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RETIREMENT FINANCING

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HEARINGS

BEFORE THE

SELECT COMMITTEE ON RETIREMENT, INSURANCE,
AND HEALTH BENEFITS

OF THE

COMMITTEE ON
OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

FIRST SESSION

ON

H.R. 770

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

MARCH 17, 18, AND 20, 1969

Serial No. 91-2

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RETIREMENT FINANCING

MONDAY, MARCH 17, 1969

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 be in order.

With this morning's session, the Subcommittee on Retirement, Insurance, and Health Benefits embarks upon its legislative program for the 91st Congress.

Before proceeding further, the Chair desires to announce the presence at this morning's committee hearing of the distinguished chairman of the full Committee on Post Office and Civil Service, Hon. Thaddeus J. Dulski of the great State of New York, who has done so much to assure a successful legislative program, not only of the full committee, but of this subcommittee, in the last Congress.

I would like to make the observation, for the benefit of the people present here this morning, that this is really a fine subcommittee. More than half of its membership is composed of chairmen of other subcommittees. For example, Mr. Henderson, who is the vice chairman of the full committee, is the chairman of the Subcommittee on Manpower and Civil Service and the ranking majority member of this subcommittee. Then we have Hon. James H. Hanley from the State of New York, who is chairman of the Subcommittee on Position Classification, and the gentleman from Pennsylvania, Mr. Nix, who chairs the Subcommittee on Postal Operations.

I wish to welcome at this particular time the gentleman from Maryland, who is a freshman Member of this Congress. We feel very pleased that he has decided to serve on this subcommittee, and I refer to Mr. Hogan. I hope, Mr. Hogan, that you will enjoy your service on this subcommittee as much as I have during the past several years.

Mr. HOGAN. I am sure I will.

Mr. DULSKI. Will the gentleman yield?

Mr. DANIELS. I am pleased to yield to the chairman of the full committee.

Mr. DULSKI. I would like to make an observation in view of the modesty of the distinguished gentleman from New Jersey, the chairman of this subcommittee, Mr. Daniels. He has been of tremendous help to me as the chairman of the full committee. He has taken upon himself a great deal of the burdens that otherwise would fall on me as chairman. I know how hard he worked in the 90th Congress. It is a privilege to be here with him this morning.

Mr. DANIELS. Let me say the ranking minority member from Virginia, Mr. Scott, also made a great contribution in the last Congress.

To all members here I extend a hearty welcome, and I trust the momentum of activity we generated in the last session will continue to be maintained in this Congress.

As its first order of business this year, the Subcommittee on Retirement, Insurance, and Health Benefits is meeting today in further consideration of a proposal designed, primarily, to strengthen the financial condition of the civil service retirement system. The bill under consideration, H.R. 770, is substantially identical to H.R. 17682 of the 90th Congress, which was adopted by the House last October 1, but upon which the Senate took no action prior to adjournment.

The extensive testimony previously 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 deductions and agency contributions.

In its approach to a most serious and complex problem, this subcommittee, the full Committee on Post Office and Civil Service, and the Congress will again 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 again 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, a copy of the bill, H.R. 770, and the administrative report of the Comptroller of the United States, which is the only one which has been received to date, will be inserted in the record at this point. Other agency reports will be inserted at this point, when received.

(H.R. 770 and the reports of the Comptroller General of the United States, the Civil Service Commission, and the Bureau of the Budget, follow:)

91ST CONGRESS
1ST SESSION

H. R. 770

IN THE HOUSE OF REPRESENTATIVES

JANUARY 3, 1969

Mr. DANIELS of New Jersey (for himself, Mr. HENDERSON, Mr. UDALL, Mr. NIX, Mr. HANLEY, Mr. CHARLES H. WILSON, Mr. WALDIE, Mr. WHITE, Mr. WILLIAM D. FORD, Mr. TIERNAN, Mr. CUNNINGHAM, Mr. JOHNSON of Pennsylvania, Mr. BROYHILL of North Carolina, Mr. BUTTON, and Mr. THOMPSON of Georgia) introduced the following bill; which was referred to the Committee on Post Office and Civil Service

A BILL

To amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 TITLE I—CIVIL SERVICE RETIREMENT

4 FINANCING

5 SEC. 101. Section 8331 of title 5, United States Code,
6 is amended—

7 (1) by striking out “and” at the end of paragraph

8 (15);

I

1 (2) by striking out the period at the end of para-
2 graph (16) and inserting a semicolon in lieu thereof;
3 and

4 (3) by adding immediately below paragraph (16)
5 the following new paragraphs:

6 “(17) ‘normal cost’ means the entry-age normal
7 cost computed by the Civil Service Commission in ac-
8 cordance with generally accepted actuarial practice and
9 expressed as a level percentage of aggregate basic pay;

10 “(18) ‘Fund balance’ means the sum of—

11 “(A) the investments of the Fund calculated
12 at par value; and

13 “(B) the cash balance of the Fund on the
14 books of the Treasury;

15 “(19) ‘unfunded liability’ means the estimated ex-
16 cess of the present value of all benefits payable from
17 the Fund to employees and Members, and former em-
18 ployees and Members, subject to this subchapter, and to
19 their survivors, over the sum of—

20 “(A) the present value of deductions to be
21 withheld from the future basic pay of employees
22 and Members currently subject to this subchapter
23 and of future agency contributions to be made in
24 their behalf; plus

25 “(B) the present value of Government pay-

1 ments to the Fund under section 8348 (f) of this
2 title; plus
3 “(C) the Fund balance as of the date the un-
4 funded liability is determined.”.

5 SEC. 102. Section 8334 of title 5, United States Code,
6 is amended—

7 (1) by amending subsection (a) to read as follows:

8 “(a) (1) For pay periods beginning after December 31,
9 1969, the employing agency shall deduct and withhold 7 per-
10 cent of the basic pay of an employee and $7\frac{1}{2}$ percent of the
11 basic pay of a Member. An equal amount shall be con-
12 tributed from the appropriation or fund used to pay the em-
13 ployee or, in the case of an elected official, from an appro-
14 priation or fund available for payment of other salaries of the
15 same office or establishment. When an employee in the legis-
16 lative branch is paid by the Clerk of the House of Repre-
17 sentatives, the Clerk may pay from the contingent fund of
18 the House the contribution that otherwise would be con-
19 tributed from the appropriation or fund used to pay the
20 employee.

21 “(2) The Civil Service Commission shall determine
22 when an adjustment in the percentage of deductions pre-
23 scribed by paragraph (1) of this subsection is necessary to
24 meet fully the normal cost of the benefits then in effect,
25 and shall transmit notice of proposed adjustment to the

1 President of the Senate and the Speaker of the House of
2 Representatives. Any proposed adjustment shall become ef-
3 fective at the beginning of the first full pay period which
4 commences at least 90 calendar days (of continuous ses-
5 sion of Congress, computed in accordance with section 906
6 (b) of this title) after transmittal of the notice, unless
7 before that date—

8 “(A) either House of the Congress has passed
9 legislation which provides for a different adjustment; or

10 “(B) either House of the Congress has passed a
11 resolution which specifically disapproves the adjustment
12 proposed by the Commission.

13 The same percentage adjustment, fixed at the nearest mul-
14 tiple of $\frac{1}{4}$ of 1 percent, shall be applied to each percentage
15 prescribed by paragraph (1) of this subsection. Not more
16 than one adjustment shall be proposed in any calendar
17 year.

18 “(3) The amounts so deducted and withheld, together
19 with the amounts so contributed, shall be deposited in the
20 Treasury of the United States to the credit of the Fund under
21 such procedures as the Comptroller General of the United
22 States may prescribe. Deposits made by an employee or
23 Member also shall be credited to the Fund.”; and

24 (2) by amending subsection (c) to read as follows:

25 “(c) Each employee or Member credited with civilian

1 service after July 31, 1920, for which retirement deductions
 2 or deposits have not been made, may deposit with interest
 3 an amount equal to the following percentages of his basic
 4 pay received for that service, plus each increase in the de-
 5 duction percentage prescribed under subsection (a) (2) of
 6 this section for periods of service to which the increase
 7 applies:

	"Percentage of basic pay	Service period
Employee---	2½-----	August 1, 1920, to June 30, 1926.
	3½-----	July 1, 1926, to June 30, 1942.
	5-----	July 1, 1942, to June 30, 1948.
	6-----	July 1, 1948, to October 31, 1956.
	6½-----	November 1, 1956, to December 31, 1969.
	7-----	After December 31, 1969.
Member for Member service----	2½-----	August 1, 1920, to June 30, 1926.
	3½-----	July 1, 1926, to June 30, 1942.
	5-----	July 1, 1942, to August 1, 1946.
	6-----	August 2, 1946, to October 31, 1956.
	7½-----	After October 31, 1956."

