees, and Mr. Keating, of the National Association of Letter Carriers, Mr. Hallbeck and Mr. Nilan, of the United Federation of Postal Clerks, Mr. Wolkomir and Mr. Geller of the National Federation of Federal Employees, and others, for calling your attention to the needs of our members.

There is a great deal of merit to the proposal for a minimum annuity increase of \$15 per month in all annuities of \$200 per month or less, with a flat increase of 7½ percent for those receiving larger annuities. This would not close the gap between recent increases to employees and retirees, but it would reduce it considerably.

As you know, our association believes in complete equity in our retirement system, to assure that all retirees, regardless of date of retirement, would receive equal annuities and other benefits in relation to the length and character of service. The letter carrier who retired from a particular route in 1940, his successor who retired in 1954, and the successor to both who retired last week, if each had the same period of service, should receive equal annuities, each should have the same survivor annuity privileges for the same cost, and each should share in the life insurance program. We realize this is a difficult goal, and may take time to achieve, but it is certainly fair and just.

In the meantime, there are many specific examples of inequities that should be corrected without further delay. First and foremost is the matter of minimum annuities. Under the social security benefit system which applies to most retirees from private industry and their dependents and survivors, the minimum benefits provided are much greater than the annuity benefits now being paid under the civil

service retirement system. Immediate action should be taken to adjust all annuities paid from the civil service retirement fund to at least the corresponding minimum benefit under social security. This is not a matter in which we should hesitate because of cost, it is simply a matter of delayed justice.

Mr. DANIELS. Mr. Tarr, what is the minimum benefit paid under the retirement program today?

Mr. OVERHOLT. There are some annuities as low as \$25, \$27, \$30, principally survivor annuities.

Mr. DANIELS. There is a group of survivor annuitants who were granted benefits without making any contribution to the fund whatsoever. They were the beneficiaries of the generosity of the Congress.

Mr. OVERHOLT. Some of those are the pre-1948 widows.

Mr. DANIELS. They receive the smaller annuities; is that correct?

Mr. OVERHOLT. Yes.

Mr. DANIELS. What is the smallest annuity anyone receives?

Mr. OVERHOLT. I think the smallest annuity is in the nature of about \$25 a month.

Mr. DANIELS. Under the recent amendments to the Social Security Act, the minimum benefit of \$44 was increased by 25 percent to \$55; is that correct?

Mr. OVERHOLT. Yes.

Mr. DANIELS. And your recommendation here is that the smallest annuity ought to be increased to match the minimum paid under the social security law today.

Mr. OVERHOLT. I do not believe the minimum survivor annuity would be \$55, I think the minimum survivor annuity would be about \$45 or \$46—82½ percent of \$55.

Mr. TARR. I might say in that connection, Mr. Chairman, we have approximately 125,000 survivors and retirees drawing less than \$50 a month.

Mr. DANIELS. If you could give this committee a breakdown of those figures, I think it would be helpful and useful to us in our deliberation.

Mr. TARR. We will do that.

Next we call your attention to the great disparity in the cost of survivor annuities. There is no possible justification for a man who retired 19 years ago to have to continue to pay up to 10 times more for a survivor annuity for his wife than the man who retired during the past 5 years.

Another inequity that shocks one's sense of fairness is the rule that a spouse survivor of a former employee who died or retired prior to July 18, 1966, is penalized on remarriage by loss of survivor annuity, regardless of age, while the spouse survivor of one who died or retired after that date may remarry without loss of survivor annuity upon reaching the age of 60 years. The privilege of remarriage at age 60 without loss of survivor annuity should be extended to all spouse survivors.

There are still a few widows of former employees who died or retired prior to April 1, 1948, who are denied survivor annuities solely because they were married less than 5 years. After 20 years of widowhood, this bar should be lifted.

Former employees retired on account of disability on or after October 1, 1956, are assured an annuity "floor" of 40 percent of average salary or the annuity that would have been earned by service to age

60, whichever is less, but this benefit has not been extended to those retired on account of disability before that date. There is no justifiable reason why those whose careers were cut short by injury or illness prior to October 1, 1956, should not share in this humanitarian minimum benefit.

Since July 12, 1960, persons who had served and contributed to the retirement fund after completing service sufficient to earn a maximum annuity, have been awarded additional benefits for such extra service. We see no reason why equivalent benefits should not be extended to those retiring before that date who served and made contributions to the fund for which they received no benefits.

Many former employees who retired prior to July 18, 1966, after reaching the age of 55 years and completing 30 years of service, are still penalized by annuity reduction while those who retired under the same circumstances on or after that date receive full annuities. We ask for correction of this discrimination against older retirees.

We also ask for consideration for the the thousands of former employees who retired before August 18, 1954, and do not share in the benefits of Government group life insurance, and ask that a form of death benefit be provided for them.

Many deferred annuitants who qualified for annuities prior to October 1, 1956, were denied the opportunity to elect a reduced annuity in order to provide survivor annuities for their spouses, while deferred annuitants qualifying for annuities after that date were given such opportunity. The same opportunity should now be given the earlier retirees.

We also commend the chairman for his sponsorship of H.R. 2065, which would eliminate the reduction in annuity of a retiree when he is predeceased by his spouse named to receive the survivor annuity. We favor approval of this bill with an amendment to permit such a retiree, upon remarriage, to designate his second wife to receive a survivor annuity, upon repayment to the fund of the cost of such annuity after the full annuity was restored.

We earnestly plead with this subcommittee that in restoring the security of the retirement fund, careful attention be given to the needs of those dependent upon the fund. The purpose of the fund is to help people—people who are no longer able to help themselves. It would be a tragic miscarriage of justice if the fund is made more secure only at the expense of those for whom it exists. We need to correct the whole situation, not only the fund portion of it. This means that in improving the mechanics of the system, we must also smooth out the inequities that have made it less than fully satisfactory.

Thank you, Mr. Chairman, for this opportunity to present this statement.

Mr. DANIELS. Mr. Tarr, it is always a pleasure to listen to you when you appear before our committee, and I, speaking for myself and not for the committee, want to commend you, and state that you are, indeed, a warrior for the retirees. You do an excellent job of representing their cause.

I want to assure you that this committee proposes to take action to guarantee the integrity of the retirement fund. Regardless of the stories going around, there is no fear in my mind that the U.S. Government now, or in the immediate future, is going to go bankrupt.

We do have debts like any legitimate business has, but they are not that shocking that we should worry about going into bankruptcy. I have full faith in the credit of the United States, and even if we do not fully fund this system, I think the retirees will be paid. Good business requires that we take action to preclude what could later be an insurmountable problem.

I want to ask you one question. In 1965 I took an active part in having enacted into law the automatic cost-of-living adjustment, modifying the old law whereby you had to wait for 16 months before you got an adjustment, to the present method. We reduced the measuring period from that of 1 year to that of 3 months. Since then there have been two cost-of-living adjustments, and last week the Consumer Price Index had climbed, since the last adjustment, to above 3 points.

Mr. TARR. 3.2.

Mr. DANIELS. In all probability, our retirees will receive another cost-of-living adjustment by May 1 of this year?

Mr. TARR. That is right.

Mr. DANIELS. How has this worked out with our retirees?

Mr. TARR. I think it works out very well, Mr. Chairman. The problem is that we were not brought up enough at the beginning when this plan went into effect, we are still behind in the cost of living, taking an overall picture.

In 1962, when the automatic cost-of-living plan was started, I think we were still behind, you see. Maybe Mr. Overholt could explain that a little more.

Mr. OVERHOLT. The cost of living is keeping us current with changes since we started in 1963, when the first adjustment was made in anticipation of the cost-of-living plan. But there are still discrepancies between the level of our annuities before 1960 and the level of annuities since 1960, and although the cost of living plan keeps bringing all of us up, it does not cure that disparity between the older and newer retirees, and that is what is bothering a lot of our people.

As a matter of fact, Mr. Chairman, at the time the 1965 law was passed, we recognized that annuitants who retired prior to 1956 were about 10-percent back of the annuitants who retired after 1956 and we bridged half of that difference with the 1965 law.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. I simply want to commend Mr. Tarr for his excellent presentation and in it he has certainly evidenced, in behalf of his membership, grave concern over the status of the system.

I believe you should take some solace in the knowledge of the current activities of this subcommittee that will, hopefully, bring about a resolution of this problem.

I have one question relating to the second paragraph on page 4 of your testimony. Do you happen to have a cost estimate on that proposal?

Mr. TARR. Under \$15 and 7½ percent?

Mr. HANLEY. Yes.

Mr. TARR. No; I do not believe we have. We would have to estimate it.

Mr. HANLEY. No cost figures available?

Mr. OVERHOLT. We would have to get that.

Mr. TARR. We can try to get it.

Mr. HANLEY. I think that would be helpful to the committee. All of us are aware of the problems of your membership in attempting to cope with the ever-increasing cost of living with respect to their fixed income.

Thank you, Mr. Tarr.

Mr. DANIELS. Mr. Thompson?

Mr. THOMPSON. Mr. Tarr, I also would like to thank you for your statement and the testimony you have given. Certainly you represent a segment of the people who are punished most severely by inflation. I am delighted that the whole committee is concerned about this. I think the entire committee, not just the subcommittee, is concerned about the problem of the retirees and those who are living on fixed incomes regardless of the stability of our Government, and our Government will continue to be the most vibrant government in the entire world. I can certainly appreciate the concern you people have when we have the deficit we appear to have because we, as elected leaders throughout the Nation, are responsive to the needs of the people and the needs of the people are many and varied.

If we had a fund that is fully funded, that is supported by itself, to which the Government had made the contributions it should have made, we would not be as susceptible some time in the future to let some of the employee needs and retirement needs go waiting because of the fact the money is not there. I do not say we can do this, but certainly, had the Government made its past contributions as it should have, some of these things that need to be done would not be as painful to be done at this time had we made small steps coming up to this point.

I appreciate your testimony and your appearing here.

Mr. TARR. Thank you, Congressman.

Mr. DANIELS. Thank you very much.

Our final witness today is Mr. Paul A. Hankins, president of the U.S. Treasury Agents' Association.

Mr. Hankins, because of the lateness of the hour, we may not have time to hear you out. So you may, if you wish, summarize your statement and then we will ask questions.

TESTIMONY OF PAUL A. HANKINS, JR., PRESIDENT, U.S. TREASURY AGENTS' ASSOCIATION

Mr. HANKINS. I will be glad to do that, Mr. Chairman.

Mr. DANIELS. Give us the highlights of the statement and, without objection, your formal statement will be printed in the record following your oral remarks.

Mr. HANKINS. Thank you.

Mr. Chairman and members of the committee, the essence of our statement deals with the inequity which arose in 1958 when the computation formula for the retirement of nonlaw enforcement people was increased to the $11\frac{1}{2}$ -, $13\frac{1}{4}$ -, 2-percent formula. Prior to that time all nonlaw enforcement personnel had their retirement computed at $11\frac{1}{2}$ percent, law enforcement personnel at 2 percent.

Following that 1958 act, in 1966 the differential between law enforcement and nonlaw enforcement retirement benefits were again compressed when the minimum retirement age for nonlaw enforcement personnel was reduced to 55 with 30 years' service, with no comparable change in law enforcement benefits.

It appears now that some form of additional increase is in the offing and we submit that we do not feel it would be fair or just to add another increase to our costs without providing some comparable benefits to those received by all other employees in 1958.

I would like to read my last paragraph.

In 1948, when the differential was first established between the percentage factor used in computing retirement of law-enforcement officers and that used with respect to other employees, the House Subcommittee on Post Office and Civil Service conducted extensive hearings on H.R. 5401 and H.R. 5523, both intended to establish the differential. Those hearings are a matter of record and far too exhaustive for me to attempt to even summarize today. The reasons brought forth in those hearings, which led to establishing the differential, are valid today as they were then.

In conclusion, I want to emphasize that we do not now seek any special or preferential treatment. We only ask that this existing inequity be remedied by increasing to 2.5 percent the factor to be used in computing the retirement benefits of law-enforcement officers and restoring that which we have lost through these erosive events I have mentioned; enabling the law-enforcement agencies of Government to continue to maintain a young, vigorous, competent, and highly motivated staff of law-enforcement officers.

(The prepared statement follows:)

PREPARED STATEMENT OF PAUL A. HANKINS, JR., PRESIDENT, U.S. TREASURY AGENTS' ASSOCIATION

Mr. Chairman, gentlemen, I am pleased to have the opportunity to appear before this committee to present the views of the U.S. Treasury Agents' Association with respect to H.R. 10912. To provide you some background for these opinions, I should perhaps inform you that ours is a fraternal association of men who are serving or who have served as law enforcement officers in the several agencies of the Treasury Department—Secret Service, Federal Bureau of Narcotics, Customs Agency Service, the Intelligence and Alcohol and Tobacco Tax Divisions of the Internal Revenue Service, and the latter agency's Inspection Service.

As civil service employees, we share with all other Federal employees, and yourselves, a concern over the present state of financing of the civil service retirement fund. We would like the record to show that our association wholeheartedly supports and endorses the intent of H.R. 10912, to put the financing of the retirement fund on a sound fiscal as well as actuarial basis. Thus far three different viewpoints as to how this can best be achieved have been presented. Not being professional economists or actuaries we are not qualified to evaluate or comment regarding the fine technical differences in these proposals, or even present a valid alternative.

We can, however, appreciate that all proposals are aimed at the three problems besetting the fund: (1) payment of normal cost; (2) maintaining a fund balance at least equal to current employee equity; and (3) halting the continual increase in the unfunded liabilities of the fund. We also perceive that the latter two of these are purely legislative problems in that they derive from legislation and should properly be resolved by legislation without directly involving the employees.

I therefor propose to address my remarks today exclusively to the suggested means of meeting the normal costs of operating the fund, since it is in this area that the employee participates and is most directly affected.

All of the proposed methods of handling these problems that have been advanced thus far include, as an integral element, an increase in employee, as well as agency contributions to the fund. We do not object to an increase in our contribution to the fund as such, the essentiality of it has already been well established.

However, we do want the record of these hearings to show that it is our sincere belief that an increase in our contributions at this time, will aggravate an existing inequity in the absence of concurrent provisions to correct the inequity.

The inequity I refer to arose as a direct result of the 1958 act which increased the contribution of all employees participating in the fund from 6 percent to 6½ percent. Prior to that time the percentage factor used for computing retirement benefits for law enforcement personnel was 2 percent and for all other employees 1½ percent. Also, the minimum age for eligibility to retire at a full annuity was 60 for nonlaw enforcement personnel and 50 for law enforcement officers.

Concurrent with the increase in contributions to 6½ percent the computation factor for computing retirement benefits for nonlaw enforcement employees was increased to 1½ percent for the first 5 years of service, 1¾ percent for the next 5 years of service, and 2 percent for all subsequent years of service. There was no change in the 2 percent rate provided for law enforcement officers.

Then in 1966 retirement benefits for nonlaw enforcement employees were again liberalized by reducing the minimum age for eligibility for full annuity retirement to 55 with 30 years' service. Again no comparable benefit was provided for law enforcement officers. This pattern of a gradual and continuing erosion of the retirement position of law enforcement officers vis-a-vis all other employees has had, and will continue to have, a demoralizing effect on all Federal law enforcement personnel.

You gentlemen are certainly as well or better informed than anyone as to the alarming rate at which the crime rate is rising. The administration has emphasized the Federal Government's responsibility in this area calls for close assistance and cooperation by Federal law enforcement agencies with State and local police attempting to cope with the problem. You are also aware of the importance of the role played by Federal law enforcement in setting the standards and leading the way, so to speak, in the difficult and intricate process of balancing the needs and aims of justice as against the need to preserve and protect the individual rights of the people. Federal law enforcement officers have consistently demonstrated that they possess the technical competence and high standard of personal characteristics needed to handle these tasks. It would be unjust to permit a demoralizing condition such as I have just described to you to continue with respect to these men.

This committee, and indeed Congress as a whole, has not been insensitive to our plight. In almost every session of Congress several bills have been introduced, aimed at correcting this condition. Last year alone, five separate bills were introduced in the House of Representatives and one in the Senate. For many and diverse reasons they have not been acted upon. We have remained confident that in due time the inequity would be corrected.

Now, however, it appears another increase in our contribution to the retirement fund is inevitable and, as I said before, essential. We feel that now we must bring the matter forward to prevent a further perpetuation of this inequity.

In 1948, when the differential was first established between the percentage factor used in computing retirement of law enforcement officers and that used with respect to other employees, the House Subcommittee on Post Office and Civil Service conducted extensive hearings on H.R. 5401 and H.R. 5523, both intended to establish the differential. Those hearings are a matter of record and far too exhaustive for me to attempt to even summarize today. The reasons brought forth in those hearings, which led to establishing the differential, are valid today as they were then.

In conclusion I want to emphasize that we do not now seek any special or preferential treatment. We only ask that this existing inequity be remedied by increasing to 2½ percent the factor to be used in computing the retirement benefits of law enforcement officers and restoring that which we have lost through these erosive events I have mentioned; enabling the law enforcement agencies of government to continue to maintain a young, vigorous, competent, and highly motivated staff of law enforcement officers.

I thank you gentlemen for your kind attention and for the opportunity to bring these views to your attention.

Mr. DANIELS. Mr. Hankins, you made some references in your summary, just now, to the fact that there were certain benefits to Federal employees, but there are no comparable benefits to law enforcement officers. I want to ask you if the statement I am about to make is correct.

Is it not true that in April 1948 all Federal employees had a computation factor of 1½ percent and made contributions of 6 percent; and in July of the same year the law was changed to

change the computation formula to 2 percent for law enforcement officers; but there was no change in your contribution, you paid 6 percent as you did previously?

Again in October 1956, the law was modified to provide the computation factor of $1\frac{1}{2}$ percent for the first 5 years, $1\frac{3}{4}$ percent the next 5 years, and thereafter 2 percent, with a contribution of $6\frac{1}{2}$ percent to the retirement fund?

Mr. HANKINS. Yes.

Mr. DANIELS. And law enforcement officers remained the same as they were before?

Mr. HANKINS. Yes; there was no comparable change for the law enforcement personnel at that time.

Mr. DANIELS. Where was there any inequity in 1948, when the computation formula was changed from $1\frac{1}{2}$ percent to 2 percent, without any change in the contribution?

Mr. HANKINS. Mr. Chairman, we do not contend any inequity occurred at that time. We feel that the Congress at that time felt that there was a need to provide a higher annuity computation base for law enforcement personnel in order to maintain a youthful law enforcement organization. The need for the differential was well established at that time.

What I refer to is that since Congress made the decision that a differential was needed several events have occurred which have eroded that differential and it seems to have been dissipated over the years, and we contend and believe that the basic need for the differential that existed in 1948 exists with equal force and effect today, and that the differential should be restored.

Mr. DANIELS. What is your recommendation to this committee?

Mr. HANKINS. Our recommendation to this committee is that the percentage factor used in computing the retirement pay of law enforcement personnel be increased to $2\frac{1}{2}$ percent.

Mr. DANIELS. I would like to develop one other factor for the enlightenment of the members of the subcommittee, and that is this: Will you tell the committee here just exactly what your rights and benefits are with respect to retirement entitlement of law enforcement personnel?

Mr. HANKINS. At the present time a law enforcement officer in the Federal Government is eligible to retire at a minimum age of 50 after 20 years of law enforcement service and the annuity is computed on the basis of 2 percent for each year of service, multiplied by the high 5-year average salary.

Mr. DANIELS. Are law enforcement agents taking advantage of that provision of 20 years of service age 50 or do many of them continue on after the age of 50?

Mr. HANKINS. The latest figures we have been able to get on that were in 1964. There were, under the law enforcement provision of the act, 369, in fiscal year 1963—I am going to give you the figures as I recall them and—

Mr. DANIELS. I would not want you to make any statement which may not be reasonably correct.

Mr. HANKINS. Very good.

Mr. DANIELS. If you desire an opportunity to obtain those figures for the committee, I think it very important we have them.

Let me go on to another question.

Mr. HANKINS. Yes, sir.

Mr. DANIELS. If you can respond to this question, fine. If you cannot, the committee will endeavor to get the answer to it.

How many law enforcement officers, who have 20 years or more of service and who have attained the age of 50, are presently employed by the Federal Government?

Mr. HANKINS. I do not know the answer to that question, Mr. Chairman.

Mr. DANIELS. To your knowledge, are there many?

Mr. HANKINS. To my personal knowledge, there are not too many who have met both criteria.

Mr. DANIELS. Do you know what the reason was for the differential in the computation formula and entitlement requirements?

Mr. HANKINS. Yes.

Mr. DANIELS. What was it?

Mr. HANKINS. I understand it was to enable early retirement.

Mr. DANIELS. Not only to induce, but to make early retirement economically feasible?

Mr. HANKINS. Yes, sir.

Mr. DANIELS. That is the purpose of my question.

Mr. HANKINS. Yes, sir.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. I want to indicate my appreciation for Mr. Hankins' appearance before the committee. I regret time did not allow him time to read his statement entirely. I just have one question.

You indicate that several things happened that resulted in an erosion of benefits.

Mr. HANKINS. Yes. In my statement it will appear as erosion vis-a-vis other employees. The need for the differential was established in 1948. Since that time the differential has been eroded away by various legislation which has granted benefits to all other categories of Federal employees, but no comparable improvement in our benefits.

Mr. DANIELS. That is, the benefits given to the other employees that were not proportionately given to you?

Mr. HANKINS. The increase in their annuity base. In 1948 their base was $1\frac{1}{2}$ percent, ours was 2 percent. In 1956 they went to $1\frac{1}{2}$ percent for the first 5 years, $1\frac{3}{4}$ percent the next 5 years, and 2 percent thereafter. We received no comparable increase in percentage base.

In 1966, prior to the 1966 act, the minimum age for retirement of all other employees was 60, ours was 50. At the present time theirs has been reduced to 55 with no comparable reduction in our minimum age. The difference of $1\frac{1}{2}$ percent, as I understand it from the testimony back in the 1948 hearings, was that assuming 10 years' shorter service, 20- versus the 30-year minimum service, law enforcement officers would be retiring with only approximately two-thirds the service of other civil service employees and, consequently, they needed a higher factor in order to achieve a comparable annuity.