8 SEC. 103. Section 8348 of title 5, United States Code,
 9 is amended—

10 (1) by amending subsection (a) to read as follows:

11 "(a) There is a Civil Service Retirement and Disability
 12 Fund. The Fund—

13 "(1) is appropriated for the payment of—

14 "(A) benefits as provided by this subchapter;
 15 and

16 "(B) administrative expenses incurred by the
 17 Civil Service Commission in placing in effect each

1 annuity adjustment granted under section 8340 of
2 this title; and

3 “(2) is made available, subject to such annual limi-
4 tation as the Congress may prescribe, for any expenses
5 incurred by the Commission in connection with the ad-
6 ministration of this chapter and other retirement and
7 annuity statutes.”;

8 (2) by striking out subsections (f) and (g) and
9 inserting in lieu thereof:

10 “(f) Any statute which authorizes—

11 “(1) new or liberalized benefits payable from the
12 Fund, other than any increase in those annuities which
13 begin on or before the effective date of the increase;

14 “(2) extension of coverage to new groups of em-
15 ployees; or

16 “(3) increases in pay on which benefits are com-
17 puted;

18 shall be held and considered to authorize appropriations to
19 the Fund to finance the unfunded liability created by that
20 statute, in equal annual installments over the 30-year period
21 beginning at the end of the fiscal year in which the statute is
22 enacted, with interest computed at the rate used in the then
23 most recent valuation of the Civil Service Retirement Sys-
24 tem and with the first payment thereof due as of the end of
25 the fiscal year in which the statute is enacted.

1 “(g) At the end of each fiscal year beginning with
2 1971, the Commission shall notify the Secretary of the Treas-
3 ury of the amount equivalent to interest on the unfunded
4 liability computed for that year at the interest rate used in
5 the then most recent valuation of the System. Before closing
6 the accounts for each year, the Secretary shall credit to
7 the Fund, as a Government contribution, out of any money
8 in the Treasury not otherwise appropriated, the following
9 percentages of the amounts equivalent to interest on the un-
10 funded liability: 10 percent for 1971; 20 percent for
11 1972; 30 percent for 1973; 40 percent for 1974; 50 per-
12 cent for 1975; 60 percent for 1976; 70 percent for 1977;
13 80 percent for 1978; 90 percent for 1979; and 100 percent
14 for 1980 and for each year thereafter. The Commission shall
15 report to the President and to the Congress the sums credited
16 to the Fund under this subsection.

17 “(h) Each annuity increase authorized by statute en-
18 acted after December 31, 1969, and each increase there-
19 after effectuated under section 8340 of this title, shall be paid
20 from the Fund. Any such increase shall not be payable for
21 any fiscal year which begins more than one year after the
22 effective date of that increase unless and until an appropria-
23 tion is made by the Congress to compensate the Fund for the
24 cost, as determined by the Commission, of the increase for

1 that fiscal year. For any fiscal year for which the appropria-
2 tion is not made, benefits under this subchapter shall be
3 determined and paid as though the increase had not been
4 allowed. Nothing contained in this subsection shall prevent
5 payment of any increase for any fiscal year for which the
6 Congress makes the appropriation.

7 “(i) At the end of each fiscal year beginning with 1970,
8 the Secretary of Defense shall pay into the Fund an amount,
9 as determined by the Commission, sufficient to cover those
10 annuity disbursements made during that fiscal year which are
11 attributable to military service.

12 “(j) For each employee who has unused sick leave to
13 his credit and who retires on an immediate annuity or dies
14 leaving a survivor or survivors entitled to annuity, the em-
15 ploying agency shall, under procedures prescribed by the
16 Commission, pay into the Fund an amount equal to 25 per-
17 cent of the employee’s final hourly pay rate multiplied by
18 the number of hours of unused sick leave to his credit.”.

19 SEC. 104. The proviso under the heading “CIVIL
20 SERVICE COMMISSION” and under the subheading
21 “PAYMENT TO CIVIL SERVICE RETIREMENT AND DISABIL-
22 ITY FUND” in title I of the Independent Offices Appropria-
23 tion Act, 1962 (75 Stat. 345; Public Law 87-141), is re-
24 pealed.

1 TITLE II—CIVIL SERVICE RETIREMENT
2 BENEFITS

3 SEC. 201. Paragraph (3) of section 8331 of title 5,
4 United States Code, is amended—

5 (1) by striking out subparagraphs (B) and (C)
6 and inserting in lieu thereof the following:

7 “(B) remuneration for service performed as
8 an employee to whom this subchapter applies;”;

9 (2) by striking out “overtime pay,”; and

10 (3) by striking out “pay given in addition to the
11 base pay of the position as fixed by law or regulation
12 except as provided by subparagraphs (B) and (C)
13 of this paragraph,”.

14 SEC. 202. Paragraph (4) (A) of section 8331 of title
15 5, United States Code, is amended by striking out “5
16 consecutive years” and inserting in lieu thereof “3 con-
17 secutive years”.

18 SEC. 203. Subsection (g) of section 8334 of title 5,
19 United States Code, is amended—

20 (1) by striking out the word “or” at the end of
21 paragraph (3) ;

22 (2) by striking out the period at the end of
23 paragraph (4) and inserting in lieu thereof a semicolon
24 and the word “or”; and

1 (3) by adding the following new paragraph im-
2 mediately below paragraph (4) :

3 “(5) days of unused sick leave credited under sec-
4 tion 8339 (1) of this title.”.

5 SEC. 204. Section 8339 of title 5, United States Code,
6 is amended by adding at the end thereof the following new
7 subsection:

8 “(1) In computing any annuity under subsection (a)-
9 (d) of this section, the total service of an employee who
10 retires on an immediate annuity or dies leaving a survivor or
11 survivors entitled to annuity shall, without regard to the
12 limitation imposed by subsection (e) of this section, include
13 the days of unused sick leave to his credit, except that these
14 days shall not be counted in determining average pay or
15 annuity eligibility under this subchapter. Amounts paid into
16 the Fund by the employing agency under section 8348 (j)
17 based upon unused sick leave to the credit of an employee
18 shall not be applied toward any deposit due under section
19 8334 of this title nor shall such amounts be deemed volun-
20 tary contributions for the purposes of this title.”.

21 SEC. 205. Subsection (b) of section 8340 of title 5,
22 United States Code, is amended by inserting “1 percent
23 plus” immediately after the word “by”.

24 SEC. 206. The provisions of subsections (b) (1), (d)
25 (3), and (g) of section 8341 of title 5, United States

1 Code, shall apply in the case of any widow or widower
2 who shall have remarried on or after July 18, 1966, and
3 immediately prior to such remarriage was receiving annuity
4 from the Fund, except that no annuity shall be paid by
5 reason of this section for any period prior to the enactment
6 of this section. No annuity shall be terminated solely by
7 reason of the enactment of this section.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., March 14, 1969.

B-130150.

Hon. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives.*

DEAR MR. CHAIRMAN: We refer to your letter of January 13, 1969, requesting our report upon H.R. 770 which would amend the retirement provisions contained in chapter 83 of title 5, United States Code. The bill is designed primarily to improve financing of the civil service retirement system but also it would liberalize certain employee retirement benefits.

We are firmly convinced that the prudent management of the Government's financial affairs requires the adoption of a sound plan to provide permanent financing of the civil service retirement system. Section 102 of the bill contains the method of financing agreed upon by the Civil Service Commission and our Office which was submitted to the Chairman of the Subcommittee on Retirement, Insurance and Health Benefits, House of Representatives, by letter of the Chairman of the Civil Service Commission, dated March 22, 1968, and which was included in H.R. 17682, 90th Congress, which passed the House of Representatives on October 1, 1968.