Mr. DANIELS. You are not recommending, today, an earlier retirement date for law enforcement officers who have already attained 20 years of service?

Mr. HANKINS. No, sir; that is not my recommendation today.

Mr. DANIELS. Mr. Thompson?

Mr. THOMPSON. I would like to thank Mr. Hankins for his testimony, but I frankly cannot get too concerned about the fact that retirement may have been dropped to 55 for some of the other employees. If the purpose of early retirement was to maintain a young and vibrant force in the Treasury Department and formulated for this purpose, why should you be concerned if the other employees receive the same benefits as long as the primary purpose is being maintained?

Mr. HANKINS. In my opinion, and this is not a factual matter that I am capable of proving, but in my opinion the objective is not being maintained as effectively as it was during the calendar years of the 1950's. The cost of living is going up, people who were able to retire at age 50 or 52, previously on the 2-percent formula, no longer can, and they must continue to work until they are 56 or 58 to approximate the retirement that a man of 30 years of service would have.

Mr. THOMPSON. But you have no objection to the lowering from age 60 to 55 for the other people?

Mr. HANKINS. No, sir.

Mr. THOMPSON. Or with a 30-year base for Federal employees?

Mr. HANKINS. No, sir; we were in favor of that. We do not oppose that.

Mr. THOMPSON. Thank you very much.

Mr. DANIELS. Thank you, Mr. Hankins, for coming here today and giving us the benefit of your views.

The committee stands adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 12:07 p.m., the committee adjourned, to reconvene at 10 a.m., Wednesday, January 31, 1968.)

RETIREMENT FINANCING

WEDNESDAY, JANUARY 31, 1968

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON RETIREMENT, INSURANCE, AND HEALTH BENEFITS OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m. in room 210 Cannon House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. The subcommittee will come to order.

The Subcommittee on Retirement, Insurance, and Health Benefits is meeting again this morning to further consider H.R. 10912 and recommended approaches which propose improved methods of financing and funding the civil service retirement system.

Our first witness this morning is Mr. John A. McCart, operations director of the Government Employees' Council, AFL-CIO.

TESTIMONY OF JOHN A. McCART, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO

Mr. McCART. Good morning, Mr. Chairman.

Mr. DANIELS. It is a pleasure to have you here this morning, Mr. McCart. You may proceed.

Mr. McCART. With your approval I would like to have the statement included in the record and to proceed extemporaneously to summarize it.

Mr. DANIELS. Without objection, your statement will be printed in the record at this point.

(The statement follows:)

STATEMENT OF THE GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO, SUBMITTED BY
JOHN A. McCART, OPERATIONS DIRECTOR

Mr. Chairman and members of the subcommittee, the 34 AFL-CIO unions comprising the Government Employees' Council join in applauding the subcommittee for arranging this series of hearings on the fiscal stability of the civil service retirement fund, as well as the hearings in November, 1967. You are probably aware that our member unions represent a significant cross section of employees in wage board, classified, and postal occupations in Federal service throughout the world.

We are particularly grateful to you, Mr. Chairman, for the intense interest you have exhibited in the entire subject of civil service retirement.

For many years, concern has been expressed about the progressive decline in the retirement fund. During a large portion of this time, the Board of Actuaries believed the fund should be "actuarially sound." In other words, if all possible claims were presented simultaneously, payment would be guaranteed.

Fortunately, this view has changed. In its February 1966 report to the President, the Cabinet Committee on Federal Staff Retirement Systems recognized that it is unnecessary for Federal staff retirement systems to accumulate reserves to the same extent as in private pension plans.

Mr. Walter Shur, second vice president and group actuary of the New York Life Insurance Co., supported the position that the principal reason for properly funding the civil service program is not to accumulate funds to support earned pensions, but to level sharply rising future costs. (The Journal of the American Society of Chartered Life Underwriters, fall 1966.)

As unions representing employees who have a large stake in the success of the civil service retirement system, we have shared the concern of others about the financial status of the fund. In testimony to congressional committees, our unions expressed these views as early as 1961.

Nevertheless, the fact remains that present methods of financing the system will result in expenditures exceeding income by 1974, and will leave the fund without any balance by 1987. Since these figures were presented by the Civil Service Commission in January 1967, and Congress has rightly approved salary increases effective in 1967, 1968, and 1969, the moments of critical decision may well arrive before 1974 and 1987. In either case, Congress will then be confronted with the necessity of appropriating huge sums to insure that beneficiaries will have the annuities to which they are entitled.

Each time our organizations seek improvement in retirement benefits the question of the fund's financial status is raised. There has been insistence that improvements are not warranted because of the additional strain they will place on reserves which are already inadequate.

It is imperative, therefore, that steps be taken now to develop an orderly method of arriving at stability in the fund and maintaining it once achieved.

To place the problem in proper perspective, it is necessary to recite a few brief facts.

From the plan's inception in 1920 through 1928, no appropriations were requested or approved to cover the Government's contribution. During the next 20 years, the executive branch sought and obtained money to satisfy normal costs and to eliminate the liability by 1990. Between 1950 and 1957, a variety of appropriations actions were taken by Congress. Beginning in 1958, agencies were required to contribute from appropriations 6½ percent of payroll to equal deductions applicable to employees. In the early years, this income assured meeting the approximate "normal cost." That is no longer the case.

However, no provision was made for reducing the basic unfunded liability or even supplying the interest on that deficit.

Civil Service Commission Chairman John W. Macy, Jr., in his presentation to this subcommittee November 8, 1967, indicated that this latter loss is substantial—\$1.7 billion annually.

Thus, a substantial portion of the unfunded liability is attributable to the failure over a number of years of the Government to allocate an appropriate share of the cost. If appropriations had been made each year to match contributions made by employees, the unfunded liability would be \$3 billion less than it is today.

RATIO OF CONTRIBUTIONS

Earlier, we alluded to the work of the Cabinet Committee on Federal Staff Retirement Systems.

Its recommendations, for the most part, are included in H.R. 10912. One significant proposal is not. The Committee advised an increase in contributions by both employees and Government from 6½ to 7 percent to meet normal cost. An additional one-half percent increase in the agency rate was advocated to meet the cost of changes to "improve management" (page 266).

We do not know the changes the Committee advocated for allocation to improved management. But it is our view that the entire retirement system benefits management as well as employees. On this basis, the additional increase advanced by the Committee as a Government contribution is fully justified.

One of the features of H.R. 10912 which concerns us is the unilateral authority it vests in the Civil Service Commission to adjust the contributions of employees and Government to meet current normal cost. The council believes it would be a serious error for Congress to relinquish the prerogative it has exercised since the inception of the system in 1920 to determine the rate of contributions.

In his November 1967 statement to the subcommittee, the Comptroller General observed the possibility that Congress consider revising the present 50-50 ratio of employee and employer contributions to defray normal cost in the future. We desire to commend Mr. Staats for his recognition of developments in pension funding in the private sphere.

Current data on the ratio of employer-employee contributions to pension plans in the private sector are not readily available.

However, a study of 50 pension plans for salaried workers by the Bureau of Labor Statistics in the summer of 1965 (Bulletin No. 1477), reveals that in 34 the company defrayed the entire cost.

Another review by BLS of 100 retirement programs negotiated in private industry in late 1964 (Bulletin No. 1435), discloses firms bearing the entire cost in 90 instances.

Thus, there is substantial justification for revising the present equal contribution rate between Federal employees and the Government. This is not to say that Federal workers are unwilling to supply their fair share of the cost of maintaining a modern retirement system. It means simply that in this area and others the retirement program requires updating.

If Congress determines that the employees' share should be adjusted from $6\frac{1}{2}$ to 7 percent of the individual's base pay, the agencies' contribution should be changed from $6\frac{1}{2}$ to $7\frac{1}{2}$ percent.

IMPROVED BENEFITS

At the same time, it is highly desirable that the legislature consider substantial revision of the benefit features of the present retirement plan. Modernizing the financial structure of the fund alone represents a piecemeal approach to a total problem. Funding and benefits are so interrelated that it would be a mistake to act in one area without making changes in the other.

Attached to this statement is an excerpt from the Government Employee's Council program for 1968 dealing with retirement. The subcommittee may consider some of these objectives long-range, while others can be accomplished immediately. Several deserve particular comment.

Under existing law, an individual's annuity is computed on the basis of $1\frac{1}{2}$ percent for the first 5 years of service, $1\frac{3}{4}$ percent for the next 5-year period, and 2 percent for the remaining years. The council advocates that the entire annuity be calculated at 2 percent.

While the computation of pensions under the present formula for active employees reflects their 5 years of highest earnings, these amounts are wholly inadequate to maintain a decent standard of living during retirement. Cost-of-living increases at long intervals for retirees under the present statute, consign them to a substandard existence. Thus, it is necessary to improve the computation formula to insure those who retire in the future an income approaching the Nation's rising pattern of living.

Since the annuities of those in hazardous jobs have been calculated without change at 2 percent since 1948, there is ample justification to increase that factor to $2\frac{1}{2}$ percent in order to maintain the proper relationship to the annuities of those in normal occupations.

In this connection, the council endorses S. 1507, now in the hands of the subcommittee, which designates Federal firefighter positions as hazardous for retirement purposes.

To help attain the living standard noted above for active employees who retire in the future, the council recommends that the present "high 5" average salary be changed to the "high 3."

Thus far, we have discussed the impact of funding and benefits on active employees who contemplate retirement. However, the serious problem of those already retired cannot be ignored.

Significant numbers of retired workers have monthly benefits below \$200 a month. More than half of their eligible survivors receive less than \$100 a month. The present cost-of-living formula for annuity pension adjustments related to 3 percent rises in the Consumer Price Index means that many of these older individuals must live without necessities between the annuity increases. Even at the time the cost-of-living adjustment occurs, many others can afford only a subsistence standard of living.

This inequity can be corrected either by reducing the percentage increase in the Consumer Price Index necessary to modify annuities or providing an immediate dollar or percentage increase to bring the pensions into a reasonable relationship to today's costs.

These comments on improvements in specific benefits are not intended to de-emphasize the other items in the council's retirement program. Our recommendations are designed to emphasize some of the pressing problems with respect to benefits.

SUMMARY

We concur that immediate action is necessary to place the retirement fund on a financially stable basis.

To correct the imbalance created by the Government's failure to make its appropriate contribution to the fund over a number of years, the present ratio of equal employee-employer contributions should be changed to 7½ percent by the Government and 7 percent by employees.

Any increase in the employees' share of cost should be accompanied by improved benefits described in this statement and the attached list of council objectives in the field of retirement.

Congress should retain authority to determine the ratio of contributions to be made to the system by employees and Government.

Mr. Chairman and members of the Subcommittee, the council is deeply grateful for your willingness to receive our views on this highly important phase of Federal personnel policy.

GOVERNMENT EMPLOYEES' COUNCIL PROGRAM—1968

RETIREMENT

(a) Legislation permitting Federal and postal employees to retire at their option after 30 years of service, regardless of age, with full benefits.

(b) Legislation to exclude civil service retirement benefits from Federal income tax, and to equalize the retirement credit of civil service annuitants and recipients of private industry pensions for income tax purposes.

(c) Legislation to remove the current deficiency in the civil service retirement fund through additional contributions by the Federal Government as a means of correcting the failure of the Government to meet its financial obligation in the past. One method of remedying this imbalance would require the Federal Government to augment the fund by 2 percent of payroll for each additional 1 percent required of the employees.

(d) Oppose merger of social security and civil service retirement systems.

(e) Increase from 55 to 60 percent the surviving beneficiary's share of the employee's pension. Eliminate the reduction in an employee's annuity when he elects benefits for his survivor.

(f) Retirement deductions on all earnings, including overtime, night differential, special allowances and other premium pay.

(g) Increase the general formula for computing annuities to 2 percent. In the case of hazardous occupations, the formula should be adjusted to 2½ percent with extension of hazardous retirement to additional jobs.

(h) The salary base for determining annuities should be revised from the highest 5 to the highest 3-year average.

(i) For spouses who elect an annuity for their survivors, the annuitant's full pension should be restored upon the death of the survivor annuitant. A civil service pensioner who remarries should be able to designate the new spouse for a survivor annuity.

(j) The minimum annuity available to employees retiring for disability should be increased substantially.

Mr. DANIELS. You may proceed to summarize your views and to give any pertinent information with regard to this important legislation.

Mr. McCART. Thank you, Mr. Chairman. Needless to say, we in the Government Employees' Council are deeply grateful to you and your associates for your active interest in the fiscal stability of the retirement system.

As you are aware, this matter has been one of considerable concern over a number of years. Numerous committees of the House and Senate have addressed themselves to it, but unfortunately no final solution has been reached. We are quite hopeful that the work of this subcommittee will result in taking care of the problem.

You will recall that the Civil Service Commission, in January 1967, released some figures indicating that in 1974 and 1987 the civil service retirement fund will be at a critical stage. As was indicated yester-

day the salary increases effective in 1967, 1968, and 1969 will cause those moments of decision to arrive earlier. As you stated yesterday, Mr. Chairman, the present liability of the fund is at about \$53 billion. So it is imperative that some action be taken. Our unions representing employees who have a very vital stake in the retirement system, both from the standpoint of their contributions and their benefits, have another reason for concern over the fiscal soundness of the retirement system.

More often than not, when we approach Congress to recommend changes in the benefit structure of the retirement program, we are confronted with the argument that the fund cannot withstand any further expenditures because of its fiscal instability. This has resulted in impeding the progress of a retirement system that should be the finest in the Nation.

So we have an additional interest in seeing that this problem of the fiscal stability of the retirement system is solved.

It goes without saying that had the Federal Government made its appropriate contributions to the program over the number of years, the benefit structure of the Retirement Act would be much better than it is today. It is unnecessary for me to recite the various appropriations that have been taken since the inception of the program in 1920. That has been covered earlier and quite capably. But there is another interesting facet of the problem. You have heard, and the Civil Service Commission figures indicate as well, that the interest lost to the fund currently is about \$1.7 billion each year. If the Federal Government had matched the contributions of employees over the years the liability would be \$3 billion less than it is. I am not speaking now about what the Government should have done beyond that, but if they had simply equaled the share contributed by the employees.

Mr. DANIELS. Mr. McCart, there has been cumulative testimony on this point as to why the fund is in the condition that it is today. I do not want to cut you short. Your statement will be printed in the record. I would like to really get down to your views on how we can stabilize the fund and what would be the best method of doing so. You know that two views have been expressed here. One by the Chairman of the Civil Service Commission, coincided by the Bureau of the Budget, and then the GAO has expressed a different view as to how the system should be funded in the future. Yesterday you were present when one of the witnesses appeared, and he gave a third view. Now I would like to have your comments on those various views.

Mr. MCCART. I can state my reaction to the three proposals rather simply. I think that the General Accounting Office proposal is the more desirable of those presented.

Mr. DANIELS. That is funding over a 30-year period of time.

Mr. MCCART. I think it is a little less than 30 years.

Mr. DANIELS. I beg your pardon, it is 20 years. The Civil Service Commission and the Bureau of the Budget recommended a 30-year period.

Mr. MCCART. We have no real problem in the council with those parts of the bill designed to take care of the present and future unfunded liability. Our concern goes to the normal cost and benefits, Mr. Chairman. In that connection, over the years, the Government has maintained a policy of providing retirement credit for military service for all citizens who serve in the Armed Forces.

We, of course, have no quarrel with this particular philosophy. But what it has meant is that there have been no moneys deposited in the fund to take care of this particular benefit. We proposed in 1961, and we are happy to reiterate our suggestion, that the Defense Department be asked to contribute the appropriate amount of money each time a civilian employee with military service retires, so that the burden will be where it should, and at the same time the fund will have the advantage of the use of these moneys.

As I indicated to you, Mr. Chairman, I had no intention of reciting the history of what has happened to the fund.

Mr. HANLEY. If the gentleman would yield, did I interpret you quoting a figure of \$3 billion as the amount of money that the Government did not contribute to the fund because of the 9-year span?

Mr. McCART. No, I am sorry, I did not make the point clear, Congressman Hanley; had the Government matched the employees' contributions to the fund since 1920, the deficit would be \$3 billion less than it is today.

Mr. HANLEY. May I ask how you arrived at that figure?

Mr. McCART. I arrived at that figure, Mr. Hanley, in a conference with the Civil Service Commission in March of last year when I asked the question. I want to emphasize again that this is only the Government's matching the contribution, not the Government taking care of some additional liability that we think it should. If it had simply met the contribution of the employee, the deficit would be \$3 billion less.

Mr. HANLEY. At that time did the Commission concur with your analysis of the \$3 billion figure.

Mr. McCART. The Commission gave me the figure when I asked.

Mr. HANLEY. Thank you.

Mr. DANIELS. I think I might be able to clear that point for the record. It is my understanding that over the past 48 years the Government has contributed \$12 billion; whereas the employees, during the same period of time, contributed \$14 billion. The Government contributed \$2 billion less than the employees. I presume your figure takes into account, also, that if the \$2 billion had been invested it would have earned another \$1 billion in interest. Am I correctly summarizing your position?

Mr. McCART. I did not analyze the figure with the Commission, but I am sure your analysis is correct.

All I was interested in was the basic figure and that is what the Commission supplied.

Mr. DANIELS. That is what the testimony seems to indicate, having attended all the hearings and listening to all of the witnesses. As I understand the situation, that is what it would be, if I interpret your remarks correctly.

Mr. McCART. Yes.

Now, Mr. Chairman, I would like to move to the point of contributions. It is not necessary for me to belabor the practices in industry in comparison with the practice under the Federal civil service program. Data supplied by the Bureau of Labor Statistics not only on retirement plans for salaried workers in 1965, but also on negotiated retirement programs in union management contracts indicates clearly that in a preponderance of these plans the employee is required to con-

tribute nothing. This was confirmed in the report of the Cabinet Committee on Retirement in a table about retirement systems in the private sector as of early 1965. It indicates that there were 12,300 plans which were noncontributory and only 4,000 in which the employees were required to share the cost.

This means that the time has come, as Mr. Staats suggested in 1967, for the Congress to take a look at the ratio of contributions between employees and Government.

We believe that any increase in contributions by both parties should be on a ratio of 2 to 1, 2 percent by the Government and 1 percent by the employees. So over a period of years you would gradually change the present 50-50 sharing to 60-50, and later, 75-25.

We subscribe to increasing the computation factor for determining annuities to 2 percent. As a parallel action, the method of computing annuities for those in hazardous jobs should be increased to 2½ percent in order to maintain the relationship which has existed since 1948. You have a bill now under consideration, S. 1507, Mr. Chairman, which would extend hazardous retirement to firefighters. The council supports that legislation. We also advocate changing the present high 5-year period for computing annuities to the high 3 years.

I invite your attention that attached to our statement is a copy of the council retirement program for 1968, which has been approved by the 34 unions associated with our organization.

Finally, Mr. Chairman, I would be remiss if I did not refer to the problem of the retired workers. Thus far we have been talking about active employees. The financial plight of annuitants is serious. As you know, many receive as little as \$10 or \$15 a month. The present formula for increasing annuities is of some benefit, but it means two things. It means that between the changes in the Consumer Price Index which will guarantee them an increase, many are simply not able to afford necessities. Even when the increase comes about, as one will very shortly, it means that these folks are living at a subsistence level. So we suggest that the subcommittee give serious consideration to revising the present formula by reducing the amount of increase necessary in the Consumer Price Index to guarantee an increase in annuities, or providing a dollar or percentage increase immediately to these retired employees and their survivors.

Mr. Chairman, that concludes my presentation. I will be happy to answer any questions I can.

Mr. DANIELS. The Chair has no questions. The gentleman from Texas, Mr. Pool.

Mr. POOL. I am sorry I missed part of your testimony.

Do you have anything to offer in the way of analysis between union contracts with industry and what we are deciding here?

Mr. McCART. Do you mean the content of the plans?

Mr. POOL. Yes. In other words, I am thinking about comparability with industry.

Mr. McCART. Yes. There are various sources. There are the Bureau of Labor Statistics studies. As was mentioned here yesterday, the Industrial Union Department of the AFL-CIO has undertaken some studies.

There are some private sources, I am told, Commerce Clearinghouse and a bank that have done studies in this area.

I would simply point this out—I do not think you are going to find any trend among private industry plans.

The variety is very great. In many instances the private industry plans are relatively new in comparison with the civil service program. So I am dubious that there is a good point of comparison as to benefits.

Mr. POOL. If they do not have a trend it is not too helpful. That is why I am asking the question.

Mr. McCART. Mr. Chairman, I neglected this point. I certainly do not want to leave the table without expressing our opposition to the feature of the bill which would vest in the Civil Service Commission the authority to fix the contribution rate for employees to defray normal costs.

Mr. DANIELS. If Mr. Pool will yield at that point, what is your recommendation with respect to that?

Mr. McCART. We certainly believe that Congress should retain this right for two reasons. First, because Congress is the custodian of the act. Congress exercises responsibility for the other pension programs both in and out of Federal service. Members of Congress are covered by the Civil Service Retirement Act. We believe they alone should make decisions with respect to the ratio of contributions by employees and the Government.

Mr. POOL. Of course, I opposed the pay raise bill for a long time. I finally voted for it on final passage.

The only reason I voted for it is because I felt the employees of Government should get a raise. I opposed it on the grounds that I did not think a commission should pass on Congress' salaries. I made three or four speeches on the floor and I felt it was not a good idea to turn it over to a commission.

Of course, the Members of Congress disagreed with me on that, I had to vote for the bill.

Mr. DANIELS. Mr. Hanley, do you have any questions?

Mr. HANLEY. Thank you, Mr. Chairman.

I simply want to commend Mr. McCart on his very fine testimony. The only question I had in mind was answered by his last statement, and that was relevant to the investment of the authority to the Commission or to the Congress.

Thank you.

Mr. DANIELS. A very distinguished member of our full committee, although not a member of this subcommittee, Mr. Olsen, the gentleman from Montana, perhaps might want to present a question to you on this very important subject.

Mr. OLSEN. Thank you very much, Mr. Chairman. My primary purpose in coming over here was to learn something. I find I don't know enough about the retirement business and insurance anymore, and I thought if I came over here for a day, once in a while, I would refresh my memory. I always appreciate testimony from John McCart and I am certainly going to review it with interest.

Thank you, Mr. Chairman.

Mr. DANIELS. Mr. McCart, I have been looking at your statement, and I want to ask you a further question. I note that at the bottom of page 4 of your statement, you state that if the Congress determines the employee's share of contributions should be adjusted from 6½ to 7 percent, that the agency contribution should be changed from

6½ to 7½ percent. Then referring to your summary which starts at the bottom of page 6 and carries over to page 7, you further state that if the employee's contribution is increased to the amount I just mentioned, the employer's contribution should be increased likewise to 7½ percent, and any increase in employees' share of cost should be accompanied by improved benefits. Is that correct?

Mr. McCART. Yes, sir.

Mr. DANIELS. In other words, if there is an increase, you feel the employees should have some improved benefits and you outline what those benefits may be on the final page of your statement.

Mr. McCART. Mr. Chairman, this relates particularly to the suggestion we offered on the 2-to-1 ratio, that any increase in contributions should be on the basis of 2 percent by Government and 1 percent by employees, so that we move away from the present 50-50 sharing.

Secondly, it is asking too much of employees who have carried more than their share of the burden over the years to pay more into the retirement system without having some greater benefits.

Mr. DANIELS. Thank you. I appreciate your being here today. We thank you for expressing your views.

Mr. McCART. Thank you.

Mr. DANIELS. Our next witness is Mr. Carey W. Hilliard, president, National Rural Letter Carriers' Association, accompanied by Mr. Herbert F. Alfrey, vice president; Lester F. Miller, secretary; and John W. Emeigh, director of health insurance.

TESTIMONY OF CAREY W. HILLIARD, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION, ACCOMPANIED BY HERBERT F. ALFREY, VICE PRESIDENT; LESTER F. MILLER, SECRETARY; AND JOHN W. EMEIGH, DIRECTOR OF HEALTH INSURANCE

Mr. HILLIARD. Mr. Chairman, and members of the committee, my name is Carey W. Hilliard. I am president of the National Rural Letter Carriers' Association, an organization representing approximately 62,000 regular, retired, and substitute rural letter carriers. I am accompanied this morning by Vice President Herbert F. Alfrey, Secretary Lester F. Miller, and John W. Emeigh, director of health insurance.

Mr. Chairman, we appreciate your introduction of H.R. 10912 which sets forth a legislative recommendation for improving the funding of the civil service retirement system, and for the scheduling of these hearings to secure the views and comments of all interested parties.

The retirement system is unquestionably one of the most important fringe benefits of employment by the U.S. Government. It is the source of income which will provide financial security in older years for those persons who serve our Government in the civilian service. Because of its importance, it is natural that our members are deeply concerned with the deterioration in the financial condition of the fund. Certainly, it is a situation which, if it existed in any private pension plans and funds, would give rise to immediate action. The assurances given that the retirement fund is backed by the full resources of the U.S. Government fall short and is merely delaying constructive action to correct the problem, and a problem which will grow more acute each passing year unless a more adequate funding formula is placed in

effect. We are not concerned that the Government would fail to meet its obligation but we are concerned that action be taken to strengthen the financial stability of the retirement fund.

Mr. DANIELS. At that point, let me say that is the purpose of these hearings. There has been a great deal of concern expressed by various Members in the past year or so regarding the stability of this fund. The purpose of this hearing is to see that the fund is protected, and that the rights of the people who have given their services to the Government, and have made contributions to this fund, are going to be protected.

Mr. HILLIARD. We appreciate that fact, sir.

Recognizing the gravity of the problem, I am pleased to advise the committee that this association does recommend an increased employee contribution. The normal costs of the retirement system are now approximately 14 percent of payroll and thus under the present matching formula we believe there is ample justification to increase both the employee and Government contribution from $6\frac{1}{2}$ to 7 percent.

Mr. POOL. If I may, this is a little different than what the previous witness suggested; that is, increasing the employees from $6\frac{1}{2}$ to 7; but the Government up to $7\frac{1}{2}$ percent. Is that correct?

Mr. HILLIARD. This is correct at this point. If I may, sir, in our testimony which follows we will make a suggestion for an improved funding ratio between the employee and the Government.

Mr. POOL. Very well.

Mr. HILLIARD. We are all aware that this change alone will not resolve the present problem. It will not erase the existing unfunded liability currently estimated in excess of \$53 billion. The present sad financial plight of the fund is due in large measure to the fact that the Government for many years failed to meet its commitment in making contributions to the fund. Prior to fiscal 1964, employee contributions were greater than the sum being paid out in retirement benefits. The matching contributions formula was not effected until 1957 and thus prior to that, a fair share had not been contributed by the Government. In devising a new funding formula, it is important to bear this in mind. In view of the failure of the Government to meet its past obligation to the fund, we believe a new funding formula should assess a higher percentage contribution on Government departments and agencies. If the pattern followed by progressive industry in underwriting the costs of their retirement systems were adopted, it would be entirely proper to adopt a formula that would assess 25 percent of the cost to the employee and 75 percent of the cost to the Government. We recognize budgetary limitations, however, and realize that such a revision in the formula poses a difficult legislative decision. It would be well to take a first step, however, by setting a formula which would assess one-third of the cost to the employee and two-thirds to the Government.

Although we are vitally concerned about the unfunded liability of the system and urge corrective action, we cannot support the provision in the bill which would grant administrative authority to the Civil Service Commission to adjust the contribution formula "as necessary." We certainly believe that it is highly desirable and necessary that the Civil Service Commission recommend any necessary change in the contribution formula as required to meet normal costs, but we urge that the effecting of any change be made only after acted upon by the Congress.

We are not fiscal experts and the feasible or best method of reducing the unfunded liability is a matter which must be decided by this committee and the Congress. We are aware of the two proposals made by agencies of the Government, one by the Civil Service Commission and the other by GAO. The Commission proposal would slow the growth of the unfunded liability and build the assets of the fund over the next 48 years to about \$21 billion. Under the GAO proposal, a continuing growth of the unfunded liability would be eliminated and it is estimated that the assets of the fund would grow to about \$59 billion over the same period of approximately 48 years. Both proposals are designed to correct the problem and the difference between them is primarily involved with the budgetary impact in the immediate years ahead.

We as an employee organization are not in position to weigh the value of one course over the other. We are vitally concerned, however, that some financing arrangement is adopted which will result in improving the financial condition of the fund, slow or eliminate the growth of the unfunded liability, and build the assets of the fund. We trust that this committee, in its deliberation on this important matter, will be able to draft a satisfactory plan aimed at resolving or at best relieving the present adverse condition.

We have recommended an increased employee contribution. We have done so because all who truly recognize the problem realize that this is necessary to maintain the financial integrity of the fund. We urge, however, that in assessing a higher employee contribution, the committee will also approve certain liberalizations which are deemed highly desirable to improve the coverage and benefits afforded under the retirement system. Our national convention mandated our support for certain liberalizations as follows:

- (1) A revised funding formula which would increase the present employee contribution and which would assess a greater percentage cost of the total contribution on the Government.
- (2) A new retirement formula based on a high 3-year average salary and a 2-percent factor for each year of creditable service.
- (3) A general increase in annuities, particularly to upgrade the income status of the many persons who receive substandard retirement income.
- (4) Optional retirement after 30 years of service, regardless of age.
- (5) Changes in the survivorship benefits to restore the reduction made in the annuity of the retired employee when the spouse dies and to eliminate the present discrimination in providing survivorship benefits for a widower.

Mr. Chairman, members of the committee, we realize that this is an ambitious legislative program. We feel, however, that it embodies the major improvements that are most greatly desired and for which employees are willing to pay. If the employee contributions were raised to 7 percent and the formula revised to assess a greater percentage cost to the Government, we believe these liberalizations could be adopted without adding to the unfunded liability. We acknowledge that it would require actuarial study to determine the additional cost and the feasibility of adopting these suggested amendments; but we believe it worthy of serious deliberation and consideration.

This does embody the major areas of improvement for which employees, generally, are willing to endorse a higher contribution to the retirement fund. Speaking for the members of this association, we are willing to pay whatever additional higher costs are necessary, providing the contributions formula is also revised to assess a larger share of the total costs to the Government.

Mr. Chairman, I trust the committee will see fit to approve these desirable liberalizations in the Retirement Act in the same bill which will provide a new funding formula to assure the financial stability of the retirement fund.

We appreciate this opportunity to appear before you and comment on the important legislation under consideration.

Mr. DANIELS. Thank you, Mr. Hilliard, for a very fine statement.

Mr. Hilliard, you recommend an increase in employees' contributions and have no objection to the employees' 6.5 percent being increased to 7 percent; and, further, you state the Federal Government should contribute 7.5 percent. Then, again, later in your testimony you say it would be well to set up a formula that would assess one-third cost to the employee and two-thirds to the Government. There is an apparent discrepancy in your testimony. Do you mean to say that while you recommend an increase in the employees' contribution from 6.5 to 7 percent, the Federal Government should pay 14 percent?

Mr. HILLIARD. I am suggesting, sir, in the interests of true comparability which the Congress adopted in 1962, I think true comparability should apply equally as well to fringe benefits as it does to salaries.

Now, we faced up to that during this last session of Congress and we are on the road to true comparability in the pay area. I am suggesting to you that, based on the private sector of our economy and the pension plans that are in effect today—Mr. Emeigh, I think, has the actual 1965 statistics, the latest available—there were about 16,371 plans and of that number 12,343, or approximately 75 percent of those plans were noncontributory by the employee. So I am suggesting a revised formula in view of what we find prevailing in the private sector of our economy.

Now, I didn't suggest the 7.5-percent contribution by the Government. That was Mr. McCart. I suggested certainly it should be no less than a matching contribution. If we are willing to pay 7 percent, then the Government should certainly contribute nothing less than 7 percent. But I am also suggesting we, perhaps, should revise the formula on the 2 to 1 ratio. So, if we pay 7 percent, then I am suggesting the Government should pay two-thirds of the 21 percent, or 14 percent.

Mr. DANIELS. Thank you.

The gentleman from Texas.

Mr. POOL. Did I understand you to say that you have figures there that show that industry in many cases pays the whole cost of retirement?

Mr. EMEIGH. The figures President Hilliard gave the chairman came out of the report of the President's Committee on the Federal Staff Retirement Systems and on page 387, table 3, they have noted the number of plans which were surveyed. For this report, compiled in 1965, there were 16,371 private industry plans surveyed and they

discovered that 12,343 of these were one contributor, meaning the employer was paying the full cost of the retirement—75.5 percent were noncontributory.

Mr. POOL. That is a broad section of industry? How did they term the 16,000?

Mr. EMEIGH. It covers all the plans surveyed in this study. It covered agriculture, forestry, fisheries, mining, contract construction, manufacturing, transportation, communications, public utilities, the wholesale and retail trades.

Mr. POOL. If we are going toward comparability in pay raises, we are way behind then. What is it 14,000 out of 16,000?

Mr. EMEIGH. The total plans surveyed were 16,371 and 12,343 of those plans were noncontributory.

Mr. POOL. Do you have anything on the other 4,000?

Mr. EMEIGH. In averaging it out in another part of the report—this is not in the same report, in the 1965 report that was prepared on private and public pension plans in the United States, and I do not know the coverage in that particular study—it was discovered that the average employer contribution to the retirement plans was 60 percent. That was the average.

Mr. POOL. Thank you.

Mr. HANLEY. I want to commend Mr. Hilliard on his very fine statement. I have but one question and that is, What is the position of your association relevant to the investment of authority, Commission versus Congress, insofar as determination of the contribution ratio is concerned?

Mr. HILLIARD. We are opposed to turning this over to the Commission. We prefer it rest in the hands of the Congress to set future adjustments in the amount paid.

Mr. HANLEY. Thank you.

Mr. OLSEN. I would commend Mr. Hilliard and his associates who have also done a splendid job.

I agree with you, this decision should be made in the Congress. You do not have the right to strike and you would be stymied if you sought your benefits from an administrative department of the Government, while pleading for lesser or increased rates.

Mr. POOL. In other words, there is a distinction between Congressmen and the regular employees of the Government. The Congressmen can't strike. Is that what you are speaking of?

Mr. OLSEN. Due to their type of employment, the right to strike has not been popular. These people would have serious problems if they encountered the Civil Service Commission concerning their retirement fund. However, if they come to the Congress, they will find a more receptive audience.

I have not studied this retirement problem for a long while, and I would like to know, has there been a year when the fund did not grow?

Mr. HILLIARD. The unfunded liability?

Mr. OLSEN. No, the fund itself. Is there a single year since 1920 when it did not grow? I do not think so. I believe that every year since the fund started, it has grown. Although I am not an actuary, and perhaps it is fortunate that I am not, as I have not studied this area extensively, I do not think this fund will fall behind in 1984, or 1987. I think the number of employees, the amount of the salary, and the

size of the fund will grow. Simultaneously, I would hope that the benefits will grow.

The growth of the benefits has never stopped the growth of the fund. I contend that the unfunded liability is a growing myth with a growing guaranteed membership. However, I think higher pay for Federal employees is guaranteed, so I do not think we should face this fantasy with too much fear. I appreciate your attendance and offer for support. I am especially happy that you believe the employer's share should be larger. It is a necessity if we are going to have comparability, as my colleague from Texas has noted.

Once more, I would like to thank you for your great assistance to the rural letter carriers.

Thank you very much.

Mr. DANIELS. Our next witness is Mr. Sidney Goodman, president of the National Postal Union, accompanied by Mr. David Silvergleid, secretary-treasurer; Mr. Ben Sufian, executive vice president; and Mr. Edward L. Bowley, secretary-treasurer, health plan.

Gentlemen, we are happy to have you here to expound your views on this very important issue.

TESTIMONY OF SIDNEY GOODMAN, PRESIDENT, NATIONAL POSTAL UNION, ACCOMPANIED BY DAVID SILVERGLEID, SECRETARY-TREASURER; BEN SUFIAN, EXECUTIVE VICE PRESIDENT; AND EDWARD L. BOWLEY, SECRETARY-TREASURER, HEALTH PLAN

Mr. GOODMAN. Mr. Chairman, and members of the committee, I am Sidney A. Goodman, president of the National Postal Union, located at 425 13th Street, NW., Washington, D.C. We represent over 65,000 postal employees, organized in over 500 local affiliates in 50 States, including Puerto Rico and the District of Columbia. I am accompanied by our secretary-treasurer, David Silvergleid, our executive vice president, Ben Sufian, and Edward L. Bowley, secretary-treasurer of our health benefit plan.

We express our sincere appreciation to the members of this committee who have enabled us to get passage of a good pay bill.

Mr. DANIELS. All the members of the subcommittee here fully endorsed and supported the pay raise.

Mr. GOODMAN. I would remind this committee that there has actually been no basic improvement to the Retirement Act since 1956, other than relatively minor advances which included small increases for retirees, elimination of deductions for retirements occurring between 55 and 60, and reduction of the cost of widow's and dependent's annuities. National Postal Union respectfully submits and urges the following liberalizations based on a longstanding mandate:

(1) Optional full retirement after 25 years of service, regardless of age, based upon $2\frac{1}{2}$ percent of the highest one-year of service multiplied by the number of years of service, not to exceed 100 percent of salary.

(2) Elimination of all deductions for widows' and dependents' annuities.

(3) Extension of all benefits to former employees now on the retirement rolls and that all salary increases be immediately reflected in retirement benefits to all annuitants.

- (4) Tax exemption for all annuities.
- (5) In a joint-and-survivor election to provide an annuity for spouse, the employee should have the right to revoke that election, increasing his annuity to the full amount. When a wife or husband for whom a deduction was made to assure survivor's benefits predeceases, the full annuity should be automatically restored. While this is not in the brief, may I add two additional points—increase survivor benefits from 55 to 60 percent and increase the minimum retirement benefits.

We are fully aware that postal and Federal employees have recently obtained passage of what many consider the best pay bill ever passed, plus liberalization of Government life insurance. We are also aware of the budget difficulties faced by this administration which might tend to discourage approval of legislation which requires allocation of additional substantial funds. Nevertheless, we must point out that the Post Office Department continues to face major difficulties in attracting and retaining desirable personnel in many areas.

Retirement benefits which were formerly an important factor in mitigating this problem now loom as much less meaningful in view of increasingly comparable and better retirement systems in the private sector in many instances, with no cost to employees. We also point out that benefits provided in the private sector, plus improved social security benefits have in many instances placed the Retirement Act in an inferior position and that this benefit gap tends to increase.

We make a special plea on behalf of retirees. The fact is that the nominal values of annuities have consistently dwindled in practice due to the steady increase in the cost of living, increases which have never been properly offset in the last 10 years in particular. We believe that the Government should assure equal annuities for all retirees and survivors based on equal service, regardless of the date of retirement of the employee, and I might add this is the position of the National Association of Retired Civil Service Employees. While recent legislation would at least accomplish nominal comparability for active employees by July 1969, no such comparability is assured for retirees. We sincerely submit that the Government has an absolute and clear obligation to keep faith with those who have given a lifetime of dedicated service.

We fully appreciate the longstanding problem of placing the retirement fund on a sound basis. However, we feel strongly that this should not be done at the expense of imposing an unfair burden on employees who in the final analysis had no responsibility for the failure to allocate sufficient Government contributions going back to 1920 or for the use of such funds. We believe that the Government can and should take all necessary steps to place the retirement fund on a sounder basis from a bookkeeping point of view, but believe this is primarily an obligation of the Government in whose credit there can be no question of faith.

Mr. Chairman and members of the committee, we urge the most serious consideration of the improvements outlined above and appropriate favorable action.

Thank you very much for the opportunity of presenting our views on this most vital subject.

Mr. DANIELS. Mr. Goodman, I appreciate your position on retirement benefits. However, you have not expressed any preferential views

about the method of funding of the retirement fund. Now, there have been three different views presented to the subcommittee. You have attended these hearings, and you are familiar with the position taken by Chairman Macy of the Civil Service Commission and the Comptroller General, who proposed differing approaches to the problem. Also there was a third approach proposed yesterday by one of the witnesses, that we not only fund the future obligations of retirees, but also go to the extent of eliminating the existing unfunded liability, which is estimated to be approximately \$53 billion today.

I would like to hear your comments about these three different views and your position, if any.

Mr. GOODMAN. Mr. Chairman, I appreciate the opportunity of responding with an explanation rather than commenting in cold print. Our position is that there be no increase at all to employees.

I realize, given the position of the fund from an orthodox point of view of bookkeeping that this sounds rather harsh, but may I explain as follows: Presently a postal employee, who is a level 5, a clerk or carrier, can look forward to a maximum annual salary of \$7,708 and this only after 22 years of service, and I don't go into deductions. We have a very simple approach. A very distinguished member of this committee stood on the floor of the House and, responding to a question as to why he supported an amendment which would give legislators an increase in pay said, "Because we deserve it," and I heartily agree.

Our honest response, Mr. Chairman, is that we need and deserve this kind of consideration. It is not that we are indifferent to the problem, but we have a responsibility to our people and I think it is unfair at this point for the Government—and I am sure it had good reason—which did not make proper contributions, going back to 1920, to now ask employees to become a partner to this deficit.

I heartily endorse the views expressed by Congressman Olsen. We do not think, as a practical matter, the deficit is a real problem and we well understand the seriousness of the nominal approach taken by the Civil Service Commission and normal methods of bookkeeping, Mr. Chairman.

Mr. DANIELS. Therefore, you are opposed to any additional employee contribution?

Mr. GOODMAN. That is correct.

Mr. DANIELS. You feel that the 6.5-percent contribution made by employees today should be adequate?

Mr. GOODMAN. That is correct. I have full faith that the Government of the United States, which has been able to finance a number of other major programs, compared to which this is a minor one, can find the means. I don't say this facetiously. It is not a question of avoiding responsibility. In the final analysis, responsibility and authority go together. Since we have never had any authority for allocating or administering the funds, I think the question, in a sense, is an unfair one though well intended. If we were given the authority, we would accept responsibility, but we have no such authority, Mr. Chairman.

Would you permit my colleague, Mr. Silvergleid, to comment on this?

Mr. SILVERGLEID. I remember very vividly—and I am pretty sure members of the committee are aware of it—when the President's Com-

mission reported on refinancing retirement, and several other recommendations, and Chairman Macy appeared before this committee during the 89th Congress. I remember his statement—as I say, at that time, very vividly—that under no circumstances, based upon conditions at that time, would there be any need to increase employees' contributions beyond 6.5 percent.

I think the chairman will remember that he presented a program of refinancing over a period of years where the Government would make its full contribution; pick up not only the slack, but add additionally as it went along.

Then, of course, we had Public Law 89-301, with liberalization which provided for full retirement, optional retirement, at age 55. Well, I'd like to give the committee an analogy. The National Postal Union has a retirement program based upon the U.S. Civil Service Retirement Act. It includes our officers and our employees. It is a supplement to the actual Civil Service Retirement Act. We were contributing 6.5 percent, the same way as the Government—6.5 by the employee, 6.5 by the union. When the 55-year retirement provision was enacted, our actuary advised us we would have to consider that additional benefit. So our immediate reaction was to increase the contribution by the union to 7.5 percent. We believe very strongly, as Mr. Goodman pointed out, this is basically an obligation of the Government. Congressman Pool asked a question which was answered, I thought, very capably by Jack Emeigh of the rural carriers, about the number of private plans wherein the employees make no contribution. I am sure you will be gratified to know that in addition to the fact that 75 percent of these industrial private plans now pick up—the employers pick up the total tab, that actually out of approximately 16 million employees involved, 12.9 million pay absolutely nothing at all.

Now, if you will take that figure of 12.9 million employees and contrast it to the Government's 2.5 million employees, we have a wide range within which employees in private industry are getting a much greater fringe benefit than employees of the Federal Government.

I think this is something the committee has got to take into consideration. We'd like to see a sound retirement plan, funded actuarially—actuarially solvent, as they used to refer to it—so everyone will be assured of getting what he is promised by the Congress and by the Government.

At the same time, we recognize—and I think the committee should—that the Government has a primary responsibility in this area; not only because of its neglect since 1920, but because of the commitments and promises made.

After all, Mr. Chairman, when new groups were added gratuitously into the retirement fund, when certain liberalizations were made, they were done as a voluntary act by the Congress of the United States and now they are turning to the employees and saying to them, "You are going to have to pick up the tab for whatever we did in these last 48 years," and I don't think it is entirely fair.