Section 103 of the bill contains additional financing provisions which previously had been included in H.R. 17682, 90th Congress. These provisions were objected to by the Civil Service Commission as creating unnecessary complications in administration of the financing of the system and because they did not strengthen the proposals for financing the system which were set forth in section 102 of H.R. 17682 which proposals are substantially the same as those appearing in section 102 of H.R. 770.

Section 201 of the bill provides for the inclusion of overtime and other premium compensation as "basic pay." Apparently this is done for the purpose of increasing the high average salary upon which annuities are computed. However, as we previously pointed out in our report of May 27, 1968, B-130150, on H.R. 16288, 90th Congress, whether the inclusion of overtime and other premium pay as "basic pay" will result in higher retirement annuities for retired employees depends upon whether such overtime or other premium pay was earned during the period upon which the employees' high average salaries were computed.

Section 202 would authorize the computation of annuities based on an average of the highest 3 consecutive years of pay rather than an average of the highest 5 consecutive years of pay as provided in the present law. Whether this benefit should be granted at the present time is a matter of policy for determination by the Congress and we offer no recommendation with respect thereto.

Section 204 of the bill would authorize increasing an employee's length of service for retirement purposes by the amount of sick leave to his credit on the date of his final separation from service. The credit would be permitted even though it might result in increasing the annuity in excess of the 80-percent limitation contained in 5 U.S.C. 8339(e). In connection with the question of the propriety of granting this benefit we have, in commenting upon previous bills to accomplish such purpose, expressed doubt whether a premium should be granted an employee in the form of increased retirement credit because he enjoyed good health during his Government career and thereby accumulated large amounts of sick leave. In this connection, it should be noted that while the granting of retirement credit for sick leave may give an employee an incentive to accumulate as much sick leave as possible, it also may result in his continuing on duty when he should be at home because his presence on the job may endanger the health of fellow employees.

Section 205 of the bill would add an extra 1 percent to each cost-of-living adjustment resulting from an increase in the Consumer Price Index. In House Report 1586 on H.R. 17682, 90th Congress, it was noted that any such added increase is designed to compensate an annuitant for the 5-month period elapsing

between the Consumer Price Index attaining a rise of 3 percent and the subsequent payment of the increase. In considering such a benefit it must be remembered that the extra 1-percent increase would be received by the annuitant indefinitely and would become part of the base subsequently used to arrive at both the next cost-of-living increase and the next extra 1-percent increase. As a result, there could be a spiraling effect which might cause annuities to be increased to a level that would be higher than could be justified by the related cost-of-living index.

Section 206 of the bill would grant widows and widowers whose annuities were terminated because of remarriage prior to enactment of Public Law 89-504, approved July 18, 1966, the same entitlement to have their annuities restored upon divorce, annulment, or death of the spouse whom they remarried that were granted prospectively to annuitants losing their annuities because of remarriages occurring after enactment of Public Law 89-504. While enactment of section 206 of the bill also involves a matter of policy for determination by the Congress, we invite attention to the fact that the same justification for liberalizing future retirement benefits (including survivor benefits) as a means of attracting and retaining the services of competent Government personnel would not be present as a basis for liberalizing retroactively the benefits previously vested by virtue of death or retirement of a Government employee.

Finally, we call attention to the report of the Chairman of the Civil Service Commission upon H.R. 17682, which is printed on pages 30-32 of House Report 1586 dated June 26, 1968. In the third from last paragraph of the Commission's report, it was pointed out that the retirement liberalizations contained in H.R. 17682, 90th Congress, which are identical with those appearing in H.R. 770, would create an estimated additional unfunded liability of \$3.3 billion (including the added 1 percent for the first annuity increase only) which we understand would have to be financed in the manner provided for in the bill.

Sincerely yours,

ROBERT F. KELLER,
Acting Comptroller General of the United States.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 18, 1969.

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

DEAR MR. CHAIRMAN: This report is made in response to your request of January 13, 1969, for the Commission's views on H.R. 770, a bill to amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes.

Title I of the bill would strengthen financing and funding of the retirement system, an objective which the Civil Service Commission has sought for years and which continues to be of major concern to us. Our annuitants now number nearly 900,000, and we are paying out slightly more than \$2 billion a year in monthly benefit checks. The size of this system and the critical reliance placed on it by its members—present and future—are such that Government can no longer afford the hit-and-miss financing methods of the past. Those methods are detailed in House Report 1586 accompanying H.R. 17682 (90th Congress), as are the results to be expected if present financing continues (table A in the report) and if the financing methods recommended to the Congress last year are adopted (table B). While the figures in the tables have not been updated, their illustration of the principle and the problem are still valid.

The fund's deficit as of June 30, 1969, will be \$57.7 billion. Within 5 years we will be paying out more than present financing methods bring in. Within 17 years the balance will have dropped from the present \$19.4 billion to zero. Special appropriations of \$3 to over \$4 billion—in addition to the matching employee-agency contributions—will then be required every year in order to make current payments. Unless such appropriations are made in full, on time, every year, the Commission will be unable to pay retired employees and their survivors the benefits they have earned through years of service and are counting on for support in their old age. Nonreceipt, or even delayed receipt, of their annuity checks would be extremely serious for thousands of these elderly people, many of whom have no other source of income. We would be delinquent in our responsibility if we did

not renew and reinforce our recommendation for timely and effective congressional action to assure that such a situation does not occur.

We, therefore, strongly support those provisions of title I which would require:

1. That employees and agencies meet full normal costs of present and newly authorized benefits through matching contributions.
2. That Government pay costs of every increase in unfunded liability created by new legislation, through equal annual installments over a 30-year period.
3. That Government meet its responsibility for the unfunded liability due to already-enacted legislation, through gradually increasing permanent indefinite appropriations which after 10 years would equal interest on the unfunded liability.

These provisions, to which the Civil Service Commission, the Bureau of the Budget, and the General Accounting Office agreed last year before House passage of H.R. 17682, still seem highly desirable to us, and we recommend their early enactment.

To cover the full normal cost of present benefits, section 102(1) of H.R. 770 would increase deduction rates for employees generally from 6½ to 7 percent of pay. Member deduction rates, already at 7½ percent, would not be changed. Under section 102(2), the Commission would notify the Congress of any future increase in contribution rates required to cover full normal costs, and the higher rates would become effective following 90 days of continuous session of Congress after the notice, unless either the House or the Senate before that time passed a resolution specifically disapproving the proposed adjustment or a bill authorizing a different adjustment. We agree with these provisions.

We suggest deletion of those provisions of title I that would (a) make payment of annuity increases after the first full fiscal year contingent upon congressional appropriation of the necessary additional amounts, (b) require the Secretary of Defense to transfer to the retirement fund each year an amount equal to annuity disbursements attributable to military service, and (c) require each agency to transfer to the fund an amount equal to the value of unused sick leave for an employee who retires or who dies in service leaving a qualified survivor.

Provision (a) would not only create unnecessary complications, but could also prove embarrassing both to Congress and to the Commission if payment of an authorized benefit—one that had been paid in previous years—had to be stopped because of later refusal of, or delay in making, the required appropriation. Provisions (b) and (c) would in no way reduce Government's retirement expenditures; they would only increase the number of appropriations required to authorize those expenditures, introducing administrative complications without changing the end financing result. Since the basic proposal (the provisions numbered 1, 2, and 3 above) would provide full permanent financing, these additional measures are superfluous and no good purpose would be served by their enactment.

Title II would liberalize existing benefits in the following ways:

1. Gross earnings, rather than basic pay, would be used in determining retirement benefits and deductions.
2. Average salary for annuity computation purposes would be determined on the basis of 3 rather than 5 years.
3. Unused sick leave would be added to the actual length of service in computing annuities.
4. An extra 1 percent would be added to each annuity increase resulting from changes in the Consumer Price Index.
5. The July 18, 1966, amendments which permit continuation of annuity when a surviving spouse remarries after reaching age 60, and restoration of annuity upon termination of a remarriage which occurred before age 60, would be made applicable to all cases in which remarriage occurs after July 17, 1966.