Thank you, Mr. Chairman.

Mr. Pool. I believe both of you have made excellent statements. I think what we need to do is to set our goal as to what we have to do and I think the information we need is from the private industry sector on what their benefits are—set that up as a goal—and then let's get with it.

I come from probably the most conservative congressional district in this Congress, but the people in my district cannot argue against comparable salaries for Government employees with industry. Certainly if industry has taken care of their employees, there is no reason why the Federal Government should not do it.

Mr. GOODMAN. Mr. Chairman, if I may comment briefly, we don't even have to have all the figures on private industry, though I think some are available. In last weekend's Sunday Daily News there is an article by a very distinguished industrial engineer who points out, "Industry is spending millions for the welfare of employees" and it is not a matter of altruism. They found out in the long run it is good business to take care of employees, both on and off the job.

I would point out in the city of New York—and this is not necessarily an exception—it is not merely the police and firemen who have a far more liberalized retirement, but that the sanitation workers and now the transit workers have been given the option of a 20-year retirement at half pay, Mr. Chairman. I think if we are going to look at the total picture, we ought to lift our eyes to the entire scene rather than assume that employees must share the fiscal liability.

Mr. POOL. May I add this to what they are talking about? If you turn this matter over to the Commission to pass on, they actually don't have the feeling for the employees that a Congressman would have because he is representing these very same people back home. The people he is talking about are servicing his constituents. Certainly they want them paid on a basis that is reasonable and dignified and the type of employee that the Government ought to have. We should have as good employees as any private organization.

I think that is another reason for not turning it over to the Commission. This is our responsibility and problem and we can certainly look into it and find out what the answer is.

Mr. GOODMAN. We would strongly oppose turning it over to anyone outside the Congress. As the distinguished Member points out, the Congressmen represent constituents and they understand there is something else besides figures and statistics. They understand there are human beings involved, and this is a very serious consideration, in our view.

Mr. HANLEY. I want to commend Mr. Goodman for his excellent statement. I want to specifically express appreciation for his fine comment, his accurate comment on the recently enacted Federal pay legislation which has brought comparability within sight.

As you have expressed in your statement this morning, the route we should take from this point is in the area of fringe benefits. The statistic that was pointed out today, the statistic pointed out by the testimony of Mr. Jaspán, who is in the room, with respect to the 75 percent of private industry and business who pick up the total amount of this contribution, these are things we have to take into consideration. We have to move in the direction of providing for the Federal family if the Congress sincerely wants to provide them with 100-percent comparability.

I concurred also in the opinion that the unfunded liability is the responsibility of the Federal Government. Someone commented here a day or two ago that, through the years, matters were swept under the rug. This is not the problem of the employee; this is the problem of the Government for having done this.

I can only think of a current problem we are trying to resolve, which involves the National Guard civilian technicians who have sought to be brought into the provisions of the civil service program. In my estimation their case is one of great merit. We are talking about approximately 40,000 people who actually are serving the purpose of the Federal Government. The Federal Government pays their salaries, but through allocations to the individual States, with neither the Federal Government assuming any responsibility for their welfare, nor the States. Thank God the House has passed on this particular legislation and it is now over in the other body. I think one of the major problems they have is the problem facing the Commission—this particular problem facing the Commission, and it is reluctant to bring this number of people in because of the problem associated with the retirement fund.

This is one example of the many things that have happened in the course of 30 or 40 years that truly account for the liability that we have and I can't in any degree see where this is the fault of any employee of the Federal Government.

Thank you very much, Mr. Goodman.

Mr. GOODMAN. Thank you very much, Mr. Hanley.

Mr. OLSEN. I want to thank Mr. Silvergleid and Mr. Goodman for a splendid statement. The National Postal Union, as usual, has done a great job in representation of the postal employees and I congratulate you.

I fully agree with what you have said. However, I would like to add something in behalf of our chairman. As you know, he is very sympathetic to your problems or he would not be chairing these hearings. He would be postponing them. Having them so early means that he is very sympathetic to the problems, especially, to the problems of the employees.

I am going to support this chairman's agreement between this committee and the administration. He has a tough assignment to get this bill with our desired improvements signed by the President. So, I repeat, whatever the distinguished gentleman from New Jersey works out, I will support him 100 percent. We want to help him convince the administration that our needs are worthwhile. I hope everyone here can sympathize with Mr. Daniels' burden. He must persuade the administration and he must get the Bureau of the Budget to go along. This is an awesome task.

Thank you very much, Mr. Chairman.

Mr. DANIELS. Thank you, Mr. Olsen, for your pledge of support of the Chair.

I might say this: We have a serious problem here with regard to the funding of this retirement system. It has been said time and time again that if it is not funded, that the \$18 billion estimated to be in the fund as of December 31, 1967, will exhaust itself in a period of less than 20 years. I do not think it fair for present employees of the Government, particularly those who have performed a lifetime of service, to expect them to perform worthwhile, sincere, dedicated work in the service of the Government, and then, when it comes time, in their twilight years, to enjoy the benefits of their retirement, that possibly a check will not be forthcoming on the first of the month.

They may be wholly dependent upon that check, and I am quite sure it is the intent of all of the members of this committee to see that those

employees, who have contributed to this fund in good faith, will receive their check on the first of each month. That check should be there, and should not be delayed pending the Congress making the necessary future appropriation.

Now, I have been the champion of many bills to liberalize benefits for Federal civilian employees and annuitants. I have their welfare at heart, but the question is how far can we go at the present time.

Mr. GOODMAN. I hope the chairman doesn't misconstrue our frank position as being unsympathetic with the unenviable and the difficult position the chairman is placed in and I may say if and when a piece of legislation actually comes before the House to be acted upon, we will be concerned with the difficulties faced by the chairman. But we can do no less, out of respect to the consistent support the chairman himself has given to employee interests, but to state our views honestly, frankly, and openly.

Mr. DANIELS. I might further say, Mr. Goodman, that upon conclusion of these hearings, I am going to ask our staff director to let me know when it would be convenient for this subcommittee to go into the question of health benefits, in which I know you have a special interest.

Mr. GOODMAN. I brought the health plan secretary just in case you are in a mood to pursue the matter further, Mr. Chairman.

Mr. DANIELS. Not at this time. He will have his day in court.

Mr. GOODMAN. Thank you very much, Mr. Chairman.

Mr. POOL. I wish to express the same sentiments that Congressman Olsen did. I think what we are really trying to do here is to build up our case and show just how out of balance the whole thing is. Then we can build something better. We know you are a great champion of this thing, Mr. Chairman, and know more about it than any of us, but I know we can be helpful to you by getting out these hearings and building a case.

Mr. DANIELS. I appreciate your comment, Mr. Pool.

Mr. OLSEN. Mr. Chairman, we want to help you build your case. I know the testimony has been a great help, and your case will be stronger when you talk about the problem to the administration.

Mr. GOODMAN. Mr. Chairman—a reminder—in the 89th Congress, the administration took the approach of gross compensation. In the 90th we had only pay. This, I hope, is a helpful reminder that, perhaps in getting a fix on the total picture, your job might be eased somewhat, hopefully.

Mr. DANIELS. Thank you, gentlemen. Our next witness is Mr. C. O. Henderson, executive director, Organization of Professional Employees of the U.S. Department of Agriculture.

TESTIMONY OF C. O. HENDERSON, EXECUTIVE DIRECTOR, ORGANIZATION OF PROFESSIONAL EMPLOYEES OF THE U.S. DEPARTMENT OF AGRICULTURE

Mr. HENDERSON. Thank you, Mr. Chairman.

My name is C. O. Henderson. I am executive director of the Organization of Professional Employees of the U.S. Department of Agriculture. OPEDA, as it is commonly known, has more than 8,500 members, about 1,000 more than we had this time last year.

Mr. Chairman, in behalf of OPEDA, I would like to thank you and your committee for the excellent leadership that you have given in providing the Federal employees with benefits due them. You have done an excellent job and we appreciate it a great deal.

The Congress of these United States took a progressive step in 1920, when it passed an act establishing a retirement system for the Federal employee. The program is a contract between the Federal Government and the employees who serve it. In simplified terms, this contract states that if the employees contribute a certain percentage of their salaries, a percentage now matched by the agencies for which they work, the Federal Government will guarantee their annuities when they retire. It is a deferred payment for services rendered.

This contract has never been broken. It has continued to be liberalized for the average employee who devotes most or all of his working life to the Federal service. An employee who retires with 41-plus years of creditable service is very well cared for. There are some who do not fare so well; for example:

(1) An employee who comes into the Federal service after several years in industry, business, or with State or local governments may find himself with an inadequate annuity should he have to retire from the Federal service at 65 or 70 years of age, with 15, 20, or even 30 years of creditable service. This is important, because well qualified and experienced persons are often needed in the Federal service to fill key Federal positions.

(2) An employee who for reasons beyond his control is forced to leave his Federal employment.

(3) There are also those who have been retired for several years with long years of creditable service, but whose low average salary and subsequent erosion in the value of the annuity leaves the annuitant nearly destitute. Adjustments have been made which have improved the status of many of this latter group. However, there are still some whose income should be adjusted upward.

The retirement fund has met its obligations with relatively small amounts paid in by the Federal Government. During the first 8 years of its life, the Government contributed nothing at all. All benefits were paid out of contributions made exclusively by the employees. For approximately the next three decades, the Government made periodic contributions. Since 1957, agencies have matched the employee contribution.

The question is, How can the retirement fund be financed so that future annuities can be paid without causing a crisis? This organization supports H.R. 10912, which embodies the essential recommendations made by the Cabinet Committee on Federal Staff Retirement Systems:

(1) Normal cost financing through equal employee-agency contributions should be retained with respect to existing benefit structure. The normal cost of future benefit liberalizations in behalf of the active work force should be shared equally by employees and agencies and should be reflected in the upward adjustment of contribution rates.

(2) The cost of future incremental unfunded liability that results from—(a) benefit liberalizations for the active work force; (b) liberalizations for annuitants, other than Consumer Price

Index adjustments; (c) extension of coverage to new groups of employees; and (d) wage increases—should be fully financed by Government through direct appropriations to the fund annually over a 30-year period in accordance with progressively increasing amortization schedule enacted into law.

(3) Direct appropriations under permanent indefinite authority should be made in amounts sufficient to peg the fund balance at whatever maximum level it might attain under this recommendation or at employee equity, whichever is the greater.

We believe, however, the following supplements would aid both the employee and the Government:

(1) A plan similar to the one proposed by H.R. 6784, which supplements civil service retirement with social security, would materially aid with financing annuities for those with limited years of creditable service. This is especially true for those in the lower grades.

(2) Change the formula for fixing the annuity to a straight 2 percent of the highest 5-year average salary. This would make the employee's increased payment to the retirement fund more palatable. It would also be a help to those with limited years of creditable service, especially those in the middle and upper salary levels.

(3) Authorize the use of the payroll deduction system for employees to invest part of their salary in equities. This plan would be sponsored by the Government and directed by a Commission composed of representatives from appropriate Federal agencies, employee organizations and unions representing a cross section of employees, and one or more members at large. The Tennessee Valley Authority is now successfully operating such a plan as a supplement to its retirement program. The plan enables the employee to invest on a voluntary basis a part of his pay in equities which will offset losses in the value of the dollar due to increased cost of living. In addition to the convenience of the use of payroll deduction plan, the sales cost of equities is reduced to 1 percent and income taxes on accrued dividends and capital gains may be deferred until retirement.

Mr. Chairman, we thank you for this opportunity to present our views on this important legislation.

Mr. DANIELS. Mr. Henderson, I want to compliment you for pointing out these new ideas with regard to our Federal employees. They have not been advanced by any other witnesses to the best of my recollection.

On the plan No. 1 which you recommend, would our Federal employees, in addition to staff retirement program, also obtain social security benefits, and how would you work that?

Mr. HENDERSON. We were thinking of something similar to the provisions of H.R. 6784, which we understand provide that an employee can elect one or the other.

That is, if the social security will pay him a greater annuity than the Federal retirement, then he would have the privilege of transferring over to the social security.

Mr. DANIELS. This subcommittee considered that matter last year.

It is my recollection that any employee of the Federal Government who had not worked for 5 years, or would not have entitlement to a

deferred annuity, would have his Federal service transferred for credit under the social security plan.

Mr. HENDERSON. I understood that.

Mr. DANIELS. If he had 5 or more years' service, and entitlement under the civil service retirement system, a minimum benefit equivalent to that under the social security system would be provided under the Federal program.

Mr. HENDERSON. I believe, Mr. Chairman, that what you are saying is, if he has more than 5 years of service, it doesn't apply.

Mr. DANIELS. That is right, a transfer of credit would not apply if he has entitlement under the civil service system.

Mr. HENDERSON. Our belief is that adjustments should be made in the legislation which would permit them to elect one or the other. If it means more to him to come under social security, then allow him to elect that privilege.

Mr. DANIELS. The legislation did provide for a minimum benefit equal to social security.

Mr. HENDERSON. That is what I have reference to, he could elect one or the other.

Mr. DANIELS. Your plan No. 3, about authorizing the use of the payroll deduction system for employees to invest part of their salary in equities, what do you mean by the word "equities"? What would be the nature and type of the equities?

Mr. HENDERSON. They would be primarily common stock, Mr. Chairman.

Mr. DANIELS. In other words, a commission would be set up consisting of representatives of the various organizations you mentioned and these payroll deductions would be invested by the commission in common stock?

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

Mr. DANIELS. And you say such a plan is in operation?

Mr. HENDERSON. That is correct, the Tennessee Valley Authority has such a plan in operation.

Mr. DANIELS. How is it working out,

Mr. HENDERSON. It has moved along very well. It has had a good reception by the employees.

Mr. DANIELS. How long has that plan been in existence?

Mr. HENDERSON. About 2½ years.

Mr. DANIELS. Was that done by operation of law or is it a voluntary plan?

Mr. HENDERSON. It is a voluntary plan on the part of the employees. The Tennessee Valley Authority has the right to do a lot of things a regular Federal agency cannot do. It is a supplement to their retirement plan, which makes it possible for the employees to invest in the equities. In order to participate in this plan, employees must also buy savings bonds through the payroll deduction system.

Mr. DANIELS. What kind of reception did this plan receive by the employees? In other words, what percent of the employees participate in this payroll deduction plan?

Mr. HENDERSON. Approximately 30 percent of the 10,000 eligible employees are currently participating.

Mr. DANIELS. If you can, would you submit a supplemental statement on this plan to the committee, and that will be made a part of the record.

Mr. HENDERSON. I will be pleased to.

(The supplemental material requested is as follows, from a publication of the Tennessee Valley Authority:)

Your Retirement Program Expands

The Tennessee Valley Authority since 1939 has provided its annual employees with a retirement program that ranks among the best in the country.

But in these days of rising costs of living longer life expectancy, earlier and more active retirement years, you may want still more money at retirement. Or even sooner, for meeting money emergencies or other special needs. And you'd like this new benefit to be flexible—giving you an opportunity to grow financially with our growing U.S. economy.

You may now supplement your retirement benefits by enrolling in a voluntary mutual fund savings and investment program designed by your TVA retirement system.

The official name of the plan is Voluntary Retirement Savings and Investment Plan. For purposes of simplicity, the board has decided to call it the take stock plan.

The Plan in Brief

The take stock plan provides—through regular payroll deductions—a simple, convenient means of buying many well-selected stocks in American industry in one economical “package” of mutual fund shares. Spreading your money this way reduces your investment risk. Professional management also increases your opportunity for gain in value. For, as times and conditions change, the mutual funds’ professional investment managers sell some stocks and buy others, in an effort to attain your investment objectives.

How Your Investments Are Managed

In the take stock plan, the board has set up two accounts. The assets of one will be invested in shares of Fidelity Trend Fund, Inc. Assets of the other will be invested in shares of Puritan Fund, Inc. Your money will be invested in either or both of these mutual funds, as you choose. Income and capital gains distributions paid by the funds will be reinvested in additional shares.

Both mutual funds are under the management of Fidelity Management & Research Co., Boston, Mass., established in 1943. It serves as adviser to 10 mutual funds representing more than 435,000 investors and having combined assets of over \$2½ billion.

Why Two Mutual Funds?

The take stock plan gives you a choice of the two objectives that most investors seek—capital appreciation and income.

Fidelity Trend Fund, Inc.

The primary objective of Fidelity Trend Fund is capital appreciation. It involves a higher risk but offers the possibility of greater capital growth.

Puritan Fund, Inc.

The investment objective of Puritan Fund is to obtain the maximum income possible, consistent with the preservation and conservation of capital.

Investor's Favorites

These two mutual funds are established favorites with many thousands of U.S. investors. One reason—their unusual record of accomplishment for shareholders. Fidelity Trend Fund, ever since its founding in 1958, has been an outstanding performer among growth funds. Of course, there is no guarantee that future performance will be the same as in the past—it may not be as good; it may be better. Puritan Fund likewise has been an outstanding fund of the income type. Since its founding in 1946, it has grown to over one-half billion dollars in assets, with shares owned by more than 55,000 investors all over the free world. Certainly, there are no absolutes or guarantees concerning investment results or income from mutual fund shares. But with past performance as the measure, you can have confidence in the proven management of the two funds selected. In the long run, if present economic trends continue, it is not unreasonable to hope that your investment will grow in value. However, you should understand that mutual fund shares can decrease, as well as increase in value.

Principal advantages to you

1. *Hedge against inflation.*—The take stock plan provides a flexible supplement to your retirement system benefits. The plan is tied to our expanding U.S. economy. Thus it should help you keep pace with higher prices, and with resulting decreases in the buying power of the dollar.

2. *Top convenience.*—The take stock plan offers an easy, automatic way to invest in a portfolio of selected securities, on a fully voluntary basis, to be administered by the TVA retirement system. It gives you an opportunity to provide more for your tomorrows.

3. *Taxes deferred.*—By leaving your money in the plan, you will not have to report dividends and capital gains as current income for tax purposes. Taxes are deferred until your funds are withdrawn. This saving could result in a sizable increase in your investment returns.

4. *Big reduction in purchase price.*—Normally, it would cost you 7½ percent to 8½ percent in sales charges to buy mutual funds on your own. Because of the take stock plan's anticipated volume of group purchases, this cost will be substantially reduced and may go as low as 1 percent.

What is a mutual fund?

Money set aside by thousands of individuals is combined into one large investment fund. For each individual, this makes it possible to own a simple, convenient package of many different securities.

Professional investment managers select diversified investments among companies in many industries, and keep the securities under continuous review. The cost of this service is allocated among all mutual fund shareholders. This enables each to obtain the many investment advantages ordinarily enjoyed only by the very wealthiest investors.

How income and profits are distributed

1. Periodically the fund distributes the varying dividends and interest received (less the modest management fee and other expenses) pro rata to shareholders as dividends from investment income. The "shareholder" in the take stock plan is the TVA retirement system board—it reinvestments the dividends in the same mutual fund and credits the additional shares to your account.

2. There are two ways in which any increased value of the funds' investments is passed on to the investors:

a. *Increased share values.*—The value of each share (net asset value) is computed twice daily from the total market value of all of the securities held by the fund. Since funds under Fidelity management will normally redeem their shares on any business day, the investor who sells when the value of his investment is more than its cost (it may be less) would receive his proportionate part of the funds' gains in cash as part of the redemption proceeds. Incidentally, Fidelity Trend and Puritan share values are reported daily in all leading newspapers throughout the country.

b. *Capital gains distributions.*—After the end of the mutual funds' business year, any profits realized from the sale of securities will be paid as capital gains distributions in additional shares of the fund. It should be noted that capital gains distributions are paid only if and when they are realized.

What are the main advantages of mutual funds?

1. You diversify your dollar investments for greater stability, thus reducing market risk and increasing the opportunities for gain.

2. You benefit from full-time, professional management at relatively low cost.

3. You are freed of all details of individual stock ownership.

Who can participate?

You must be a member of the TVA retirement system and meet one other requirement. As a TVA employee you have enjoyed the opportunity to buy U.S. savings bonds through regular payroll deductions. TVA is now No. 1 among Government agencies with 1,000 or more employees. Employee participation in July 1966 was almost 99 percent.

The retirement system board supports the U.S. savings bond investment program, for this reason, it has established the requirement that you must have payroll deductions for U.S. savings bonds to be eligible to have payroll deductions for the take stock plan.

How Much or How Little Can I Put in the Take Stock Plan?

You can invest as little as \$5 each biweekly payroll period. If you decide to participate in both investment funds, you can put in \$10 or more per pay period. However, participants in the take stock plan can have total deductions—in both the retirement and the take stock plans—of no more than 16 percent of salary.

Can I Change My Deductions and Withdraw My Investment?

You can change the amount placed in the plan or stop deductions at any time. At the end of 3 years, you can withdraw half or all of your equity to meet special needs. But if you take half of it out, you can't put in any more money for 2 years; if you withdraw all, you have to wait 3 years. Should you leave TVA, your full equity would be returned to you in mutual fund shares or by lump-sum cash payment equal to the full current market value of the shares held for you which may be more or less than your cost.

How Can I Tell How Much I Have in the Plan?

You will receive quarterly statements from your retirement system showing the number of shares held for you. The current prices of mutual fund shares are carried daily on the financial pages of newspapers. So, knowing the number of shares in your account, and the "bid price" (net asset value) you can easily compute their current value.

How Do I Know Where My Money Is Being Invested?

You will receive regular reports from the mutual funds showing the securities presently held in the funds, as well as investment changes.

How Do I Collect My Benefits?

At the time you apply for retirement, or when you decide how your retirement allowance is going to be paid, you will select the method by which you want to receive your equity. You may select one of four ways:

- (a) Your take stock investments can be transferred into the TVA retirement fund and you can choose either a fixed annuity or variable payments.
- (b) You may take monthly installment payments of a specified dollar amount under the mutual fund withdrawal program, as described in the fund prospectus.
- (c) Mutual fund shares equal in value to your equity can be transferred to you.
- (d) You can take a lump-sum payment in cash.

What Happens If I Die Before Retirement?

In the event of your death before retirement, your beneficiary would have the same choices that would have been available to you at retirement.