These liberalizations—including the added 1 percent for the first cost-of-living annuity increase, but not for succeeding ones—would raise the normal cost of the system from its present 13.86 percent of payroll to 13.99 percent and would create an additional \$3.7 billion in unfunded liability. Since there has been no demonstrated urgent need for these benefit liberalizations, which are clearly secondary in importance to the main objective of improving financing, I recommend that they not be included in this particular bill.

The problem of retirement financing has been exhaustively studied and discussed for more than 6 years now. It is clear that present financing practices cannot assure full and timely payment of the benefits already earned. Neither can they allay the fears and restore the confidence of the thousands of elderly people who depend upon monthly payments from the retirement system for the necessities of their day-to-day living. We urge early action to provide the legislation that is needed.

In summary, if the bill is amended to delete those financing provisions which we consider unnecessary and to delete the liberalizing amendments proposed in title II, we strongly urge enactment of H.R. 770.

If further consideration is given the bill, there are a number of technical changes that should be made in the bill. The Commission will be happy to provide technical assistance in this regard at your request.

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.

By direction of the Commission:

Sincerely yours,

ROBERT E. HAMPTON,
Chairman.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., March 19, 1968.

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

DEAR MR. CHAIRMAN: This is in reply to the committee's request for the views of the Bureau of the Budget on H.R. 770, "To amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes."

Title I of the bill is designed to strengthen the financing and funding of the retirement system. This Bureau fully supports those provisions of title I which would require that:

1. Employees and agencies meet full normal costs of present and newly authorized benefits through matching deductions and contributions.
2. The Government amortize all future increases in unfunded liability created by legislation through equal annual installments over a 30-year period.
3. The Government meet its responsibility for the existing unfunded liability through gradually increasing permanent indefinite appropriations, which after 10 years would equal interest on the unfunded liability.

Other provisions of title I would—

1. Make payment of annuity increases after the first full fiscal year contingent upon congressional appropriation of additional moneys necessary to cover such increases.
2. Require the Secretary of Defense to transfer to the retirement fund each year an amount equal to annuity disbursements attributable to military service for which free credit has been allowed.
3. Require each agency to transfer to the fund an amount equal to the value of unused sick leave for each employee who retires or who dies in service leaving a qualified survivor.

These three provisions would not enhance the adequacy of the financing arrangements provided by the first three basic provisions cited above. On the contrary, they would create unnecessary administrative complications and additional recordkeeping transactions in all of the individual agencies. Accordingly, we recommend their deletion.

Title II of H.R. 770 would provide a number of liberalizations primarily designed to enhance the value of annuities earned by long-service employees. In the aggregate, they would have the effect of increasing the unfunded liability by more than \$3.7 billion. We believe it would be incongruous to include in a bill designed to halt the growth of the unfunded liability of the retirement system, provisions which would of themselves increase the existing unfunded liability by more than 6 percent.

The present benefit formula provides, for career employees, annuities that are already generous in comparison with those offered by most private retirement systems. Furthermore, the pay increase scheduled for July 1969 will have

the effect of substantially increasing the value of all future annuities. This is evidenced by the fact that it will add \$3.4 billion to the unfunded liability.

Therefore, we recommend that the liberalizations contained in title II be deleted.

In recommending deletion of these liberalizations, the Bureau is not taking the position that any further liberalizations are undesirable. On the contrary, we believe that the present benefits are deficient in several respects. For example, under present arrangements many employees who leave Government service prior to qualifying for an immediate annuity derive no benefit whatsoever from the system. Employees who leave before completing 5 years' service are entitled only to a refund of their contributions. Many employees who serve up to 20 years take a refund instead of the right to a deferred annuity at age 62. Furthermore, survivors of employees who die even after as much as 20 years of service receive smaller benefits than would have been payable if the service had been under the social security system.

At the request of the House Committee on Ways and Means, the Social Security Administration has submitted a report recommending several measures which would correct these inadequacies of the civil service retirement system. Specifically, it proposes:

1. Where there is no benefit eligibility under the (Federal) retirement system when a worker dies, becomes disabled, or retires, credit would be transferred from the staff-retirement system to social security.

2. Where there is benefit eligibility under the retirement system, the staff-retirement system benefits (or if social security benefits based on other work are also payable, the staff-retirement system and social security benefits together) would be guaranteed to be at least as high as if all employment subject to the staff-retirement system had been covered by social security.

We believe that enactment of the measures proposed in the social security report would correct fundamental weaknesses of the civil service benefit structure and, therefore, should have a higher priority claim on Federal compensation expenditures than liberalizations of the kind contained in title II.

The social security report also suggests that Federal employees be brought under the medicare program. At age 65 medicare benefits would be substituted for those now provided by the various Federal employee health benefits plans. Since medicare is a prepayment plan, premium charges for health care after age 65 would be considerably less than those now paid by retired Federal employees. Furthermore, the premiums now paid by active employees for health benefits could be reduced or future increases minimized.

In summary, the Bureau of the Budget believes that retirement legislation enacted this year should be confined to improving the financing and funding of the retirement system, and recommends that H.R. 770 be amended accordingly.

Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

Mr. DANIELS. Before summoning our first witness this morning the Chair, with the concurrence of the members of the subcommittee, desires to solicit the cooperation of all witnesses to confine their testimony to the provisions of the bill under consideration. As everyone is aware, much of this ground has been plowed at length over the past 1½ years. So, while we want to have everyone's views on this subject, in order to expedite the proceedings, I would urge each witness to cooperate to that end by summarizing, to the best of his abilities, his organization's position on H.R. 770, and thus provide an opportunity for each of my colleagues to pursue any questions they may have.

Our first witness this morning is Mr. Patrick J. Nilan, legislative director of the United Federation of Postal Clerks, AFL-CIO. It is quite significant, I believe, that these hearings, which were scheduled sometime ago, should have as its first witness a man with the Christian name of Patrick, this being St. Patrick's Day. The top of the mornin' to you, Pat.

**STATEMENT OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR,
UNITED FEDERATION OF POSTAL CLERKS, AFL-CIO; ACCOMPANIED BY JOSEPH F. THOMAS, DIRECTOR OF ORGANIZATION;
AND WALTER FROH, STAFF ECONOMIST**

Mr. NILAN. And the best of the afternoon to you, Mr. O'Daniels. If I may say, since you mentioned it, this is a happy day for me. It is not only that I have been married 24 years today, having been married on St. Patrick's Day at St. Patrick's Cathedral, but my father was born on St. Patrick's Day and my first granddaughter, Colleen Nilan, was born on St. Patrick's Day.

Mr. DANIELS. I extend to you and all members of your family my sincere congratulations.

Mr. NILAN. Mr. Chairman, if I may I would like to have the prepared statement of the United Federation of Postal Clerks placed in the record, together with our letter of March 17, 1969, addressed to you as chairman of the Subcommittee on Retirement, Insurance, and Health Benefits, and I shall highlight the parts of my statement I should like particularly to call to your attention.

Mr. DANIELS. Without objection the statement and letter to which you refer will be made a part of the record at this point.

(The statement and letter referred to follow:)

**PREPARED STATEMENT OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR, UNITED
FEDERATION OF POSTAL CLERKS, AFL-CIO**

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 pleased to appear before this committee with our director of organization, Joseph F. Thomas, in regard to the pending legislation, H.R. 770.

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 first session of the 91st Congress. Before we present our statement on H.R. 770, we would certainly be ungrateful if we did not express our appreciation and that of our membership to the distinguished chairman of this committee, Congressman Dominick V. Daniels, and other members of the committee for your continuing interest in the need for improved retirement benefits for our AFL-CIO postal clerk membership.

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 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 \$53 billion. 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 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 1½, 1¾, 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 present 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; (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, and (4) immediate increasing of all present annuities by not less than 10 percent.

As the report to the President of the United States by the Cabinet Committee on Federal Staff Retirement Systems, "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 2½ percent to the current 6½ 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.

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. Gov-

ernment'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, i.e., 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 compounded interest loss."

Employees of the 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 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—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, 3.95 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.

As an example, even within the spectrum of Government security markets, the average yield on long-term Treasury bonds was 5.66 percent during the month of December 1968, according to the "U.S. Treasury Bulletin," January 1969. For the same month Moody's AAA Corporate Bonds yielded an average of 6.45 percent.

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-term 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 amounted 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.