Will My Take Stock Holdings Reduce My Other Retirement Benefits?

Not at all. Your sharing in the take stock plan gives you supplemental money to make your retirement more comfortable.

Is My Equity Available Only at Retirement?

No. Your equity in the take stock plan can be partially or totally cashed in—after 3 years—to meet special needs. This gives you somewhat more flexibility than you have with money you contribute to the retirement plan—toward either a fixed or variable annuity. Those contributions are available to you only if you quit or retire—or to your beneficiary, if you die before retirement.

Who Controls My Money?

1. The TVA retirement system board of directors has administrative direction of the plan.
2. The professional investment managers of the two mutual funds make the investment decisions.

How Will My Holdings Be Taxed?

Tax laws and the interpretation of them may change. On the basis of the present law and interpretations, the take stock plan gives an important twofold advantage:

Deferred tax benefit.—You receive a deferment of taxes on all income and capital gains distributions paid by the mutual funds on your investment. If you leave your investment in the plan, these taxes are not due until after retirement, when your tax bracket is likely to be lower. Besides, your profit (the value of your equity less the amount you have invested) will be taxed at the lower capital gains rate if it is received in a lump sum.

No tax return bother.—Throughout the years when you are investing, you are relieved of the responsibility for making any income tax accounting for the dividend and capital gains distributions made by the mutual funds.

What Risks Do I Run?

Like any stock investment, mutual fund shares entail a degree of market risk but, because of the mutual funds, diverse holdings of securities, coupled with their professional management, they may offer the investor less risk than individual purchases of a relatively small number of similar securities.

For most TVA employees, the take stock plan will be a long-term investment. And over the long pull, investors have found mutual funds to be an effective hedge against inflation.

Historically, prices of common stocks representing ownership in U.S. industry generally have grown in value. According to the Dow Jones Index of industrial stock prices, the average value has increased by about 14 times since 1900, and by about 7½ times in the 25 years since 1940. Assuming this growth continues for the future as it has in the past, mutual fund investment offers a convenient and effective way to participate in it.

Today, more than 3½ million people have some \$35 billion invested in mutual funds. A record that speaks for itself.

The Plan's Advantages: A Summary

1. Top convenience in a wholly voluntary plan, with administrative costs paid by your retirement system.

2. Your invested dollars stay within your personal reach, bearing in mind that the value of your equity may be more or less than its cost.

3. A flexible supplement to retirement system benefits that gives you a valuable hedge against inflationary rises in living costs.

4. Taxes deferred on dividends and capital gains paid by your mutual funds while your money is in the take stock plan.

5. A big reduction in purchase price, because of a reduced mutual fund sales charge—made possible by economical group buying.

6. A large measure of diversification in your investments.

7. Full-time professional management of your investment holdings.

8. A choice of two mutual funds having outstanding records of performance for investors.

How Do I Sign Up for the Plan?

There's a take stock enrollment card with this booklet. Fill in the number of dollars you want to put into one or both of the funds (not less than \$5 per fund). Send your card to TVA Retirement System, Knoxville. Your deductions will start as soon as possible after your enrollment card is received. The first payroll deductions will be made in the pay period that ends October 8, 1966 (Salary Policy) and October 15, 1966 (Trades and Labor).

Records and Statements

The system will keep an individual account record for you and send you a quarterly statement. The board does not, of course, incur any liability because of possible decrease in the value of the shares held for you.

Mr. DANIELS. My colleague from Texas.

Mr. POOL. Mr. Henderson, I appreciate your testimony and think the information requested by the chairman will be helpful to the committee.

Mr. DANIELS. Thank you, Mr. Henderson.

Mr. HENDERSON. Thank you.

Mr. DANIELS. Our final witness today is Mr. Henry T. Wilson, director of the Federal-Public Service Division of the Laborers' International Union of North America, AFL-CIO, who is accompanied by Mr. John T. Curran, their legislative director.

TESTIMONY OF HENRY T. WILSON, DIRECTOR, FEDERAL-PUBLIC SERVICE DIVISION, LABORERS' INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO, ACCOMPANIED BY JOHN T. CURRAN, LEGISLATIVE DIRECTOR

Mr. WILSON. Mr. Chairman and members of the subcommittee, my name is Henry T. Wilson. I am director of the Federal-Public Service Employee Division of the Laborers' International Union of North America. We would like to thank the chairman and members of the subcommittee for the opportunity to appear here today in support of H.R. 10912. The issue raised by the bill has been of growing concern for many years to the thousands of Federal employees we represent.

With a membership of more than 500,000, the Laborers' International Union is the sixth largest union in the AFL-CIO. Included in our membership are thousands of blue-collar Federal employees in wage board units. Although we have represented Federal employees since the day our union was founded, the number has increased dramatically since Executive Order 10988 was issued in 1962.

As a union that also represents employees in the private sector, we have had a great deal of exposure to the problems of negotiating and administering pension plans. We have been negotiating them for years for our members in the construction industry and in industrial plants. A great deal of time, effort, and money goes into establishing one of these funds to make sure the plan is properly funded and operated. It seems inconceivable to us that Congress would consider any regulation of these funds, most of which are properly funded and ably administered, until the Government cleans its own house on this subject first.

As a representative of Federal employees, the Laborers' International Union is quite concerned about several features of the Federal retirement program. We would like to see the benefits liberalized; we would like the formula changed for computing annuities; we would like the survivor annuity increased; and permit optional retirement after 30 years with full benefits, regardless of age. We would like to see these things and more done to modernize and liberalize the civil service retirement system. But we do not feel this is the time and the place to go into those issues since the proposal before this subcommittee is H.R. 10912, a bill specifically designed to correct outstanding deficiencies in the retirement system. We will direct our remarks to that subject alone.

Federal employees have been growing increasingly disturbed about the mounting unfunded liability of the civil service retirement system. No one has ever seriously believed that the Government would fail to meet its obligations to its retired employees, despite the poor financial condition of the retirement fund. But we feel it is precisely that attitude that has helped bring the fund to its present state of affairs. No one doubted the Government would pay retirement benefits when they came due. So no one bothered for a long time to be concerned about the mounting liability. This is why we applaud the work of this subcommittee and the concern it is showing to a problem that has many Government employees and officials quite upset. We hope the concern you have shown is a prelude to increased congressional action in this area.

The Laborers' International Union supports the basic intent of H.R. 10912—that steps should be taken to make the Government pay

its share of the retirement program. We oppose, however, the provision of the bill that would give the Civil Service Commission authority to raise employees' contributions without a vote of the Congress. We feel this power is now rightfully in the hands of Congress, and it should remain there.

We cannot question the schedule of payments proposed in the bill to make up the Government's share in the fund over the next 30 years. We are not actuaries. We assume the schedule is as accurate and fair as could be computed. What we do urge, however, is, that should this bill be adopted into law, the Congress continue to watch the growth and progress of the fund in coming years to take into account any other changes that might occur in the unfunded liability that would not be in the best interests of the Federal employees.

The lack of adequate Government contributions to the fund has not only adversely affected the operation of the plan, it has deprived Federal employees of billions of dollars in interest payments that would have accrued on the retirement funds. As we all recognize, interest payments are an integral part of a retirement plan in the private sector. We don't see why such payments should not be part of the civil service retirement system. We recognize that they are a part of it, but we also recognize that the failure of the Federal Government to make contributions has resulted in a great loss of interest payments.

The accumulated interest on pension funds is one of the major ways retirement programs may be liberalized without additional contributions by either the employer or employee. The fact the Government has not lived up to its obligations has rendered a great injustice to Federal workers. And although we do not want to dwell on the mistakes of the past, over which you gentlemen had no control, we do want to make it clear that we believe the Government is responsible today for its omissions of the past. Our primary interest today is to see that the plan is funded properly. In addition, we believe that because of the Government's failure to live up to its obligations in the past, that it must assume a greater share of paying for the plan today. It is the only way the Government can make up for its mistakes and be fair with its own employees.

We can see no justification for increasing the employees' contributions to the fund at this time, even if pensions were increased. Pension benefits probably could have been liberalized many times without additional contributions by either party had the Government paid its way in the past. In order to correct this long injustice, we see no other fair alternative than for the Government to pay a larger share. The demand is by no means excessive. Many private plans today find the employer paying all. And, on most joint plans the employer pays a far greater percentage than the employee. Why should it be different for the Federal employee?

We realize that the economic conditions of today do not point toward an increased Government share in order to liberalize benefits in the near future. But we must say that we see no reason why the Federal employee should be penalized for a tight money situation because the Government initially failed to live up to its end of the bargain.

It is a great pleasure and a privilege to be able to testify before this committee. We would like to express our thanks and our appreciation to the chairman and members of the subcommittee for the opportunity to appear here today.

Mr. DANIELS. Mr. Wilson, the Chair desires to compliment you for a very frank and honest discussion of the problems facing this committee, and we appreciate the views that you have expressed this morning. The Chair has no questions, Mr. Pool?

Mr. POOL. I did want to ask you one question. I do not know if your group has thought about this. What do you think about the statement of the preceding witness that it might be a good idea to invest these funds in common stock? Have you discussed that?

Mr. WILSON. In years past I have been associated with organizations representing State employees and this was an issue raised in many of the States by the State retirement program. Some of the most progressive States have now followed this policy of investing maybe 50 percent of their retirement funds in common stocks on the assumption that the earnings of the common stocks would be better and would tend to cause the fund to grow in direct relationship to the growth of the gross national product and inflation of the time. They have attempted through this machinery, or this device, to adjust the benefits to retired employees based on the fund's growth. I personally support, and our organization, I think, would support this, although we have not come with any specific information in support of this kind of program.

Mr. POOL. Thank you very much. We appreciate your testimony.

Mr. DANIELS. Mr. Wilson, since you have made reference to certain State plans with which you apparently are familiar, some States have social security, as the basic plan, implemented by their staff retirement plan?

Mr. WILSON. That is correct.

Mr. DANIELS. Could you furnish to the committee a list of those States that have a State plan where the employees authorize payroll deductions to be made for the purpose of investing in common stock or any other kind of equity?

Mr. WILSON. Mr. Chairman, I think the point I was making in response to Mr. Pool was the actual investment of the retirement plan fund. I am not aware of the type of proposal suggested by the prior speaker where they set up an employee investment club type of situation. That was not what I was addressing myself to originally and I really do not know anything about situations such as the TVA type. I cannot furnish that kind of information. I can furnish information about State retirement plans that are investing in common stocks.

Mr. DANIELS. If you could submit a statement on those State plans, and how they function, it would be useful to the committee.

Mr. WILSON. Yes, sir.

Mr. POOL. Mr. Chairman, I think they might have information on industry and their retirement systems, regarding the percentage of contribution and the benefits. Anything along that line you can furnish the committee I think would be very useful to have in our files.

Mr. WILSON. All right.

Mr. DANIELS. Mr. Wilson, the Chair desires to thank you and your colleague, Mr. Curran, for coming here today and giving us the benefit of your views.

This concludes today's hearing. The Chair indicated the subcommittee might desire to call back some of the Government witnesses for additional testimony, if warranted. Therefore, we will conclude these hearings today with the reservation that if additional testimony from

such witnesses is desired by the subcommittee, future hearings may be held. Otherwise, the hearings will be considered closed. However, the record will remain open for a reasonable length of time for the filing of statements such as I requested of you a few moments ago, Mr. Wilson, and for any other parties interested in submitting statements for inclusion in the record.

(Thereupon, at 11:50 a.m., the subcommittee adjourned.)

(The following statements were received by the subcommittee for inclusion in the printed record:)

**STATEMENT OF THE NATIONAL FEDERATION OF PROFESSIONAL ORGANIZATIONS,
SUBMITTED BY C. O. HENDERSON, PRESIDENT**

Mr. Chairman and members of the subcommittee, the member organizations of the National Federation of Professional Organizations have reviewed the testimony presented before your committee in behalf of the Organization of Professional Employees of the U.S. Department of Agriculture. They have asked that I respectfully request that there be included in the record the National Federation's support of the testimony as presented.

The National Federation of Professional Organizations was organized in 1967 and is now composed of the following organizations: Air Traffic Controllers Association, Airways Engineering Society, Association of Senior Engineers of the Naval Ship Systems Command, Federal Plant Quarantine Inspectors' National Association, National Association of Federal-State Employees, National Association of Federal Veterinarians, National Association of Government Engineers, National Labor Relations Board Professional Association, National Society of Professional Engineers, Organization of Professional Employees of the U.S. Department of Agriculture, Patent Office Professional Association, Society of Real Estate Appraisers.

The total membership of these 12 organizations is approximately 30,000 Federal professional employees.

**STATEMENT OF THE INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE
WORKERS, SUBMITTED BY WILLIAM H. RYAN, NATIONAL COORDINATOR, GOVERNMENT EMPLOYEES DEPARTMENT**

Mr. Chairman and members of the subcommittee, this organization is mindful of the actuarial condition of the fund, but we are also mindful that this condition has been caused principally because the Government has not over the past years met its contributing obligation to the fund. We therefore cannot support the premise that Federal employees contribution should be increased in order to improve the actuarial status of the fund.

Quite to the contrary, we believe that the Federal Government's share of the contribution should be increased from the present 50-50 cost sharing, to a 75 percent Government contribution and a 25 percent employee cost sharing.

We support and request the following improvements in the system:

(1) Thirty year optional retirement, without a reduction in annuity, regardless of age.

(2) Change the present "high 5-year" average salary in the annuity calculation to a "high 3-year" average salary calculation.

(3) Change the present graduated series of multipliers in the annuity calculation to a straight 2 percent.

(4) Provide for exemption of annuities and survivor annuities from state inheritance tax, Federal estate taxes, and income taxes.

This organization has over one million members employed in the 50 States and U.S. insular possessions, and 10 Canadian provinces. Our members are working under 15,852 contracts with employers.

We contend that the Federal Government should strive to be a model employer, and the working conditions, salaries, and fringe benefits should be comparable at least to the most progressive private employer.

The improvements that this organization suggests will elevate the Government to its proper leadership as an employer.

STATEMENT OF THE NATIONAL CUSTOMS SERVICE ASSOCIATION, SUBMITTED BY
JOHN J. MURPHY, PRESIDENT

Mr. Chairman and members of the Subcommittee on Retirement, Insurance, and Health Benefits, my name is John J. Murphy. I am President of the National Customs Service Association. The National Customs Service Association is an independent organization of employees of the Customs Service at all levels and in all occupation. We have local branches and members-at-large throughout the mainland United States and in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. We have members also in foreign countries where there are U.S. Customs facilities.

Our organization has been accorded formal national recognition under Executive Order 10988 by both the Treasury Department and the Bureau of Customs as representative of employees of the Customs Service. We represent the majority of all Customs employees.

On behalf of our association, I wish to commend you, Mr. Chairman, for holding these hearings on a subject of such vital importance to every Federal employee. The importance of the financial integrity of the civil service retirement fund cannot be overstated. Federal employees are dependent upon the soundness of the fund to provide them with the annuities they have earned by their faithful service to the Government. They have, to this end, contributed substantial amounts of their earnings through the years.

We are unable to provide any actuarial background for an analysis of the present status of the fund but are willing to accept the research of the Civil Service Commission and the studies of various organizations as being founded in fact. We view the present unhappy status of the fund as being caused solely by the inaction and indifference of Congress. The responsibility to make contributions has been largely avoided. Contributions out of the salaries of the employees have been constant while the Government contributions have been sporadic and inadequate.

We believe that Congress must face up to its responsibility to prevent the bankruptcy of the fund. We have no doubt that this responsibility will be met in order to prevent such a calamity.

We would like to take this opportunity to respectfully point out that we have here an opportunity to restore, not alone the fiscal integrity of the retirement fund but what is equally important, restoration of full confidence in the fund.

Retirement is one of the most important interests of our members. At our conventions, numerous resolutions have been acted upon seeking the correction of inequities and the extension of benefits. I should like to mention briefly our position with respect to some of them.

May we begin, however, by making specific recommendations as to the means of placing the fund on a firm foundation.

We believe that the only way to put the fund on a sound footing is for Congress to provide for contributions in a regular, systematic, fashion. We believe that these contributions should be such that the full Government responsibility to the fund can be met over a reasonable number of years, say 10-15 years. We believe that an increase in the contributions by the employees is unwarranted at this time, unless the increase could be tied directly to substantially increased benefits.

We particularly urge rejection of the proposal that the Civil Service Commission, or any other Government agency, be given authority to decide the amount of employee contributions. We believe that this critical area is one that should be in the hands of the Congress.

Another important factor that has added to the deficiency of the fund, is the retirement credit given civil employees for military service. We support completely the inclusion of military service as part of total Federal service. However, it is our considered view that it would be more realistic to require the military establishment to make reimbursement to the fund for the period of military service being included. It must be borne in mind that no contribution covering the military service time is made by either the Government or the employee. This obviously is a matter that needs to be corrected. Corrective measures need to be taken immediately as this constitutes a constant drain on the retirement fund. As a matter of fact, we understand that 10 percent of the existing deficit is directly brought about because of the credit given for military service. Approximately 50 percent of the persons in civilian Federal positions have military service. This number is bound to grow larger, considering our great military commitments around the world, and greater and greater participation by our citizens in military service. We believe that the fund should be reimbursed by

the Department of Defense for all credit. It is obviously not proper to burden the retirement system for service that has no relation to a Federal civilian retirement system.

We believe also that the overall contributions to the fund should be changed to one-third by the employee and two-thirds by the Government.

We respectfully suggest that the committee consider an overall approach to various retirement problems which exist today; caused primarily by the piecemeal approach taken to the subject over the years. We believe that at this point in time, an omnibus bill should be considered that will correct existing inequities, and will place the many parts of the retirement picture in proper perspective.

We believe that the annuity formula should first of all be changed by using as the base the average salary of the highest 3 consecutive years of service instead of the present "high 5." We believe that this would be more equitable to employees as in many cases the average salary is necessarily low because of the inclusion of 2 years of low earnings.

We recommend, also a straight 2 percent annuity calculation factor instead of the present, unnecessarily complicated, $1\frac{1}{2}$ - $1\frac{3}{4}$ percent calculation.

We suggest also that the factor for computing the annuities of employees covered by section 8336(c) be increased to $2\frac{1}{2}$ percent instead of the present 2 percent. It has been pointed out that these employees had there contributions to the fund increased without receiving any additional benefits.

We believe that 30 years' service for the Government should be considered as sufficient for full annuities regardless of age. Thirty years is the best part of a lifetime, and, in any case, the years of service should be the deciding factor, not the age of the employee.

We believe that Customs inspectors should be included as a class under section 8336(c) of the retirement law. Customs inspectors are charged with the enforcement of Customs laws. They are subject to call at any time of day or night. In addition to an erratic working schedule, they constantly face personal hazards over and above the normal instances of most enforcement duties. Hazards are ever present in boarding or leaving vessels, from falling into open hatches, stepping on slippery decks of ships, from walking among rails and switches at railroad terminals, from speeding fork truck and swinging cranes at cargo facilities.

In addition to duty assignments at seaports and airports throughout the country, Customs inspectors are employed at Customs ports of entry and Customs stations along the Mexican and Canadian borders. They come into direct contact with persons of all types and descriptions, including all manner of criminals. One of the potentially dangerous persons is the narcotics offender and smuggler. Many narcotics seizures are made from these persons and many of them are criminals of the most vicious type. Many instances could be related during which a Customs inspector was in danger of his life. A most dramatic incident occurred on the Mexican border when a suspect suddenly pulled out a gun and pushed it into the stomach of the Customs inspector but could not pull the trigger, as the inspector, with unbelievable presence of mind, pushed his finger ahead of the hammer, preventing the gun from firing. The suspect was later found to have an extensive criminal record.

We believe that as a matter of plain justice, Customs inspectors should be included as a class under the hazardous provisions of the law, along with other Federal employees subject to no greater hazards in the performance of their assigned duties.

We recommend that total gross earnings be considered basic compensation for the purpose of civil service retirement, life insurance, severance pay, and other fringe benefits based on salary levels. Overtime, Sunday and holiday pay, night and Sunday differentials, and other moneys that total gross pay, should be considered basic pay. These earnings form the base of an employee's standard of living. They are subject to Federal and State income taxes. It seems to us logical that total income is the sum of all its parts and that in this instance, total earnings—composed of all regular, overtime, Sunday and holiday pay, and all other moneys—should be considered aggregate compensation for all purposes, including Federal fringe benefits.

We believe that a married employee retiring from the Federal service should be permitted to provide for a widow or widower without deduction from his annuity. The desire to protect a survivor is so basic that it appears completely inequitable to penalize the employee for so doing.

We believe that, in any event, when the survivor annuitant predeceases the retiree, the full annuity should be restored to the retiree.

We strongly urge the committee to give serious consideration to exempting annuities under the civil service retirement law from Federal and State income taxes.

Many retirees are living on annuities that are being whittled away by the steady increase in living costs. Adjustments as provided under the present laws do not keep pace with changes. We recommend that the percentage of increase to retirees and survivors be increased to 5 percent from the present 3 percent.

In closing, Mr. Chairman, may we again thank you for holding these hearings and giving all concerned a forum to express their views. May we hope that early action will be taken on proposals to strengthen the fund and to bring about equity in those areas where it is now lacking.

STATEMENT OF THE NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES, SUBMITTED
BY ALAN J. WHITNEY, EXECUTIVE VICE PRESIDENT

Mr. Chairman and members of the subcommittee, the National Association of Government Employees shares with the subcommittee a deep concern over the \$53 billion deficit, or unfunded liability, of the civil service retirement fund. This concern, however, is tempered by a realization that the burden of responsibility for the deficit lies squarely upon the Federal Government because of its past failures to appropriate sufficient funds to cover the costs of the system.

In view of this fact, the National Association of Government Employees strongly believes that any formula designed to lessen the deficit and "peg" it at a much lower and safer level must necessarily rely upon increased Government contributions and appropriations from general funds. In other words, employees should not be saddled with the burden of helping the Federal Government make good its financial responsibilities to the fund.

Any approach to solving the problem of the deficit must consider two factors: the current deficit itself and any future growth in the deficit which would result from less than full financing of normal cost.

Therefore, we propose that this subcommittee consider legislation which would establish an amortization schedule which would rely upon direct appropriations over the next 20 years to peg the deficit at a level of \$20 billion. Further, that the Government's rate of contribution to the retirement fund be increased from the present 6½ percent of salary to 10½ percent, or 75 percent of normal cost. This would drop employees' contribution rate to the fund to 3.5 percent, which, we submit, would be entirely realistic and fair in light of the prevailing standard in private industry where, according to Bureau of Labor Statistics data, 75 percent of manufacturing and nonmanufacturing employers pay the full cost of annuity and pension plans.

This formula—scheduled appropriations to reduce the deficit to \$20 billion coupled with a change in the ratio of agency-employee contributions to 75-25 percent—would both place the retirement fund on sound financial footing and give Federal employees an enhanced benefit fully in keeping with prevailing private industry practices.

Working, then, from a base employee contribution rate of 3.5 percent providing present retirement coverage, the subcommittee could consider further improvements in the retirement law, the cost of which would be shared equally by the Government and Federal employees.

Some such liberalizations might include—

Changing the formula for computing annuities from the present method of averaging highest salary over 5 consecutive years—"high-five"—to a 3-year period.

Optional retirement on full annuity after 30 years' Federal service, regardless of age.

Using a straight 2 percent multiplier in calculating annuities, instead of the present graduated series of 1½ percent, 1¾ percent, and 2 percent.

An increase in the present level of annuities.

Setting a minimum for annuities and survivor benefits to provide that no recipient would receive less under civil service retirement than he would have had his service been covered by social security.

Finally, the National Association of Government Employees wishes to go on record in opposition to any attempt to place authority for setting or changing contribution rates in the Civil Service Commission. We believe that this responsibility is properly that of the U.S. Congress, not of an executive branch agency.

Thank you, Mr. Chairman, for your consideration of our views.

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, NATIONAL
ASSOCIATION OF INTERNAL REVENUE EMPLOYEES

Mr. Chairman and members of the subcommittee, this subcommittee has in its possession complete and voluminous data highlighting the present plight, and dubious future, of our civil service retirement system. To avoid repetition, therefore, we will stipulate that the problem is clearly set forth in the report to the President by the Cabinet Committee On Federal Staff Retirement Systems, March 7, 1966, and Appendix of April 6, 1967.

However, we do want to express our serious concern about the economic threat looming from the callous irresponsibility demonstrated by the Government up to now. The consequences will be most severe on employees still in active service and on the younger annuitants and survivors.

We recommend as an essential first step that the Government's contribution to the fund be twice the amount contributed by the employee. Furthermore, we recommend that the employee contribution not be increased above the present 6.5 percent unless the increase is accompanied by liberalized benefits. We suggest that the following provisions be given top priority:

- (1) Full annuity, at the employee's option, after 30 years of service, regardless of age.
- (2) Computation to be based on a high-three, rather than the present high-five, average.
- (3) A straight 2 percent computation in place of the present 1.50 percent, 1.75 percent and 2 percent formula.
- (4) Increase the survivor annuity from 55 percent to 60 percent.
- (5) For survivor annuity, diminish the reduction on all above the first \$3,600 from 10 percent to 5 percent.
- (6) For law enforcement personnel (sec. 6c) use a straight 2.5 percent computation instead of the present 2 percent.

We appreciate this opportunity to submit our comments on an issue so vital to the future security of thousands of annuitants and survivors and millions of employees still in active service.

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

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

Our organization has national exclusive recognition under Executive Order 10988 and are the sole bargaining representatives for all Motor Vehicle employees under the terms of the national agreement with the Post Office Department. Our membership is composed of various classifications in both the "Operations" and "Maintenance" Divisions of our Motor Vehicle facilities.

We want to express our appreciation to you, Mr. Chairman, and the members of this committee for scheduling hearings on H.R. 10912, that would provide improving the funding of the civil service retirement system and we appreciate the opportunity to express our views on the pending legislation.

We know that the present retirement system is one of the most important fringe benefits for all Federal and postal employees, that provides financial security for those who reach the retirement age. We also realize that legislation must be enacted that would provide a more adequate funding formula to strengthen the financial stability of the retirement fund.

Our organization would approve the recommendation to increase both the employee and Government contributions from 6.5 percent to 7 percent. We are opposed to the provision in the bill which would grant administrative authority to the Civil Service Commission to adjust the contribution formula "as necessary." Any change should only be made by action of the Congress.

In recommending an increase of employees' contribution we would also recommend certain liberalizations as mandated by our delegates at our national convention which are as follows:

- (1) A new retirement formula based on a high-3-year average salary and a 2 percent factor for each year of creditable service.

(2) A general increase in annuities particularly to upgrade the income status of the many persons who receive substandard retirement income.

(3) Optional retirement after 30 years of service regardless of age.

(4) Changes in the survivorship benefits to restore the reduction made in the annuity of the retired employee when the spouse dies and to eliminate the present discrimination in providing survivorship benefits for a widower.

Mr. Chairman and members of the committee it is our opinion that if the employee contribution were raised to 7 percent and the formula revised to assess a greater percentage cost to the Government we believe these liberalizations could be adopted without adding to the unfunded liability. We endorse the additional cost providing the contributions formula is also revised to assess a larger share of the total costs to the Government.

We appreciate this opportunity to voice our recommendations to liberalize the Retirement Act while providing a new formula to assure the financial stability of the retirement fund.

STATEMENT OF MICHAEL J. CULLEN, PRESIDENT, NATIONAL ASSOCIATION
OF SPECIAL DELIVERY MESSENGERS, AFL-CIO

Mr. Chairman and members of the committee, my name is Michael J. Cullen. I am president of the National Association of Special Delivery Messengers, AFL-CIO. We have been granted exclusive recognition by the Post Office Department for the members of our craft. We appreciate this opportunity to present our views on H.R. 10912 and the general situation relative to the civil service retirement system.

Mr. Chairman, your interest and that of the members of this committee in putting the retirement fund on a firmer financial standing is, truly, laudable. We believe that the current condition of the fund was created by the failure of the Government to contribute its fair share and by the loss of potential interest which would have been earned if proper contributions were made by the Government. For these reasons, the Government should in the future, pay \$2 for each additional \$1 that employees may be required to contribute.

We oppose the provision of H.R. 10912 which would vest in the Civil Service Commission the right to increase the percent of contributions to the fund. It is our belief that this power should be retained by Congress.

Our members hope and we suggest that the following liberalizations be considered in your deliberations on this legislation:

(1) Optional retirement after 30 years of service regardless of age without reduction in annuity.

(2) Change the formula used in determining annuities to 2 percent based on the "high 3 years" of service.

(3) Exempt all annuities from Federal and State tax.

(4) Increase survivor benefits from 55 percent to 60 percent of the spouse's annuity.

(5) Restore the full annuity to a retiree whose spouse predeceases him and permit such a widowed annuitant to designate another survivor, if he or she should remarry.

(6) Recompute the annuities of older retirees to extend to them the provisions of more enlightened legislation passed after they retired. A minimum in this regard should be the elimination of the discriminatory reductions in their annuities to provide for a survivor.

In closing, we wish to reiterate the thanks of our members for the genuine concern of the members of this committee for the welfare of the postal and Federal employees, both active and retired.

STATEMENT OF MRS. JUDITH G. WHITAKER, R.N., EXECUTIVE DIRECTOR,
AMERICAN NURSES' ASSOCIATION, INC.

The American Nurses' Association wishes to go on record as supporting H.R. 10912 as an important and overdue step to improve the financing and funding of the civil service retirement fund. At the same time there is the need for improvements, such as increases in the benefit levels to retired Federal employees, without imposing any increase in employee contributions.

An improved retirement and benefit system is necessary, especially with respect to recruiting and retention of an adequate staff of registered nurses

for necessary Federal health programs. In the past 2 years, salary differentials in favor of Federal nurses have been wiped out in many parts of the country. In addition, improvements in nongovernment health facilities employment conditions have made retirement plans more common. As a result of these factors, Federal employment appears less attractive to nurses. This is reflected in the large number of VA and other Federal facilities at which special rates for nurses have been established.

While we are pleased that H.R. 10912 will strengthen the Federal retirement system, there are a number of areas where the bill should be altered in order to more equitably serve those who now receive, and those who will in the future receive annuities from the fund.

(1) The current deficit of "normal cost" estimated by the Comptroller General at \$150 million per annum should be made up by increased contributions by the various Federal agencies and not by any increases of payroll deductions of employees. There is no justification for requiring any higher employee contribution in view of the failure of the Federal Government to fund its contributions in past years. The Civil Service Commission reports a \$1.7 billion loss of interest to the fund because of inadequate Government contributions. Furthermore, the Government's current policy of matching contributions equally with its employees is no longer in line with the practice in private industry, where employers' contributions, on the average, now exceed 60 percent, and most private plans are entirely employer financed.

(2) In its present form the bill authorizes the Civil Service Commission to increase the present $6\frac{1}{2}$ percent employee contributions in equal amounts for the Federal agencies and the employee. We believe that the Civil Service Commission should not be permitted to increase employee contributions without specific approval of Congress.

(3) There should be a more liberal formula for computing retirement benefits. We recommend that the base for computing "average" pay be the highest 3 consecutive years rather than the present 5-year base.

(4) The bill should be modified to include a substantial increase in benefits to Federal employees already retired and who failed to share in the recent increases in Federal pay rates. Many of these annuitants live in virtual poverty. There should be a substantial increase in retirement benefits levels for all Federal employees, including retirees. Since Congress has implemented the principle of pay comparability in the last session, the time is at hand to improve the level of retirement benefits.

The retirement fund balance will be exhausted by 1987 under the present appropriation system. The public's faith and confidence in the Federal retirement system is based in part on the size of the unfunded liability whether or not the system is financially sound by widely accepted fiscal standards. Removal of this liability will relieve the system of needless and possibly damaging criticism. Prudent management of our Government's financial affairs demands the establishment of a plan that will provide for all costs of maintaining the system as the costs are increased, and for the Federal Government to meet its obligation through adequate funding.

RETIREMENT FINANCING

WEDNESDAY, MAY 15, 1968

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

The subcommittee convened at 10:20 a.m., in room 210, Cannon Building, the Honorable Dominick V. Daniels presiding.

Mr. DANIELS. The Subcommittee on Retirement, Insurance, and Health Benefits will come to order.

The Subcommittee on Retirement, Insurance, and Health Benefits is meeting this morning for the purpose of taking additional testimony with respect to proposals to strengthen the financial condition of the civil service retirement system.

The subcommittee has conducted extensive hearings on several approaches to this critical problem in recent months, and has subsequently been involved in a joint endeavor with Executive and Legislative agencies toward the development of a course of action whereby a divergence of views might be mutually resolved.

The Chair desires to commend the participants in this common effort—the officials of the Civil Service Commission, the Bureau of the Budget, and the General Accounting Office—for the splendid cooperation afforded the Subcommittee in wrestling with a most complex subject. In the hope of concluding our public hearings on the matter, we are pleased to again have supplementary testimony presented by the Chairman of the Civil Service Commission, the Honorable John W. Macy, Jr., and his reliable assistant, the Director of the Bureau of Retirement and Insurance, Mr. Andrew E. Ruddock. Representing the Honorable Elmer Staats, the Comptroller General of the United States, who regretfully, is unable to be present today, is Mr. Frederic H. Smith, Deputy Director of the Office of Policy and Special Studies of the General Accounting Office, accompanied by Mr. Phillip Charam and Mr. John C. Fenton, the respective Associate and Assistant Directors of the General Accounting Office's Civil Division.

If there is no objection, I will ask all of you gentlemen to be seated at the witness table in order that we might expedite our proceedings, and I will first recognize Chairman Macy to commence his presentation.

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, CIVIL SERVICE COMMISSION; ACCOMPANIED BY ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE, CIVIL SERVICE COMMISSION, WASHINGTON, D.C.; AND STATEMENT OF FREDERIC H. SMITH, DEPUTY DIRECTOR, OFFICE OF POLICY AND SPECIAL STUDIES, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY PHILLIP CHARAM, ASSOCIATE DIRECTOR, CIVIL DIVISION, GENERAL ACCOUNTING OFFICE; AND JOHN C. FENTON, ASSISTANT DIRECTOR, CIVIL DIVISION, GENERAL ACCOUNTING OFFICE, WASHINGTON, D.C.

Mr. MACY. Thank you very much, Mr. Chairman. I appreciate the opportunity to return before you and testify concerning this legislation.

Last November I testified before this Subcommittee in support of H.R. 10912, an Administration measure which you introduced, Mr. Chairman, to improve financing and funding of the civil service retirement system. I am most appreciative of your continued interest in that legislation, and thank you for the opportunity of appearing before your committee today.

The bill as introduced was intended to accomplish these purposes:

Identify and recognize the full costs of retirement benefits;

Make orderly advance preparation to meet those costs;

Control growth of the "unfunded liability"; and

Assure maintenance of a Fund balance high enough to permit prompt payment of all benefits as they become due in the future.

It would do these things by requiring—

First, that the normal cost of present benefits and all new benefits authorized by future legislation be fully covered by matching agency-employee contributions.

Second, that Government pay costs of all increases in the unfunded liability created by future legislation, financing each such increase by gradually increasing annual installments over a 30-year period.

Third, that Government meet its responsibility for the unfunded liability attributable to already-enacted legislation by pegging the Fund at its highest year-end balance or at employee equity, whichever is greater.

The bill would authorize the Civil Service Commission to raise employee and Government contribution rates, in equal amounts, as required to assure that full normal costs are paid currently.

A number of other witnesses, including the Comptroller General of the United States, testified in support of the bill's objectives but suggested various changes in approach. As a result, you asked that the Civil Service Commission, the Bureau of the Budget, and the General Accounting Office study certain provisions of the bill and present a proposal approved by the three agencies. The proposal we presented is outlined in a letter which I addressed to you on March 22.

Mr. Chairman, I request that the letter and its accompanying tables be made a part of the record.

Mr. DANIELS. Without objection, the letter of March 22 and the attachments thereto will be made a part of the record.

(The documents follow:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 22, 1968.

Hon. DOMINICK V. DANIELS,
Chairman, Subcommittee on Retirement, Insurance, and Health Benefits, Committee on Post Office and Civil Service, House of Representatives.

DEAR MR. DANIELS: The plan for improving the financing of the Civil Service Retirement System which is described briefly in this letter is acceptable to the Comptroller General, the Bureau of the Budget, and the Civil Service Commission. Draft language to revise your bill, H.R. 10912, to put the three steps of this plan into effect is enclosed.

STEP I. FINANCING NORMAL COST

Employees and their agencies will share equally, via employee deductions and matching agency contributions, the full normal cost of present benefits and of all future liberalizations authorized by Congress.

The Commission will determine when an adjustment in the percentage of deductions and contributions is necessary to meet full normal cost, and will notify the Vice President and the Speaker of the House of its proposed adjustment. The new percentages will go into effect the first pay period which begins at least sixty days of continuous session of Congress after the notice, unless before then either the House or the Senate has passed a bill which provides a different adjustment or has passed a resolution which specifically disapproves the adjustment proposed by the Commission.

STEP II. FINANCING NEWLY CREATED UNFUNDED LIABILITY

Future legislation which creates additional unfunded liability will include authorization for appropriations to the retirement fund to finance the newly created liability, in equal annual installments over a thirty year period, with interest at the rate used in the most recent valuation of the System. The first installment is due as of the effective date of the statute which creates the liability.

STEP III. FINANCING THE UNFUNDED LIABILITY ATTRIBUTABLE TO EXISTING STATUTES

The Government assumes full responsibility for unfunded liability which arises from legislation already enacted. It will meet this obligation through permanent indefinite appropriations beginning on a modest scale at the end of fiscal year 1971 and increasing each year for the following nine years. The Secretary of the Treasury will transfer to the retirement fund the following percentages of amounts equivalent to interest on the unfunded liability: 10 per cent for 1971; 20 per cent for 1972; and an additional 10 per cent for each following year until, for the fiscal year 1980 and each year thereafter, the amount transferred will be the full equivalent of interest on the unfunded liability.

We have prepared the enclosed two tables to show the estimated progress of the retirement fund under present financing and under the plan described in this letter. For purely illustrative purposes we have assumed, for both Table A and Table B, legislation effective July 1, 1969 which increases normal cost by one-half per cent and creates additional unfunded liability of \$2 billion.

If enacted, this plan will provide in full for the permanent financing of the Civil Service Retirement System.

Sincerely yours,

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

FIXING THE DEDUCTION RATE

SUBSTITUTE LANGUAGE FOR H.R. 10912

Beginning page 3, line 19—

“(2) The Commission shall determine when an adjustment in the percentage of deductions prescribed by paragraph (1) of this subsection is necessary to meet fully the normal cost of the benefits then in effect, and shall transmit notice of proposed adjustment to the Vice President and the Speaker of the House of Representatives. Any proposed adjustment shall become effective with the first full pay period beginning at least sixty calendar days of continuous session of Congress, computed in accordance with section 906(b) of this title, after transmittal of the notice, unless before that date (a) either House of the Congress

has passed a bill which provides for a different adjustment or (b) either House of the Congress has passed a resolution which specifically disapproves the adjustment proposed by the Commission. The same adjustment, fixed at the nearest multiple of one-fourth of 1 per centum, shall be applied to each percentage prescribed by paragraph (1) of this subsection. Not more than one adjustment shall be proposed in any calendar year.

AMORTIZING NEWLY CREATED UNFUNDED LIABILITY IN 30 EQUAL
ANNUAL INSTALLMENTS

SUBSTITUTE LANGUAGE FOR H.R. 10912

Beginning on page 5, line 12—

“(f) Any statute that authorizes—

“(1) new or liberalized benefits;

“(2) extension of coverage to new groups of employees;

“(3) annuity increases, other than adjustments under section 8340 of this title or

“(4) increases in pay on which benefits are computed; shall authorize appropriations to the fund to finance the unfunded liability created by that statute, in equal annual installments over a thirty-year period beginning on the date the statute becomes effective, with interest computed at the rate used in the then most recent valuation of the System. The first payment shall be due on the effective date of the statute.”

INTEREST ON UNFUNDED LIABILITY (IN LIEU OF PEGGING)

SUBSTITUTE LANGUAGE FOR H.R. 10912

Page 2, line 20, delete “and g”.

Beginning page 2, line 24, delete the definition of “employee equity”.

Beginning page 6, line 3—

(g) At the end of each fiscal year beginning with 1971, the Commission shall notify the Secretary of the Treasury of the amount equivalent to interest on the unfunded liability computed for that year at the interest rate used in the then most recent valuation of the System. Before closing the accounts for each year, the Secretary shall credit to the fund, as a Government contribution, out of any moneys in the Treasury not otherwise appropriated, the following percentages of the amounts equivalent to interest on the unfunded liability: 10 per centum for 1971; 20 per centum for 1972; 30 per centum for 1973; 40 per centum for 1974; 50 per centum for 1975; 60 per centum for 1976; 70 per centum for 1977; 80 per centum for 1978; 90 per centum for 1979; and 100 per centum for 1980 and for each year thereafter. The Commission shall report to the President and to Congress sums credited to the fund under this subsection.

Page 7, line 14, delete the words “and the employee equity”.

CIVIL SERVICE RETIREMENT SYSTEM

TABLE A.—ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS MATCHING EMPLOYEE DEDUCTIONS AT 6½ PERCENT, PLUS DIRECT APPROPRIATIONS WHEN NEEDED TO MEET BENEFIT PAYMENTS

[In millions]

Fiscal year	Employee deductions and deposits		Government payments			Interest at 3½ percent	Total receipts	Benefit payments	Balance in fund at end of year	Unfunded liability at end of year
	Amount	As percent of payroll	Agency contributions		Direct appropriations					
			Amount	As percent of payroll						
1968	\$1,380	6½	\$1,365	6½	—	\$676	\$3,421	\$2,457	\$19,178	\$53,938
1969	1,380	6½	1,365	6½	—	707	3,452	2,640	20,142	56,040
1970	1,380	6½	1,365	6½	—	732	3,477	2,835	20,954	60,390
1971	1,380	6½	1,365	6½	—	751	3,496	3,034	21,596	62,823
1972	1,380	6½	1,365	6½	—	764	3,509	3,232	22,058	65,341
1973	1,380	6½	1,365	6½	—	770	3,515	3,435	22,335	67,947
1974	1,380	6½	1,365	6½	—	769	3,514	3,639	22,415	70,644
1975	1,380	6½	1,365	6½	—	744	3,505	3,869	22,290	73,436
1976	1,380	6½	1,365	6½	—	719	3,489	4,093	21,322	76,324
1977	1,380	6½	1,365	6½	—	686	3,464	4,309	20,477	79,314
1978	1,380	6½	1,365	6½	—	644	3,431	4,521	19,387	82,409
1979	1,380	6½	1,365	6½	—	593	3,389	4,725	18,051	85,612
1980	1,380	6½	1,365	6½	—	534	3,338	4,937	16,452	88,927
1981	1,380	6½	1,365	6½	—	466	3,279	5,136	14,595	92,358
1982	1,380	6½	1,365	6½	—	389	3,211	5,324	12,482	95,910
1983	1,380	6½	1,365	6½	—	303	3,134	5,497	10,119	99,586
1984	1,380	6½	1,365	6½	—	209	3,048	5,658	7,509	103,391
1985	1,380	6½	1,365	6½	—	108	2,954	5,794	4,669	107,329
1986	1,380	6½	1,365	6½	—	—	2,853	5,923	1,599	111,405
1987	1,380	6½	1,365	6½	—	—	4,447	6,046	—	115,823
1988	1,380	6½	1,365	6½	—	—	6,162	6,162	—	119,285
1989	1,380	6½	1,365	6½	—	—	6,273	6,273	—	120,171
1990	1,380	6½	1,365	6½	—	—	6,363	6,363	—	121,015
1991	1,380	6½	1,365	6½	—	—	6,455	6,455	—	121,795
1992	1,380	6½	1,365	6½	—	—	6,546	6,546	—	122,509
1993	1,380	6½	1,365	6½	—	—	6,638	6,638	—	123,155
1994	1,380	6½	1,365	6½	—	—	6,730	6,730	—	123,730
1995	1,380	6½	1,365	6½	—	—	6,833	6,833	—	124,200
1996	1,380	6½	1,365	6½	—	—	6,960	6,960	—	124,577
1997	1,380	6½	1,365	6½	—	—	—	—	—	—

CIVIL SERVICE RETIREMENT SYSTEM
TABLE A.—ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS MATCHING EMPLOYEE DEDUCTIONS AT 6½ PERCENT, PLUS DIRECT APPROPRIATIONS WHEN NEEDED TO MEET
BENEFIT PAYMENTS—Continued

[In millions]

Fiscal year	Employee deductions and deposits		Government payments			Interest at 3½ percent	Total receipts	Benefit payments	Balance in fund at end of year	Unfunded liability at end of year
	Amount	As percent of payroll	Agency contributions		Direct appropriations					
			Amount	As percent of payroll						
1998	\$1,380	6½	\$1,365	6½	\$4,310	---	\$7,055	\$7,055	---	\$124,871
1999	1,380	6½	1,365	6½	4,389	---	7,134	7,134	---	125,095
2000	1,380	6½	1,365	6½	4,454	---	7,199	7,199	---	125,260
2001	1,380	6½	1,365	6½	4,481	---	7,226	7,226	---	125,404
2002	1,380	6½	1,365	6½	4,506	---	7,251	7,251	---	125,527
2003	1,380	6½	1,365	6½	4,529	---	7,274	7,274	---	125,631
2004	1,380	6½	1,365	6½	4,548	---	7,293	7,293	---	125,719
2005	1,380	6½	1,365	6½	4,565	---	7,310	7,310	---	125,793
2006	1,380	6½	1,365	6½	4,575	---	7,320	7,320	---	125,860
2007	1,380	6½	1,365	6½	4,585	---	7,330	7,330	---	125,919
2008	1,380	6½	1,365	6½	4,594	---	7,339	7,339	---	125,971
2009	1,380	6½	1,365	6½	4,604	---	7,349	7,349	---	126,014
2010	1,380	6½	1,365	6½	4,613	---	7,358	7,358	---	126,050
2011	1,380	6½	1,365	6½	4,625	---	7,370	7,370	---	126,075
2012	1,380	6½	1,365	6½	4,635	---	7,380	7,380	---	126,091
2013	1,380	6½	1,365	6½	4,644	---	7,389	7,389	---	126,098
2014	1,380	6½	1,365	6½	4,649	---	7,394	7,394	---	126,100
2015 and after	1,380	6½	1,365	6½	2,462	---	7,397	7,397	---	126,100

¹ Liberalizations, effective July 1, 1969, assumed to create unfunded liability of \$2 billion.