Compensation 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 in 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 reports in the May 1968 Monthly Labor Review that in 75 percent of the pension or annuity plans effective in manufacturing and nonmanufacturing industry in 1967, the entire cost of retirement benefits is financed by the employer. Out of 17,091 private plans reporting to the Labor Department's Office of Labor-Management and Welfare-Pension Reports, approximately 12,658 are paid for solely by the employer. These plans covered 17.5 million workers. About 13.4 million of these workers made no contribution whatever to their respective plans. They are covered by what are characterized and described as noncontributory plans.

A very significant statement made in the BLS Bulletin, No. 1485, Private Pension Plan Benefits, 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.

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.

Table 3, page 387, of the Cabinet Committee's Report to the President (April 6, 1967) reports the dominance of noncontributory plans in private industry. 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.

The most recent study by IUD, AFL-CIO, was concerned with annuity plans in effect July 1, 1964 (this study is now in the process of being updated). It is unlikely that any of these plans have retrogressed since then in the progressively increasing trend toward noncontributory plans—more likely there have been even further accelerated improvements in this important fringe area.

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 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 in contribution rates, as well as benefits to elected legislators, as in the Congress of the United States.

Mr. Chairman and members of the committee, we also concur that the Congress require 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 has resulted from this lack of contributions.

We urge this committee to amend H.R. 770 by striking the language which would authorize the Civil Service Commission to determine and effect future adjustments in employee and Government percentage deductions to the retirement system. We also request the committee to amend H.R. 770 by inserting

appropriate language to establish a straight 2-percent factor for computation of employee annuities.

The United Federation of Postal Clerks will enthusiastically support early enactment of H.R. 770 with these two amendments.

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 we can provide the committee with any additional information, we shall be happy to do so, and, of course, will respond to any questions concerning our testimony.

UNITED FEDERATION OF POSTAL CLERKS, AFL-CIO,
Washington, D.C., March 17, 1969.

HON. DOMINICK V. DANIELS,
Chairman, Subcommittee on Retirement, Insurance, and Health Benefits, Committee on Post Office and Civil Service, Washington, D.C.

DEAR CHAIRMAN DANIELS: We realize the hearings being held by your committee on March 17, 18, and 19, 1969, are concerned only with your retirement bill, H.R. 770. Accordingly, we have presented the statement of the United Federation of Postal Clerks concerning H.R. 770 to your committee.

However, we would appreciate the opportunity to express our interest in a number of other retirement bills pending before your committee by having this letter included in this hearing record following our testimony on H.R. 770.

We request you and the members of your Subcommittee on Retirement, Insurance, and Health Benefits to schedule hearings and favorably consider the following retirement legislation during the 91st Congress:

H.R. 7023—to permit optional retirement of employees without reduction in annuity, with 30 years of service, regardless of age.

H.R. 768—to permit earlier optional retirement opportunities for employees through a combination of "80", years of age and years of service.

H.R. 3661—to restore annuity deduction or permit naming a new survivor spouse when beneficiary predeceases.

H.R. 3662—to provide a sliding scale increase for retiree and survivor annuities.

H.R. 5236—to establish minimum annuities of \$100 single and \$200 family annuities per month.

In addition, while this committee may not have jurisdiction over the following legislation, we do hope the 91st Congress will favorably act on:

H.R. 5237—to provide for full medical deduction at age 65 for income-tax purposes.

H.R. 5238—to exclude the first \$5,000 of annuities from income taxes.

H.R. 977—to provide additional retirement income credit.

Thank you, Mr. Chairman and members of the committee for including this statement by the United Federation of Postal Clerks in the official record of this hearing.

Sincerely,

PATRICK J. NILAN,
Legislative Director.

Mr. NILAN. I am very pleased to appear here this morning with our director of organization, Joseph F. Thomas, and Walter Froh, our staff economist, in regard to the pending legislation, H.R. 770.

At the start I will say our organization does endorse the legislation you have sponsored and which is the subject of the hearing today. We do have one or two amendments we want to offer. However, we would

like to make it perfectly clear, Mr. Chairman, if we may, that while we recognize improvements must be made concerning the civil service retirement fund and benefits, we are 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. We feel very strongly about this for many reasons. We feel the Congress of the United States should have and does have the responsibility to legislate in the field of benefits and likewise should have the responsibility to legislate in the field of contribution rates. We would be less than honest if we did not say we have more confidence in the Congress to consider all the factors of responsibility in the fields of benefits and contribution rates than in the Civil Service Commission.

Mr. DANIELS. Does the gentleman admit that the Congress has that right at this time?

Mr. NILAN. That is right.

Mr. DANIELS. And your position is that that authority should remain in the Congress rather than in the Civil Service Commission?

Mr. NILAN. That is correct, Mr. Chairman, and with that one amendment we wholeheartedly endorse the balance of the legislation.

Mr. DANIELS. Does the gentleman acknowledge that the normal cost to finance the payment of benefits amounts to 13.86 percent, as heretofore testified to by officials of the administration?

Mr. NILAN. We recognize that, Mr. Chairman.

Mr. DANIELS. And you endorse the principle that there should be an increase in employee and agency contributions in order to meet this deficit?

Mr. NILAN. We accept that but we do not believe the 50-50 ratio is anything sacred and we would suggest it be changed to perhaps two-thirds by the Government and one-third by the employees, which would more than make up the present difference in the cost of the retirement system.

Mr. DANIELS. The present contribution of the employee and the employing agency amounts to 6½ percent each at the present time?

Mr. NILAN. Yes.

Mr. DANIELS. And it is proposed under this bill to increase the contribution of each to 7 percent, making a total of 14 percent, and thus overtaking the deficiency that presently exists in normal cost.

Mr. NILAN. We accept the proposed increase if the benefits proposed in the legislation are included in the final legislation.

Mr. DANIELS. So, therefore, with the one amendment that you propose, you favor this legislation?

Mr. NILAN. That is right. We have a number of other amendments, but the provision we are particularly opposed to is the grant of authority to permit the Civil Service Commission, with the approval of Congress, to increase contribution rates. That is the only one we are opposed to.

Mr. DANIELS. Mr. Hogan, any questions?

Mr. HOGAN. No questions.

Mr. DANIELS. Mr. Dulski?

Mr. DULSKI. If the Government contribution were increased to two-thirds and the employee contribution reduced to one-third, do we have any figures on what the increased cost would be for the Government?

Mr. DANIELS. Contributions are equally divided between the employee and the employing agency, and were \$1.4 billion each, or a total of \$2.8 billion, for fiscal year 1968. Two-thirds for the Government would increase the Government cost by \$1½ billion and reduce the employees cost by an equal amount.

Mr. NILAN. On that question of increasing the Government's contribution, we propose to the committee that, when you have a chance to review our statement, you will be particularly interested in pages 7, 8, and 9, in which we provide data from both public employee retirement programs and also those in the private sector. We recognize that the benefits in some of these programs are not commensurate with the civil service retirement system, but the trend in the last 15 years has been to have the employer contribute all or substantially all of the cost of the plan. We recognize, in view of the cost and the interest of the committee in considering this particular legislation, that it may not be possible at this time.

Mr. DANIELS. Do any of your colleagues desire to add anything further as to why you recommend the amendment that Congress retain the sole authority to increase or decrease contributions in the future?

Mr. NILAN. I believe I speak on behalf of both of my associates, Mr. Chairman.

If I may, Mr. Chairman, we would also like to state that we, of course, support the improved benefits in the bill H.R. 770. We would suggest very earnestly that the committee consider one other amendment, and that would be to change the present computation formula from 1½, 1¾, and 2 percent to a straight 2 percent. We realize also this would be expensive, but we feel with the proposal in the legislation to permit retirement annuities to be computed on the high 3-year average rather than the high 5-year average, and also that by computing annuities on a straight 2 percent factor this would be commensurate with the position of our organization.

We also recognize there are many other components of the retirement legislation which your distinguished committee has before it, and for this reason I asked and you were kind enough to permit us to enter our letter of March 17 on legislation you and Congressman Scott and Chairman Dulski and others have introduced to help our present retirees who are badly in need of increased amounts of annuities and other things we hope this committee will consider inherent.

This concludes my statement. We do appreciate the opportunity of appearing before you. If you or any other member of the committee has any questions we will be happy to respond.

Mr. DANIELS. Thank you for your testimony here this morning, Mr. Nilan, since you started your testimony another distinguished member of the committee has arrived, my good friend and colleague from the State of Virginia, Mr. Scott, who is the ranking minority member. Mr. Scott served on the Post Office and Civil Service Committee in the last Congress and is familiar with this legislation. He took a very important part in the debate when this bill came on the floor last year, and he may desire to ask some questions of you and your colleagues.

Mr. NILAN. We shall be happy to respond.

Mr. SCOTT. Mr. Nilan, it is good to see you here and I certainly am sympathetic to your program. A lot of times we may have to choose between denying some of your requests and raising the rate of deductions, and when we are confronted with this—for example, you have asked for this straight 2-percent retirement computation and the high 3-year average as part of this bill, and I have a bill for the 30-year optional retirement that Government employees have wanted for a long time. In line with the concept that the employee pays half of the cost of these things, if we come to an impasse where we have to increase the rate of contribution to keep the system actuarially sound or deny the request, which do you think we should do?

Mr. NILAN. The United Federation of Postal Clerks has always tried to be financially responsible, and we recognize that each of the items we have suggested are costly and require additional money. Your bill, H.R. 7023, proposes employee optional retirement with 30 years of service regardless of age. This particular bill is part of our paramount legislative program and I am confident that our membership, to accomplish this part of the legislative program, would not object to an increase in the Government's contribution to the civil service retirement fund. We support the increase from 6½ to 7 percent on the basis of existing legislation, but overall we hope the committee, during its deliberations, will consider a further part of our prepared statement which suggests that the Congress consider changing the 50-50 ratio. We feel the Congress has been a leader in the retirement system but now we believe it is falling behind in the area of comparable retirement benefits in private industry. So we would hope the changing of the ratio formula would be considered because, frankly, a 7-percent contribution would be hard enough on a postal worker earning only \$7,000 with the taxes and other things he has to put up.

So, No. 1, we want to be financially responsible in the area of funding. But we do suggest, in considering further benefits, that the Congress at the same time consider changing the ratio. If we can't change it to two-thirds and one-third to start with, let us start with 55 and 45 percent and gradually get it to a higher ratio so that the Government will be contributing a larger share.

Mr. SCOTT. Just curbstone thinking, I think we would have a rather tough battle getting Congress to change the formula at this time. I think we would have to choose between denying the increased benefits or increasing the rates, but I am sure the committee would not increase the rates higher than necessary.

Mr. NILAN. Thank you.

Mr. DANIELS. Last Saturday morning a constituent came to my district office to express his opposition to one of the provisions in this bill, particularly that which relates to including overtime pay and so forth as part of the basic salary. He feels that is not the proper thing to put in this bill. Has your organization taken any position on that matter?

Mr. NILAN. I would be less than honest if I did not say last year we gave very careful scrutiny to that part of your bill, and again this past week Mr. Thomas, who is one of our real knowledgeable people in retirement financing and funding, went over it very carefully and came to the conclusion that overall the inclusion of this provision would be beneficial to the members we represent.

Perhaps Mr. Thomas would like to add to that.

Mr. THOMAS. Mr. Chairman, we did work it out on paper and we came to the conclusion that in the long run for most people in the service they would benefit by having the deduction taken from all of their earnings. So I would have to say we favor it.

Mr. DANIELS. You do not envision that this might create problems in the employee-management area?

Mr. NILAN. In what way, Mr. Chairman?

Mr. DANIELS. That some employees might be favored by their supervisors or higher-ups in getting overtime hours, while the other employees who did not have that opportunity of getting overtime pay were not being treated equally and impartially. Of course I realize if there is extra work to be done the extra work may not be sufficient to employ the entire work force. There might be extra work for a few but not for all the employees, so I think that is a specious argument, but it is an argument he raised.

Mr. NILAN. This is not a new argument. We battle with postmasters frequently on favoritism in overtime. I think our union would try to take care of most of these problems. Our most serious concern would be that our most senior employees, age 52 with 25 or 30 years of service, might desire to spend their final years working nights in order to benefit from this particular provision. That is up to them. But we feel in the long haul our people would benefit from increased annuities more than the amount of money they put in the civil service retirement system.

Mr. THOMAS. Mr. Chairman, we went back over a period of 30 years and tried to anticipate the number of hours of overtime in the course of a year, and we figured it on the basis of 6½ percent based on present salary, and then figured the annuity based on increased salary including overtime, and we found in the long run he would benefit by taxation of his entire salary.

Mr. NILAN. We have to make our membership understand they will not get the credit for gross income including overtime without computing the rate on that amount.

Mr. DANIELS. Thank you, Mr. Nilan.

Mr. NILAN. Thank you.

Mr. DANIELS. Our next witness is Mr. John F. Griner, president of The American Federation of Government Employees.

STATEMENT OF JOHN F. GRINER, PRESIDENT, THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO, ACCOMPANIED BY CARL K. SADLER, DIRECTOR OF LEGISLATION, AND STEPHEN A. KOCZAK, DIRECTOR OF RESEARCH

Mr. GRINER. For the purpose of the record, I have on my right Mr. Carl K. Sadler, our director of legislation; and on my left Mr. Stephen A. Koczak, our director of research.

Mr. Chairman, I would like to have permission to file my statement and I will try to summarize the statement as briefly as I possibly can do so and point out to you and to the members of the committee our interest in certain items.

Mr. DANIELS. Without objection, your prepared statement will be made a part of the record at this point.

(The statement follows:)

PREPARED STATEMENT OF JOHN F. GRINER, NATIONAL PRESIDENT, AMERICAN
FEDERATION OF GOVERNMENT EMPLOYEES

The American Federation of Government Employees has a deep and continuing interest in legislation 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 with a membership exceeding 300,000 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, the chairman, and to the other members of this Retirement Subcommittee for sponsoring H.R. 770. It is a bill that seeks to deal effectively with the financing of the civil 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.

For this reason, Mr. Chairman and distinguished members of this committee, I should like to devote the greater part of the time of my personal appearance before you to one overriding issue of principle, involved in this bill, namely congressional control over the civil service and its retirement fund. This issue is raised primarily in section 102, subparagraph (2) empowering the Civil Service Commission to determine when increases of one-fourth of 1 percent in rates of employer and employee contributions shall be introduced.

Before discussing section 102, however, I wish very briefly to indicate to you that, except for section 102, and a serious reservation regarding section 103, subparagraph (h), our organization considers H.R. 770 to be another of a long list of exceptionally good bills concerning civil service retirement introduced by Representative Daniels and the other distinguished members of the House Post Office and Civil Service Committee.

Specifically, we endorse the improvements incorporated in the provisions enumerated under title II of this bill, appearing on pages 9 through 12 of the print, dealing with civil service retirement benefits, notably the computation of the retirement formula base figure on the basis of the highest "3 consecutive years" of earnings in lieu of the present highest "5 consecutive years" of earnings. We also endorse the inclusion of the concept of gross income, including premium pay, overtime pay, and compensatory overtime pay, in the base figure in computing the highest "3 consecutive years." We likewise welcome the addition of unused sick leave in the computation of the years of service in determining the multiplier in the retirement formula.

We do have a most serious reservation regarding section 103, paragraph (h), which appears to say that future cost-of-living adjustments and possible certain other types of retirement benefits, even if determined by the executive branch to be payable or enacted as new legislation by Congress, would not be paid in any fiscal year in which Congress did not appropriate funds explicitly for their payment. Perhaps we have misconstrued this paragraph, but it seems to us that, as it stands, this penalizes the civil service annuitants for possible fiscal irresponsibility on the part of the Government. For this reason, I hope this paragraph is rejected by the committee or is modified to clearly guarantee (1) that the civil service annuitants will not have their annuities reduced or denied, and (2) that the burden of paying these annuities will not be shifted from the general taxpayer to current employees of the civil service by raising employee contributions to the retirement fund.

With respect to the main issue with which I wish to deal now, I refer to section 102, subparagraph (2) which begins on page 3 on line 21 of the print of the bill, H.R. 770, and ends on page 4, line 17.