² This amount is equal to interest on the then-existing unfunded liability, plus the annual deficiency in normal cost of 1½ percent of payroll.

Source: U.S. Civil Service Commission, Bureau of Retirement and Insurance, Mar. 8, 1968.

TABLE B.—ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS TO COVER (1) 50 PERCENT OF NORMAL COST; (2) 30-YEAR LEVEL AMORTIZATION OF NEWLY CREATED UNFUNDED LIABILITY; (3) INTEREST ON THE UNFUNDED LIABILITY, COMMENCING AT 10 PERCENT OF SUCH INTEREST IN FISCAL YEAR 1971, 20 PERCENT IN FISCAL YEAR 1972, AND INCREASING BY 10 PERCENT EACH YEAR TO 100 PERCENT IN FISCAL YEAR 1980 AND THEREAFTER

[In millions]

Fiscal year	Employee deductions and deposits		Government payments				Interest at 3½ percent	Total receipts	Benefit payments	Balance in fund at end of year	Unfunded liability at end of year
	Amount		Agency contributions		30-year level amortization	Interest on unfunded liability					
	Amount	As percent of payroll	Amount	As percent of payroll							
1968	\$1,485	7	\$1,470	7			\$580	\$3,635	\$2,457	\$19,178	\$53,938
1969	1,537	7¼	1,522	7¼			723	3,887	2,640	20,356	55,826
1970	1,537	7¼	1,522	7¼		\$105				21,603	57,780
1971	1,537	7¼	1,522	7¼		105				22,898	59,600
1972	1,537	7¼	1,522	7¼		105				24,251	61,269
1973	1,537	7¼	1,522	7¼		105				25,675	62,770
1974	1,537	7¼	1,522	7¼		105				27,179	64,088
1975	1,537	7¼	1,522	7¼		105				28,771	65,210
1976	1,537	7¼	1,522	7¼		105				30,431	66,123
1977	1,537	7¼	1,522	7¼		105				32,173	66,817
1978	1,537	7¼	1,522	7¼		105				34,007	67,285
1979	1,537	7¼	1,522	7¼		105				35,937	67,520
1980	1,537	7¼	1,522	7¼		105				37,971	67,520
1981	1,537	7¼	1,522	7¼		105				39,961	67,520
1982	1,537	7¼	1,522	7¼		105				41,914	67,520
1983	1,537	7¼	1,522	7¼		105				43,828	67,520
1984	1,537	7¼	1,522	7¼		105				45,742	67,520
1985	1,537	7¼	1,522	7¼		105				47,656	67,520
1986	1,537	7¼	1,522	7¼		105				49,570	67,520
1987	1,537	7¼	1,522	7¼		105				51,484	67,520
1988	1,537	7¼	1,522	7¼		105				53,398	67,520
1989	1,537	7¼	1,522	7¼		105				55,312	67,520
1990	1,537	7¼	1,522	7¼		105				57,226	67,520
1991	1,537	7¼	1,522	7¼		105				59,140	67,520
1992	1,537	7¼	1,522	7¼		105				61,054	67,520
1993	1,537	7¼	1,522	7¼		105				62,968	67,520
1994	1,537	7¼	1,522	7¼		105				64,882	67,520
1995	1,537	7¼	1,522	7¼		105				66,796	67,520
1996	1,537	7¼	1,522	7¼		105				68,710	67,520
1997	1,537	7¼	1,522	7¼		105				70,624	67,520

TABLE B.—ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS TO COVER (1) 50 PERCENT OF NORMAL COST;¹ (2) 30-YEAR LEVEL AMORTIZATION OF NEWLY CREATED UNFUNDED LIABILITY;² (3) INTEREST ON THE UNFUNDED LIABILITY, COMMENCING AT 10 PERCENT OF SUCH INTEREST IN FISCAL YEAR 1971, 20 PERCENT IN FISCAL YEAR 1972, AND INCREASING BY 10 PERCENT EACH YEAR TO 100 PERCENT IN FISCAL YEAR 1980 AND THEREAFTER.—Continued
[in millions]

Fiscal year	Employee deductions and deposits			Government payments			Interest at 3½ percent	Total receipts	Benefit payments	Balance in fund at end of year	Unfunded liability at end of year	
	Amount		As percent of payroll	Agency contributions		30-year level amortization						Interest on unfunded liability
	Amount	As percent of payroll		Amount	As percent of payroll							
1998.....	\$1,537	7¼		\$1,522	7¼	7¼	\$1,924	\$7,451	\$7,055	\$57,256	\$67,520	
1999.....	1,537	7¼		1,522	7¼	7¼	1,936	7,463	7,134	57,585	67,520	
2000.....	1,537	7¼		1,522	7¼	7¼	1,943	7,365	7,199	57,751	67,520	
2001.....	1,537	7¼		1,522	7¼	7¼	1,948	7,370	7,226	57,895	67,520	
2002.....	1,537	7¼		1,522	7¼	7¼	1,953	7,375	7,251	58,019	67,520	
2003.....	1,537	7¼		1,522	7¼	7¼	1,957	7,379	7,274	58,124	67,520	
2004.....	1,537	7¼		1,522	7¼	7¼	1,960	7,382	7,293	58,213	67,520	
2005.....	1,537	7¼		1,522	7¼	7¼	1,963	7,385	7,310	58,288	67,520	
2006.....	1,537	7¼		1,522	7¼	7¼	1,966	7,388	7,320	58,356	67,520	
2007.....	1,537	7¼		1,522	7¼	7¼	1,968	7,390	7,330	58,416	67,520	
2008.....	1,537	7¼		1,522	7¼	7¼	1,970	7,392	7,339	58,469	67,520	
2009.....	1,537	7¼		1,522	7¼	7¼	1,971	7,393	7,349	58,513	67,520	
2010.....	1,537	7¼		1,522	7¼	7¼	1,973	7,395	7,358	58,550	67,520	
2011.....	1,537	7¼		1,522	7¼	7¼	1,974	7,396	7,370	58,576	67,520	
2012.....	1,537	7¼		1,522	7¼	7¼	1,975	7,397	7,380	58,593	67,520	
2013.....	1,537	7¼		1,522	7¼	7¼	1,975	7,397	7,389	58,601	67,520	
2014.....	1,537	7¼		1,522	7¼	7¼	1,975	7,397	7,394	58,604	67,520	
2015 and after.....	1,537	7¼		1,522	7¼	7¼	1,975	7,397	7,397	58,604	67,520	

¹ Assuming the employee deduction and agency contribution rates are increased to 7 percent each on July 1, 1968, to cover full normal cost, and are further increased to 7¼ percent each on July 1, 1969, due to liberalizations effective that date.

² Liberalizations, effective July 1, 1969, assumed to create unfunded liability of \$2 billion.

Source: U.S. Civil Service Commission, Bureau of Retirement and Insurance, Mar. 6, 1968.

Mr. MACY. Thank you, sir.

Our proposal would change the bill in three significant ways:

First, instead of setting contribution rates independent of Congressional action, the Commission would notify the Vice President and the Speaker of the House of proposed rate adjustments. The proposed adjustments would go into effect 60 days later unless either the House or the Senate passed a bill setting a different rate or a resolution specifically disapproving the rate proposed by the Commission.

Second, instead of using a gradually increasing schedule of annual installments, Government would finance newly created unfunded liability through equal annual installments, over a 30-year period. The first installment would be due as of the effective date of the legislation creating the new liability.

Third, instead of pegging the fund, Government would meet its obligation for the unfunded liability due to already-enacted legislation through permanent indefinite appropriations beginning on a modest scale at the end of fiscal year 1971 and increasing each year for the following 9 years. For fiscal year 1980, and each year thereafter, the amount of money so credited to the fund would be the full equivalent of interest on the unfunded liability.

Some witnesses in the November hearings, and subsequently, endorsed the bill's objectives but at the same time urged various benefit liberalizations. As we have emphasized many times, every benefit liberalization has a price tag—usually a fairly substantial one—and this price must eventually be paid. I believe that it would be a mistake to add to a measure designed to improve retirement financing, benefit liberalizations that would offset the gains sought. Raising contribution rates, for example, will not improve financing at all if at the same time we add benefits that cost more than the new contributions will bring in. I urge that this bill continue to focus on the problem that is most urgently in need of solution, that is, adequate financing of present benefits, rather than on new benefits that would increase the deficit even more.

In conclusion, as I testified in November, there are many different ways the financing problem might be dealt with, and the particular approach chosen is far less important than getting started. The bill, with the modifications proposed jointly by the Commission, the Bureau of the Budget, and the General Accounting Office, would achieve all the objectives sought by the administration. By 1980, the fund would be soundly and permanently financed, with full consideration of present and future normal costs, existing unfunded liability, and additional unfunded liability which might be created by future legislation. Congressional control of contribution rates would be preserved.

I hope that you will find it possible to move the measure toward early enactment.

Thank you very much, Mr. Chairman. I appreciate the opportunity to offer that statement. Mr. Ruddock and I would be pleased to answer any questions that you and your colleagues may have concerning this statement, or concerning the subject generally.

Mr. DANIELS. At this time I would like to recognize Mr. Smith of the General Accounting Office, to make any statement he desires to present in connection with your joint effort.

Mr. SMITH. Thank you, Mr. Chairman. We do not have a formal

statement to present. Our purpose in being here today is to indicate our concurrence in the proposal that has just been outlined by the Chairman of the Civil Service Commission.

I would like to just read one paragraph from the Comptroller General's statement which he made before this committee on November 12, 1967.

"There are many approaches that can be taken to improve the financing of the civil service retirement system in addition to the two discussed herein. It is my view that regardless of the method the Congress may choose, it is important that a definite plan be adopted to improve the financing of the system at an early date."

The General Accounting Office subscribes fully and concurs in the proposals made by the Civil Service Commission in its letter of March 22. This proposal was reached through agreement with the Comptroller General himself, the Chairman of the Civil Service Commission and the Deputy Director of the Bureau of the Budget.

We heartily endorse this and we hopefully too are looking forward to your committee taking some fairly prompt action on this measure. Thank you.

Mr. DANIELS. Mr. Fenton, do you have any comment to make?

Mr. FENTON. I have no further comment.

Mr. DANIELS. You have heard Chairman Macy and Mr. Smith make their statements. Is the General Accounting Office in full accord with the comments that were made here this morning?

Mr. FENTON. Yes, sir. As Mr. Smith stated, the General Accounting Office believes that the proposal submitted by the Chairman of the Civil Service Commission in his letter of March 22 presents a sound basis for improving the financing of the civil service retirement system.

Mr. DANIELS. Chairman Macy, the plan that you have proposed here this morning contemplates the employees sharing 50 percent of the normal costs of benefits presently provided, and equal sharing of the normal costs of any liberalization which the Congress might authorize in the future; is that correct?

Mr. MACY. That is correct, sir.

Mr. DANIELS. The employee is not being asked to share the cost of financing the added unfunded liabilities created by any future liberalization?

Mr. MACY. That is correct. The Government would assume the obligation for financing such additional unfunded liability in the future through a plan of amortization, through equal payments over a 30-year period.

Mr. DANIELS. And neither is the employee being asked to help pay any costs attributable to the present unfunded liability; the Government assumes full responsibility for the present and future deficiencies arising from the legislation already enacted; is that correct?

Mr. MACY. That is correct; yes, sir.

Mr. DANIELS. And as you state in your testimony, the Government will meet this responsibility by transferring substantial moneys from the Treasury to the retirement fund?

Mr. MACY. That is right.

Mr. DANIELS. How much increased annual income will the fund derive, respectively, from employee deductions and agency contributions by increasing payroll withholdings from 6½ to 7 percent?

Mr. MACY. The increase will produce the equivalent of 1 percent of the total payroll of all employees covered; one-half percent from employees, and one-half from appropriations. This would be determined by the salary level currently expended. As I recall it, that is about \$22 billion. It would be \$220 million.

Mr. DANIELS. \$220 million?

Mr. MACY. That would be the annual increase to cover the normal cost of retirement benefits.

Mr. DANIELS. When the plan is fully implemented, how much will the Treasury transfer representing interest on the unfunded liability?

Mr. MACY. Mr. Chairman, I believe the table attached to my memorandum of March 22 will be helpful in responding to that.

The interest on the unfunded liability would be about \$1.8 billion at the present time. The proposal in this plan is that a portion of that interest be initially paid, and that we would phase up to the full amount of the interest on the unfunded liability by 1980, at which time the interest on unfunded liability would be \$2.363 billion.

Mr. DANIELS. For the purpose of the record, would you care to enumerate the amount that would be paid each year, commencing with the year 1971 to 1980, inclusive?

Mr. MACY. Yes, sir. Under the third phase of the proposal that we have jointly submitted, which is designed to cover the interest on unfunded liability, the plan would call for an appropriation of \$202 million in 1971; \$417 million in 1972; \$643 million in 1973; \$879 million in 1974; \$1,122 million in 1975; \$1,369 million in 1976; \$1,620 million in 1977; \$1,871 million in 1978; \$2,119 million in 1979; and in 1980, \$2,363 million; and that figure would continue into the future as an annual Government payment in order to meet the interest on the unfunded liability.

Now this is on the basis of the assumption of the covered payroll continuing as it is at the present time.

Mr. DANIELS. You mean the figure of \$2,363 million would be the contribution for the period from 1980 to the year 2015; is that correct?

Mr. MACY. That is correct.

Mr. DANIELS. And what would be the unfunded liability at the end of 1979?

Mr. MACY. The unfunded liability would be stabilized under this plan at \$67,520 million in 1979. The following year when the full interest was paid, there would be no further increase in the unfunded liability.

Mr. DANIELS. And you say that the unfunded liability would be stabilized at that figure; and with the Government making the constant contribution of \$2,363 million, even at the end of the year 2015, the unfunded liability would still be \$67 billion?

Mr. MACY. The unfunded liability would still be the same.

The judgment of the authors of this plan is that that unfunded liability is an amount that could be appropriately carried as long as the interest payments were being made into the fund so that the fund would include the interest on the unfunded liability. Three and a half percent is calculated as the interest on the existing fund. You

will notice in the next column the total receipts are given, and then the total receipts are contrasted with the benefit payments.

Mr. DANIELS. Then the balance in the fund—

Mr. MACY. The balance in the fund would be gradually built up over this period of time so that the balance—which in 1968 is roughly \$19 billion—would be gradually increased to a figure of \$58,604 million in the year 2014.

Mr. DANIELS. So at the present time we have assets in the fund of approximately \$19 billion, with an unfunded liability of approximately \$53 billion; is that correct?

Mr. MACY. That is correct. The unfunded liability would rise another \$14 billion, and the fund would rise from \$19 billion to \$35 billion over the period of the next 10 or 11 years, and then would stabilize ultimately at approximately \$58 billion.

Mr. DANIELS. According to what you have just said, the system is currently funded at approximately 25 percent; and under your proposal it would be funded at approximately 50 percent?

Mr. MACY. That is right.

Mr. DANIELS. And that is recommended as being reasonably sound financing?

Mr. MACY. That is correct.

Mr. DANIELS. It is estimated that the normal costs of the present benefits approximate 13.86 percent of payroll, and it is suggested that 14 percent be authorized to finance them. Now, the difference of 14 one-hundredths of a percent amounts to how many millions of dollars annually?

Mr. MACY. Mr. Ruddock, can you give us that figure, please?

Mr. RUDDOCK. Approximately \$30 million.

Mr. DANIELS. Well, then, any liberalization of benefits having a normal annual cost of \$30 million could be attained without requiring employee and agency contributions beyond 7 percent, respectively; is that correct?

Mr. MACY. Yes. The financing of liberalization not in excess of that amount could be accommodated within the 14 percent that would result from the new percentage contributions on normal cost.

Mr. DANIELS. Well, I am quite sure that you are aware of the legislative objectives previously advocated by Federal employee organization spokesmen during the course of these hearings. So, it might appear that within the framework of income equal to 14 percent of payroll, some improvements in the benefits structure of the retirement program might be justifiably attained.

Now one of the proposals which occurs to me at the moment is the granting of service credit for retirement and survivor purposes for unused sick leave.

Another one which comes to mind is modification from 5 to 3 years of the average salary period.

I am also interested in the status of retirees whose designated survivors predecease them, and for those who remarry subsequently and are unable to provide their spouses survivor protection.

Also, of much concern to me is the fact that present law fails to furnish equitable treatment to survivors of persons who retired or died prior to the amendments of July 18, 1966, in the event of remarriage after the age of 60.

Could you, Mr. Chairman, give us some idea of the cost involved in any of these items I have just mentioned?

Mr. MACY. Yes, I would be happy to do that.

On the matter of a revision in the formula for computation to use a high three average rather than a high five average as at the present time, the increase in normal cost would be 0.07 percent of payroll, or \$15 million annually.

Mr. DANIELS. That is the high three instead of high five average?

Mr. MACY. That is right.

Now, on the elimination of the reduction to provide survivor annuities when the spouse predeceases, and substitution of a second spouse upon remarriage, the estimated normal cost of the first would be 0.066 percent of payroll, or approximately \$14.5 million a year, to eliminate the reduction. Substitution of a second spouse is more costly—normal cost increase is 0.08 percent, or \$18 million a year.

On the matter of applying the July 18, 1966 amendments, since that involves only those who are already retired, it does not increase the normal cost. It would increase the obligation against the fund, but not increase normal cost.

On the matter of crediting unused sick leave balances as time credit for computing the annuity when the employee retires or dies, leaving survivors who qualify for annuity, there are a variety of plans that might be undertaken; depending upon just what pattern you use, your cost would be different. If there were a payoff as time credit for computing annuity rates, cost would be roughly equivalent to 25 percent cash. Retirement credit would cost about \$22 million a year, or 0.1 percent of payroll. This would break into 0.06 percent, or \$13 million, for normal cost, which is the key figure you were inquiring about. The balance would be an unfunded liability cost that would add to it.

Mr. DANIELS. The figure there is \$13 million if service credit were given for sick leave on retirement or death?

Mr. RUDDOCK. Normal cost; yes, sir.

Mr. MACY. That is the increase in normal cost, the 0.06 percent, or \$13 million.

Mr. RUDDOCK. That contemplates giving time credit for the unused sick leave to the individual who is already eligible to retire. This is not using days as time credit for eligibility. For example, if the requirement in the retirement law was 30 years of service, it would assume he had 30 years of service and is retiring. Then you would give him 30 years, plus 1 month or 2 months, or whatever it happened to be—of unused sick leave.

Mr. MACY. It would not liberalize his eligibility. It would be increasing his annuity, having achieved eligibility under the existing standards.

I believe I have been responsive to all of your points, Mr. Chairman, except the increase in the survivor annuity to reflect the supplemental annuity earned by a reemployed annuitant.

There is a very small number of cases that fall into that category, and so the amount of cost is negligible and virtually impossible to compute. You could establish that one and say that the cost would be totally insignificant.

Mr. DANIELS. I would like to get something clear in my mind with respect to sick leave.

Assuming this hypothetical situation—an employee has 30 years of service and he has attained the age of 55, and assuming, further, that he has accumulated 3,000 hours of sick leave. Now, how would that 3,000 hours of sick leave be reflected if he was given credit towards retirement?

Mr. RUDDOCK. In very rough terms, his annuity would be computed as if he had 31½ years of service.

Mr. DANIELS. The additional year-and-a-half would represent the 3,000 hours of accumulated sick leave?

Mr. RUDDOCK. It is roughly a year-and-a-half of service. Actually he would get an extra month of service for each 22 days of unused sick leave.

Mr. DANIELS. And the cost for that, you say, would amount to \$13 million; or represents 0.1 percent of payroll?

Mr. MACY. That represents 0.06 percent of payroll. Now, when I used the 0.1, that included the cost that would be involved in the unfunded liability as well as the normal cost. The normal cost is 0.06.