Specifically, this subparagraph empowers the Civil Service Commission to determine when increases in the percental rate of contributions both by employer and employee shall be introduced, in increments of one-fourth of 1 percent each per calendar year. For the sake of the record, I should like to include this subparagraph in full, which is as follows:

"(2) The Civil Service 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 President of the Senate and the Speaker of the House of Representatives. Any proposed adjustment shall become effective at the beginning of the first full pay period which commences at least ninety 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 legislation 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 percentage 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."

This provision of H.R. 770 introduces the radical concept that the Civil Service Commission shall have the legislative initiative in retirement matters and its action will be sustained unless vetoed by an action in either House of Congress.

Here I ask you to permit me the liberty of stating flatly that we think this is reversing the order of things. We wish that the voice of Congress will be always expressed in advance in clear and unmistakable terms in a way that Federal employees know exactly what is in store for them. We do not welcome the thought of a "vetoing Congress." We earnestly desire the Congress to continue to legislate, not the Civil Service Commission.

I appreciate that there is a growing mood in the Government to eliminate the yearly debates on such matters as pay raises, retirement deductions, fringe benefits, and the other issues which have appeared time and time again on the agenda of this and other committees. In fact, our own organization, over a year ago, anticipated this mood and for this reason, in my testimony of January 25, 1968, before this very subcommittee, I proposed a type of solution which would safeguard the constitutional rights of Congress and the welfare of Federal employees as well as provide a flexible formula for scheduling an orderly progression in increasing employer and employee contributions to the retirement fund.

On January 25, 1969, after endorsing the increase of benefits included in the bill then under consideration, H.R. 10912, many of which I am happy to see included and expanded in this bill, H.R. 770, I stated the following which, for the record, I wish to reiterate as our considered and unchanging position:

Your subcommittee had 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 \$150 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 formulas 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. We arrived at the figure on

the basis of the following computations based on 1968 figures (which proportionately should be increased for 1969):

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

If we add this 2.0 percent to the 13.0 percent already being contributed, it is obvious that the total contributions to meet past and new benefits will soon 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.

We support the principle of proper financing of the retirement fund. We also support with equal vigor the other important principle the Congress has accepted for the pay and reimbursement of Federal employees—that other principle is comparability.

In the private sector, we have found that increasingly the employers 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 Brothers, Goodyear Tire and 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 contributions 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 current problems of Federal finances. Therefore, instead of a 6-4 formula, such as the average in the private sector, we are proposing a more modest and gradual formula of a 5 to 4 ratio of future payments to the retirement fund.

Our proposal has the merit, we believe, that it takes care not only of the immediate financing problem, now almost reaching emergency proportions, but also the funding problems that we know will be arising in the near future. These include financing not only the benefits in this bill but also such other benefits as optional retirement at any age after 30 years of service; a multiplier of a flat 2 percent after 10 years of service; and, equally important, a multiplier of 2½ percent for hazardous duty.

I should like to propose to you specific language which would enable all these important funding goals to be achieved by congressional legislation rather than through the fiat of the Civil Service Commission. I submit to you that you consider striking from the bill the present language of section 102, paragraph 2 and, instead of it, inserting a graduated table of contributions which would become effective following December 31, 1969. Under this schedule, you would be providing sound financing as well as assuring a move toward comparability and equitable retirement benefits for Federal employees.

The substitute language which we would like to submit to you for consideration as a tentative model reads as follows:

"After December 31, 1969, the percental rates of contributions shall be any of the following sets of rates as determined to be necessary to finance current accruals of benefits authorized to be received by current contributors to the retirement fund:

"Total contribution	Employer's contribution	Employee's contribution
14,000	7,500	6,500
14,500	7,750	6,750
15,000	8,250	6,750
15,500	8,500	7,000
16,000	9,000	7,000"

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 wished H.R. 770 which is a "good bill" to become a better bill.

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. GRINER. This organization, the American Federation of Government Employees, has in excess of 300,000 members 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 you, Mr. Daniels, as chairman, and to other members of the Retirement Subcommittee who are sponsoring H.R. 770. It is a bill that seeks to deal effectively with the financing of the civil service retirement systems.

I should like to devote the greater part of the time of my personal appearance before you to one overriding issue of principle involved in this bill, namely, congressional control over the civil service and its retirement fund. This issue is raised primarily in section 102, subparagraph (2) empowering the Civil Service Commission to determine when increases of one-fourth of 1 percent in rates of employer and employee contributions shall be introduced.

I might say at this point that we do endorse the improvements as contained in this bill. We feel that all the improvements that have been noted in this bill are certainly worthwhile improvements and very badly needed improvements. I was rather interested in the question of Mr. Nilan, regarding the use of premium benefits in the computation of annuities. We had that question arise and we have been able to dispose of that question very easily. In other words, we have over half a million employees under exclusive representation. The inclusion of overtime is a negotiable matter which can be taken care of in an agreement or contract between the employer and the employee organization. We are very much interested in that provision because we have large groups of employees who depend on their overtime or fringe benefits such as night differential as part of their budget. For instance, a Customs employee, the Immigration employees, the food service inspectors, all these people have a large amount of their income attributable directly to overtime, and, frankly speaking, there have been times when I believe the amount of overtime has had a direct effect upon the classification of these people. So certainly we endorse that principle 100 percent.

We do have some reservation regarding section 103, paragraph (h) which appears to say that future cost-of-living adjustments and possible certain other types of retirement benefits, even if determined by the executive branch to be payable or enacted as new legislation by Congress, would not be paid in any fiscal year in which Congress did not appropriate funds explicitly for their payment. Perhaps we have misconstrued this paragraph, but it seems to us that as it stands this

penalizes the civil service annuitants for possible fiscal irresponsibility on the part of the Government. For this reason, I hope this paragraph is rejected by the committee or is modified to clearly guarantee (1) that the civil service annuitants will not have their annuities reduced or denied; and (2) that the burden of paying these annuities will not be shifted from the general taxpayer to current employees of the Civil Service by raising employee contributions to the retirement fund.

Now we will deal with this main issue of section 102, subparagraph (2) which begins on page 3, line 21 of the bill, H.R. 770.

This provision of H.R. 770 introduces the radical concept that the Civil Service Commission shall have the legislative initiative in retirement matters and its action will be sustained unless vetoed by an action in either House of Congress.

Here I ask you to permit me the liberty of stating flatly that we think this is reversing the order of things. We wish that the voice of Congress will be always expressed in advance in clear and unmistakable terms in a way that Federal employees know exactly what is in store for them. We do not welcome the thought of a "vetoing Congress." We earnestly desire the Congress to continue to legislate, not the Civil Service Commission.

In other words, we will take our chances with you, Mr. Congressman. We think you have dealt with us fairly and we would rather continue dealing with you rather than with the Commission.

I note also that the Commission can recommend this one-fourth of 1 percent increase in any given year without any review whatsoever by employee organizations. In other words, it would be the same as it was in the pay raise, for instance, when the first we saw of it was when it came out in the newspapers. We think, as representatives of the employees, we ought to have some voice in these matters. Of course we always have a voice when we come before you. In other words, this organization is unalterably opposed to that particular provision of this bill.

We realize that additional benefits and additional coverage under our retirement system costs money. We believe that the employees don't mind paying additional money provided they get additional benefits or additional coverage. However, the employees that are members of this organization resent very much having to pick up the tab for the indebtedness of the Federal Government insofar as this retirement system is concerned. I would like to call your attention to the fact that there is a loss of interest of about \$1.7 billion because the Federal Government, as an employer, did not meet its obligations to the employees.

I will not dwell on this point, however, since it is solutions we are seeking and not scapegoats or judgments as to who was at fault. We support the principle of the proper financing of the retirement fund. We also support with equal vigor the other important principle the Congress has accepted for the pay and reimbursement of Federal employees, that other principle is comparability.

At this point I would like to call your attention to the private sector where the full cost is paid by some of the major employers, such as the Douglas Aircraft Co., Du Pont, 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.

We realize that at this point we could not—I say we could not, but it would not be practicable to put in an entirely different system of financing. We hope this committee will give serious consideration to financing the retirement system along the lines that it is financed in private industry among the larger employers. That is more or less on a 6 to 4 ratio. This is a matter, of course, which should be taken up at some future date. I reiterate that the members that we represent will agree to the contribution of 7 percent at the present time provided that the additional benefits as outlined in this bill are forthcoming. However, we do strenuously object to taking out of the hands of Congress and putting in the hands of the Civil Service Commission or any other branch of Government the right to increase contributions on the part of the employee without congressional hearings and action.