Mr. DANIELS. Mr. Chairman, has the Civil Service Commission any statistics as to what areas of the Federal employee population experience abnormal utilization of the sick leave privilege?

Mr. RUDDOCK. We made a study of that some years ago. I can't remember just now how this varied among agencies. The average use of sick leave Government-wide was about 8.3 days per employee; and while there was some variation among agencies, it wasn't a very significant thing.

Mr. HENDERSON. Mr. Chairman, will you yield on that point?

Mr. DANIELS. I would be happy to.

Mr. HENDERSON. What would be your impression of what might happen to the use of sick leave if employees were given some type of credit like this?

I am trying to ask this: Do you think employees would build up their sick leave if they were going to get credit for it at retirement?

Mr. MACY. I think our reaction, Mr. Henderson, would be that if there were this additional incentive to conserve sick leave because it would provide for some additional benefit, there would be extra consideration given to the use of the leave as it is provided. I think there is a basic policy issue that is involved in this discussion.

Up to the present time, public policy has been that sick leave is like an insurance policy. It is something that is available if you have to use it. And it has not been considered a part of any compensatory rights that the individual can turn in and receive cash credit for.

Mr. HENDERSON. Without getting too far afield, Mr. Chairman, let me comment that my Manpower and Civil Service Subcommittee has received some evidence, and we are trying to expand and give thought to some of the employee organizations, or representatives of them—it is not the official position that I have been able to find—that Federal employees have been encouraged to take sick leave when they were not sick.

Placing that into what we are thinking about here, it would seem to me that there would be less reason for that being done, and that the individual employee would be a little more responsible and certainly I would hope that the representatives of the employee organizations would be a little more responsive. They would be taking it

out of pocket in a sense if they did this. But that is a very serious thing, I think.

Mr. MACY. Yes, it is; and I think we have to recognize, Mr. Henderson, that we have a very liberal set of leave benefits in the Federal Government at the present time; both with respect to sick leave and to annual leave.

Mr. HENDERSON. Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Chairman, if you did give a payoff as an incentive for sick leave, which you estimated would cost \$13 million annually, would you hazard a guess as to how much the Government would save by giving this incentive?

Mr. MACY. It would be purely a guess, because there is really no data that one could draw upon in arriving at any kind of estimate.

As I indicated in response to Mr. Henderson's question, I think there would be a tendency on the part of the employee to exercise greater care in the use of sick leave because he would know that he would have a benefit at the other end of the line.

But I think it is important that we look at sick leave not as something that is always abused but as something that is there for the employee to use when he is ill or indisposed. And hopefully an incentive would not produce a condition where he would continue to work because of the potential dollar value rather than use his sick leave when he needed it.

In answer to your question, I think that probably the cost would be offset significantly by a lesser use of sick leave on an annual basis by employees. If we were able to reduce the average use from the 8.3 days a year that Mr. Ruddock cited to, say, 7 days a year, that would represent a substantial savings.

Mr. DANIELS. Under present law, employees are now granted 13 days of sick leave annually?

Mr. MACY. That is correct.

Mr. DANIELS. And Mr. Ruddock testified that the average employee consumes about 8.3 days. Now, let's make a further assumption. Let's assume that by virtue of giving credit toward retirement that there would be an additional day saved, reducing it from 8.3 to 7.3. How much of a saving would that result in to the Government?

Mr. MACY. Let's see. Does anybody have a computer in the house?

Mr. HENDERSON. Mr. Chairman, could I suggest a simple solution to this? Is it true the creation of a Columbus Day holiday would cost \$90 million?

Mr. MACY. The cost of an additional holiday would be \$90 million; so that is the same. That would be the same.

Mr. HENDERSON. Saving 1 day each year.

Mr. MACY. It just shows the value of testimony on other legislation.

Mr. HENDERSON. It would also offset the cost of Columbus Day by this legislation if it is enacted by the Congress.

Mr. MACY. If you got everybody to work one more day that would otherwise be spent on sick leave, \$90 million would be a reasonable estimate.

Mr. HENDERSON. I think for the record, Chairman Macy, it would be well for you to respond to an assumption I think we are all going on, and that is, that as we have considered this, we have assumed that the action of the Congress last year in passing the pay bill would

mean we would have a salary increase this year, and again next year. Our consideration of this might be tempered if these increases were not effected. There have been some press reports, at least, that consideration might be given to denying or deferring the pay increase this year.

Could you just make a statement with regard to how you see that so it would be on the record?

Mr. MACY. My view, Mr. Henderson, is that the Congress, in Public Law 90-206, placed on the statute books provisions for a salary increase on July 1, 1968, and on July 1, 1969, in order to achieve comparability by the latter date; that half of the difference between the existing scales and comparability would be the increment in 1968. The only way in which those commitments can be altered, deferred or postponed is for the statute to be amended. I am unaware of any legislation pending at the present time to accomplish that change.

Mr. HENDERSON. In effect, what we would be saying to the employee is that by the action of the Congress last session, when it is fully effective, that you received about a 10-percent increase, speaking generally, and by the action of increasing the contribution here, about one percent of that increase we would be taking to assist in the financing of the retirement system?

Mr. MACY. As far as the employee is concerned, only one-half of 1 percent would be contributed. The other half percent would be an additional charge against current appropriations that would have to be made in order to cover the increased contribution.

Mr. HENDERSON. So that, as I recall our discussions in the past, we have been talking that this is the effect to the employee: that we would be taking away one-half of 1 percent of the 10 percent increase we gave them; and going on the assumption that they will fully get that 10 percent, we would still be in agreement on that, wouldn't we?

Mr. MACY. That is right. And I think that in light of the existing commitment for a pay increase, that this would be an appropriate period in employee history to make the necessary increase to meet normal cost.

Also, I think it is important to recognize, as I have testified on this legislation before, that every pay increase does constitute an increased obligation on the retirement fund.

You will recall that the figures show that for every dollar of pay increase there is an increased obligation on the retirement fund of two and a half dollars.

Mr. HENDERSON. One other thing—I think that we have a hazy idea, but it doesn't hurt to repeat, and you can articulate this better than I can. What would happen if we don't act on this proposal, or a proposal we would finally agree upon?

Mr. MACY. If there is no action on financing, we will continue to have an increase in the unfunded liability represented by two major conditions. One is the loss of interest that would otherwise be collected if the fund were fully funded. And second, we would accelerate the rise in the unfunded liability by doing nothing about the increased obligations that come about through pay increases, annuity adjustments and liberalizations in the basic plan.

This would mean that we would reach a point in the relatively near future where not only will the payments exceed the intake into the

fund, but the fund itself will be totally exhausted and it will be necessary to make appropriations on an annual basis to meet the current costs of the annuities that have been earned by present employees and by those already retired.

Mr. HENDERSON. Assuming there are no further liberalizations and no action on this legislation as proposed, what year would you anticipate we would get to that point? And what would it cost by way of appropriations that year, or the succeeding years?

Mr. MACY. Well, if nothing is done, the disbursement will exceed the income by 1975, and the fund will be exhausted by 1988.

Mr. HENDERSON. What would be the cost, say, in 1988 when the fund is exhausted?

Mr. MACY. The appropriation that first year would be \$1,702 million. The following year it would rise, in 1989, to \$3.4 billion and would continue to rise to a figure of \$4,652 million in the year 2015.

Mr. HENDERSON. So that is almost double what it would cost if we have a plan as proposed?

Mr. MACY. That is assuming no further liberalizations, no further pay increases over that span of time. This is based on existing conditions and their continuance throughout this period.

Mr. HENDERSON. The plan proposed will carry itself for the increased pay, increases that would be authorized at any time, provided that Congress matches that with the appropriations?

Mr. MACY. The normal cost would be met, but under this plan, all future pay increases would include amortization schedules of payments by the Government annually to meet the 30-year additional cost of that pay increase.

Now the change from our previous position is that rather than have this a gradually rising amount over the 30-year period, we have accepted the position of the Comptroller General and said these should be equal payments over the 30-year period. So this would become a part of the total cost of future pay increases.

Mr. HENDERSON. Finally, Mr. Macy, with regard to the items that Chairman Daniels went over, if the subcommittee decided that it would like to take action to make some liberalizations with regard to, say, sick leave or the other items, would you be in a position to advise us with regard to the merits and your priorities within that framework? We have talked about what it would cost.

I am not asking you this morning necessarily to do that; but would you be in a position at a later time, Mr. Chairman, if we wanted that information, to make recommendations?

Mr. MACY. Yes, we would be happy to evaluate each one of the points that the Chairman has made, and give an indication of the Commission's view as to the relative contribution of each of those from the point of view of the employees and the Government as management.

I think it is important that I reiterate that we feel the basic purpose of the legislation is to improve financing. And that if costs are added in the same legislation we, to some degree, are retarding whatever gain we make.

My response to the Chairman was that if there were any liberalization, it would appear that it would be less defeating of this purpose if it were kept within the 14 percent normal cost.

Mr. DANIELS. Will you yield at that point?

Mr. HENDERSON. I would be delighted to yield the floor, Mr. Chairman.

Mr. DANIELS. I did point out during the course of my questioning that if the employees were to contribute 7 percent, and the Government would contribute 7 percent, that there would be a surplus of 14 one-hundredths of 1 percent, which you estimated to be worth about \$30 million.

Mr. MACY. That is right.

Mr. DANIELS. So we do have something to work with within the framework of the \$30 million?

Mr. MACY. We would immediately face the situation of having to increase it if we use up whatever differential there is between the current normal cost and the amount of the contribution, if there were further liberalizations.

Mr. Chairman, if it would be helpful to you, I can take a moment and indicate informally our order of priority on these points that you have raised.

In our view the first one would be to make the remarriage provisions of July 18, 1966, applicable. This does appear to be a move that would assure greater equity among those that are retired.

Secondly, reflect the supplemental annuity of a reemployed annuitant in survivor annuity.

And the third, the credit of the unused sick leave as we have discussed it.

Fourth, the elimination of reduction in annuity when the spouse predeceases the annuitant.

Fifth, substitute a newly acquired spouse for a predeceased spouse for survivor annuity purposes.

And the final one, the substitution of the high three for the high five.

That would be the order of the six items that we discussed. I offer this informally. We have not really had an opportunity to give this the depth of consideration that is probably desired; but perhaps this would give you some indication of our thinking.

Mr. HENDERSON. Mr. Chairman, in view of Mr. Macy's priorities there, I would like to ask one question, if the subcommittee has time.

I don't know why, but it was certainly my lowest priority to go from the high five to the high three. Can you tell us why you would locate that at your lowest priority so I might at least be able to adopt your reasoning?

Mr. MACY. Frankly, Mr. Henderson, we feel that in comparing this retirement plan with other staff retirement plans, that the use of the high five as a means of computation is already a very liberal formula, and that to increase the liberality by reducing it to 3 years would put us out ahead of other comparable plans to a degree that I think is difficult to defend.

Mr. HENDERSON. Could you give us a logical statement—and if you can't this morning, submit it to us later—that would show where the private sector of our country might have a different period for its board of directors than it would have for across-the-board employees? And to be perfectly honest and to put it on the record, I think one of the things that makes us all most interested in the reduction of five

to the three is that period happens to be the period that Members of Congress retirement is computed on, and there is a great deal of interest because of the lack of job security for this board of directors of this Government. To reduce that 5 years, it would seem to me that if we could demonstrate to the average employee that our system might be changed without necessarily changing theirs, we would take pressure off of this item that I put on low priority and didn't know why I did so.

Mr. MACY. Mr. Henderson, there is another plan with respect to congressional retirement which I believe has been reported by the Foreign Affairs Subcommittee, which gives further recognition to the unusual employment conditions of Members of Congress and the relationship of those conditions to retirement purposes.

Mr. HENDERSON. Would you anticipate that any of the employee organizations might recommend that as a fine thing for Members of Congress, but would suggest that it would not necessarily follow that they would press for it?

Mr. MACY. I think they would feel that the pace set by Congressmen should be matched by the employees.

Mr. HENDERSON. Thank you very much, Mr. Chairman.

Mr. DANIELS. I have one further question, and I don't want to utilize all the time.

Mr. Chairman, on page 3 of your statement, the paragraph numbered "3" reads as follows:

"Instead of pegging the fund, Government would meet its obligation for the unfunded liability due to already enacted legislation through permanent indefinite appropriations beginning on a modest scale at the end of the fiscal year 1971 and increasing each year for the following 9 years."

What is the significance of the year 1971?

Mr. MACY. I think the view was that this was a process that ought to be initiated, but that from a general fiscal point of view, rather than moving to full interest immediately, it should be staged over a period of 10 years with what amounts to 10 percent of the interest added each year. It is 10 percent in 1971, 20 percent the following year, until finally in 1980, after 10 years, the full amount would be provided.

Mr. Chairman, there is one other point that perhaps I didn't emphasize sufficiently in my statement. And that is that there was criticism in the course of your hearings from some of the witnesses on giving the Civil Service Commission unreviewed responsibility for setting the contribution rate in the future based upon normal cost.

We have incorporated in the changes that are suggested here a means whereby the Congress participates in that determination.

Mr. DANIELS. Yes; I noted that when you testified to that point. I am fully aware of it.

Mr. Broyhill?

Mr. BROYHILL. Thank you, Mr. Chairman.

I note that Mr. Henderson has already asked the various questions that were on my mind this morning; but I would like to ask one question in regard to the colloquy between Chairman Daniels and you with respect to unused sick leave.

Has such a plan been tried anywhere in the Government and if not, do you have any studies of any plans of this type that may be in operation in private industry?

Mr. MACY. We are unaware of any other plan of this type. The sick leave plan as it exists in the Government is unique in that most sick leave plans are on a different basis in industry. There is usually insurance to cover sickness and to cover the lost wages that result from sickness.

This particular plan for crediting accumulated sick leave in the computation of retirement annuity has been advanced over a number of years. The position taken by the Commission during my chairmanship and previously has been in opposition to such plans on the grounds that it departs from the public policy on sick leave, which has been to provide this as a benefit that is available if the individual needs it, and not as a matter of compensatory value.

Now, the step that would be taken if this were adopted would really be to significantly alter that public policy position; and it seems to me that we need to contemplate what might occur in the way of future requests for compensation for sick leave and the potential costs that would be involved in that.

Mr. BROYHILL. And you are unaware of any type of plan like that in private industry?

Mr. MACY. Along the lines proposed—perhaps Mr. Ruddock through his more extensive research would have some information on that.

Mr. RUDDOCK. I don't know of any plan that would do it exactly like this plan. There seems to be a growing tendency where there are sick leave plans, for example, in a State or municipal jurisdiction, to have some form of recognition of unused sick leave at the time an individual retires. In some instances there is a cash payoff; for example, give the individual 50 percent in cash of the value of his unused sick leave.

As I remember the retirement system for employees of the Canadian Government, an individual who retires and who has an unused sick leave balance continues to receive the equivalent of his salary, even though he is retired, for a period equal to the unused sick leave, and then his income is reduced to the rate of annuity.

So this would not be unique in giving monetary compensation for unused sick leave, but I don't know of any other plan that would do it exactly this way.

Mr. BROYHILL. Thank you, Mr. Chairman.

Mr. MACY. There is a further point that might be helpful to the subcommittee which I find particularly interesting, and that is that about a third of the people who retire under our system retire on disability. And since they retire on disability, they are entitled to use their sick leave before they go on retirement. In other words, they are using it while they are on salary. That represents a third of those that retire, and has since 1920; isn't that correct?

Mr. RUDDOCK. Yes; it varies by a few points.

Mr. HENDERSON. Would the gentleman yield?

Mr. BROYHILL. Yes.

Mr. HENDERSON. Isn't it true, as a practical matter with respect to our employees who have 30 years of service—and, by and large, most of them are senior employees—that management is a little more liberal

with the sick leave policy in the latter months immediately prior to their retirement? I don't know whether there have been any studies on this or not, but I seem to sense this in talking with some of the older employees and retirees that I have had contact with.

Mr. MACY. There is evidence of greater use of sick leave for the more mature employees, who have a higher incidence of illness.

Mr. HENDERSON. Based upon your theory of need, it is a normal and expected thing, I think; don't you?

Mr. MACY. Yes, and that is one of the purposes behind the accumulation, that this is permitted to build up during the early years of a career so that it is available in the event there is more severe illness when the employee becomes more mature and has a higher degree of susceptibility to illness and injury.

Mr. HENDERSON. On the other side, the argument of the employee organizations, I think, becomes very valid—that those who don't need it, in a sense, lose it at a time when it could mean the most to them.

Mr. RUDDOCK. Mr. Henderson, I don't think you will find any valid statistical studies on a change in attitude toward the granting of sick leave when one is near retirement. If you find an instance in which the individual takes sick leave when he is not ill, it is an offense which would warrant removal from the service; and carried to its extreme, it is a criminal offense because he is taking money under a false pretense. So you don't come up with a valid statistical study on that point. You either have to assume that leave which is granted for sickness is because of real illness, or you immediately have to take some kind of action on the abuse. You can't just make a statistical study and say sick leave is abused in "x" percent of the instances.

Mr. HENDERSON. Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Hanley, any questions?

Mr. HANLEY. Thank you, Mr. Chairman.

Mr. MACY, as I recall, one of the factors contributing to the unfunded liability is the credit for military service provision. I have contended that this is truly a Defense Department operational expense and should be incorporated into its budget to allow actual reimbursement to the retirement fund. Has this possibility been considered?

Mr. MACY. Yes, Mr. Hanley. When I testified in 1964 on a proposal similar to this before the committee in the other body, the late chairman of that committee, Senator Olin Johnston, raised the same issue. And at that time we did explore with the Department of Defense the possibility of the military credits being financed by the Defense Department.

As I recall it, at that time they had no particular objection to this although it was just a matter of the Government taking it from a different pocket and putting it into the fund. As I recall it, we did have some figures at that time. In fiscal 1969, we have brought this up to date; the amount for military credit would be about \$95 million.

Mr. RUDDOCK. That would increase \$10 million a year.

Mr. HANLEY. Is that on an annual basis? Approximately an average of \$100 million?

Mr. RUDDOCK. \$95 million as we estimate it for the first year. That would increase by about \$10 million a year as additional people retired; and would level off, we think, at about \$300 million.

Mr. MACY. There are some additional statistics that might be of interest to you. About half of all annuitants will have military service. The average military service is about 1.5 years. About 4.5 percent of the service of present annuitants is military service. The annuity cost of military service for fiscal year 1962, which was the year we had at the time we looked this up before, was about \$42 million. So in terms of the total fund, it is a relatively small percentage. But you are correct, it does constitute a portion of the obligation. This is another liberal feature of our plan, that we do provide credit in the formula for computation of annuity for periods of military service as well as the covered service on the civilian side of the Government.

Mr. HANLEY. From the standpoint of administration, would this be a headache to the Commission?

Mr. MACY. I don't think it would be a serious headache. I think it would be a headache to the Defense Department. We would have to work out a system for recording this. But with computerization of payrolls and retirement operations, we could program this, so I think it could be accomplished.

In relation to the retirement bill for military personnel, this also would be a relatively small amount. As I recall it, the Congress is presently appropriating in the neighborhood of \$2 billion a year for military annuitants under the existing noncontributory system.

Mr. HANLEY. Are there other areas where we have situations similar to this, from the standpoint of credit for retirement purposes?

Mr. MACY. There are retroactive situations that have been enacted in the past, but the task of going back and refinancing those portions would be extremely difficult. Of course, one of the reasons we have the unfunded liability is that we have from time to time brought people into the system without any contribution being made for the previous service that was then being credited.

My own comment on this would be that I think we need to guard against legislation that brings additional groups of employees into the retirement system without providing for back funding of service. Virtually every year there are proposals before this committee of groups that are on the edge of Government employment that ought to be brought into this system. When they are brought in, if equity is established that they should be brought in, there is an additional financial burden placed upon the fund because there has been no contribution for the previous service that will now be credited.

Mr. HANLEY. In line with what you have said, for instance, with respect to the proposal of bringing the National Guard technicians into the system—which I would hope would be enacted by the Congress on the basis of its merit—how will you handle a situation like this from the retirement standpoint?

Mr. MACY. It would seem to me that in the basic legislation there should be included a means for financing the past credit that would become an obligation against the fund. This could be done on a computed basis so that there would be a contribution, presumably from military appropriations again, to cover that service.

Mr. DANIELS. Will the gentleman yield at this point?

Isn't that exactly what you propose under Step 2?

Mr. MACY. Under Step 2, any future liberalization would carry an amortization schedule over a 30-year period, so it could be done under

the second proposal; or there could be a special one because of the special conditions of the National Guard.

Mr. HANLEY. I see. Thank you, Mr. Chairman. No further questions.

Mr. HENDERSON. I have one further question. We were talking about this \$30 million. I referred to it as a "cushion." If this subcommittee took no action, but the Congress did bring in, for example, National Guard technicians, it would be possible for the cost of that legislation to be absorbed into this system if it were less than \$30 million—and I am sure it would be—without any further action, wouldn't it?

Mr. MACY. Well, that action would not affect the normal cost. That action would affect the fund so that would be dealt with under the second provision, you see.

Mr. HENDERSON. Right.

Mr. MACY. The normal cost would only be affected by a liberalization in the plan, an additional benefit that would increase the normal cost in funding the particular benefit.

Mr. HENDERSON. I think this Phase 2 is a very important portion of the legislation we are considering.

Mr. MACY. Yes, it is. And really, it constitutes a form of discipline on all of us to recognize that when we have liberalization, eventually it has to be paid for; and this would insert a plan by which it would be paid for over the 30-year period.

Mr. DANIELS. I want to thank you, Mr. Chairman, and all your associates here this morning, for your testimony. Mr. Smith, Mr. Charam and Mr. Fenton, I did not, nor did my colleagues, intend to ignore you gentlemen here this morning. We directed all our questions to Chairman Macy and to Mr. Ruddock.

Do you have any further comment?

Mr. SMITH. No.

Mr. DANIELS. We would be glad to listen to you and get your remarks on the record.

I want to thank all of you gentlemen. We appreciate your appearance this morning and giving us the benefit of additional testimony.

This will conclude the public hearings on the subject of financing. The Chair will call an executive session of the subcommittee in the near future to accommodate all the members.

(Whereupon, at 11:30 a.m., the subcommittee was adjourned.)