Of course, I understand that such actions can be stopped by either of the Houses of Congress. That is most unlikely. There is one other point that I would like to call to your attention, and that is with respect to section 103(i) which causes the Department of Defense to transfer certain funds to pay for military service. This is something that has been long overdue. In fact, the civil service retirement fund has been raided by having these employees transfer their military credits into the civil service retirement fund and we pay for them without any reimbursement from the Department of Defense funds from which the expenses are being paid. I would like to just suggest to you that this provision be made retroactive to that date on which such transfer of service became permissible. That would substantially increase the amount of money that is now in the fund.

I would like to also call your attention to the fact that in this day of high interest rates the Civil Service Commission is only receiving 3½-percent interest on the \$19.250 billion that are now held in the retirement fund. Certainly, that should be increased. Everyone knows that interest is a very important factor insofar as any pension or retirement system is concerned.

With that, Mr. Chairman, I would like to submit my statement. If you have any questions, I should be glad to try to answer them.

Mr. DANIELS. Thank you, Mr. Griner. I want to compliment you for your very comprehensive review of this bill.

I take it from your testimony that this bill, as introduced, meets with your approval, with the exception of that provision whereby authority is delegated by Congress to the Civil Service Commission to adjust the contributions of employees and employing agencies.

That is your primary objection?

Mr. GRINER. That is the primary objection; yes, sir. There is one secondary objection, that is, with respect to section 102, paragraph 2.

Mr. DANIELS. Is that the part—

Mr. GRINER. 103(h); excuse me.

Mr. DANIELS. Well, I did not understand your objection there. You said this should be paid out of the Treasury and not by the employees. As a matter of fact, doesn't this provision provide just the opposite of what you are saying? Doesn't it come out of the Treasury?

Mr. GRINER. Yes; but it means this: There is nothing mandatory in this provision to have appropriations made each time there is an increase in annuities. If there are no appropriations, then the increase which has been given to the employees already is taken away from them, as I read it. I should say the increase that has been given to the annuitants already is then taken away from them. So if we had some provision to make this mandatory—and that is what I am asking—a change in that paragraph to make it mandatory that the Congress appropriate sufficient funds from the Treasury to take care of these increases.

Mr. DANIELS. The difficulty with making it mandatory is that this committee then would be trespassing upon the jurisdiction of the Appropriations Committee. That is the problem with which this committee is faced. We can authorize, but we cannot direct, that the appropriations be made.

Mr. GRINER. I see. My Director of Research points out to me that this is a conditional authorization. This is contained on page 7 of the bill, which reads as follows:

(h) Each annuity increase authorized by statute enacted after December 31, 1969, and each increase thereafter effectuated under section 8340 of this title, shall be paid from the fund. Any such increase shall not be payable for any fiscal year which begins more than 1 year after the effective date of that increase unless and until an appropriation is made by Congress to compensate the fund for the cost. * * *

You see, we go ahead and pay the increase from the fund and then ask Congress to appropriate money in order to repay the fund for the increase, as I read it.

Mr. DANIELS. I am going to call upon Mr. Devlin, who has spent a great deal of time on this section, to explain this particular provision to you.

Mr. DEVLIN. The purpose of this particular section is to deal with any future cost-of-living adjustments or any future legislative annuity increases. It proposes that you would pay those increases out of the existing fund only through the end of the fiscal year following that in which it becomes effective, and would permit continued payment of such increases only if the Congress actually appropriates, each year, the moneys necessary to cover the costs of future rate increases. It has no effect, however, upon any increases that have already been enacted.

Mr. GRINER. In other words, it would not take away from the individual the increase which has been granted to him but would only affect any future increase or until and unless such time as Congress appropriated additional funds?

Mr. DEVLIN. That is correct.

Mr. GRINER. In other words, it could not be more than 1 year behind?

Mr. DEVLIN. That is correct.

Mr. GRINER. All right.

Mr. DANIELS. My distinguished colleague from Virginia, Mr. Scott. Do you have any questions?

Mr. SCOTT. Thank you, Mr. Chairman.

I would like to add my compliments to Mr. Griner.

Mr. GRINER. Thank you.

Mr. SCOTT. We appreciate your being here, Mr. Griner. Certainly, I am sympathetic with the views that your organization has with

regard to the Congress retaining control. This is just part of my general philosophy. I think the purpose of Congress is to legislate, and not that of any of the independent agencies or the executive branch.

How do you feel about this 30-year optional retirement, regardless of age?

Mr. GRINER. That is part of our legislative program. I would like very much to see it enacted. However, I do not believe that it will be as expensive as some people estimate it to be.

We have noted on several occasions when the age factor has been reduced, there have not been a large number of retirements except in the first 2 or 3 months. Certainly, this is a very good security provision. A person wants to have 30 years of service and he is in a good position then, should his position be abolished or should he be ruffed for any reason, he can take his retirement and he has that security which he does not have at the present time. Frankly, we would like very much to see it enacted. We believe that the employees would be willing to pay the additional contribution which is necessary in order to keep the fund on a sound and solvent financial basis.

Mr. SCOTT. Mr. Griner, would you think that possibly some way might be worked out so we could combine the suggestion of a proposal by our chairman for the 80-year age-service combination with this 30 years? I just sort of thought through in my own mind that if a person started with the Government when he was 20 years of age and by the time he got 30 years in he would have the total of 80 years. I don't see a whole lot of room where they would not have the right to retire under our chairman's proposal. I was thinking this might be a good morale boster and perhaps might encourage people to work for the Government when they knew they could retire at 30 years. Do you know of any reason why they could not be combined?

Mr. GRINER. No, sir; I do not.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. DANIELS. I might say to the gentleman from Virginia that I do propose to conduct hearings on that bill, the combination of service and age total at least 80 years, in this session. Hopefully, the chairman will not take all of the committee's time in connection with the postal reorganization bill that the full committee plans to consider very shortly.

Now, if time permits, I will go into those bills. I know of Mr. Scott's interest in the voluntary retirement at 30 years of service. As he just pointed out, a man goes into service at the age of 20, and puts in 30 years by age 50. So, at age 50 he has served 30 years, an aggregate of at least 80. Both bills are quite compatible.

Mr. GRINER. Mr. Chairman, I would like to say that we think that the chairman's bill is a very good bill. We also like the idea of 30 years regardless of age. I will say again that I think that they could very easily be combined and accomplish the same thing as would be accomplished by the 30 years regardless of age provision.

Mr. DANIELS. Mr. Dulski, do you have any questions?

Mr. DULSKI. I have no questions.

Mr. DANIELS. Thank you for your views, Mr. Griner.

Our next witness is Mr. James H. Rademacher, president of the National Association of Letter Carriers, AFL-CIO. Step forward with your colleagues. Your association has testified at the last session of

Congress on this bill. In order to expedite these hearings, and in the interest of saving time, the Chair would like to suggest that you file your statement for the record and, perhaps, you can summarize your views with respect to the issues presented by this bill.

(The statement referred to follows:)

PREPARED STATEMENT OF JAMES H. RADEMACHER, PRESIDENT, NATIONAL
ASSOCIATION OF LETTER CARRIERS

Mr. Chairman and members of the subcommittee, the National Association of Letter Carriers is represented here today by its resident officers—president, James H. Rademacher; vice president, J. Stanly Lewis; secretary-treasurer, William T. Sullivan; assistant secretary-treasurer, J. Joseph Vacca; director of life insurance, George A. Bang; director of health insurance, Austin B. Carlson, and assistant director of health insurance, Glenn M. Hodges.

We want to congratulate you, Mr. Chairman, and the other members of this subcommittee, and to thank you for your vigorous and continuing interest in improving the condition of retired postal and Federal employees.

As you so well know, the Federal Government has never been an ideal employer. It has always lagged behind employers of comparable size in the private sector.

This is particularly true in regard to its treatment of its retired employees. It took 31 years of constant campaigning by the National Association of Letter Carriers and other organizations of postal employees before Congress finally passed the original Retirement Act of 1920. By that time, retirement programs—most of them considerably more generous than that which was finally enacted for Federal employees—were commonplace in private industry. When the Retirement Act was finally passed, we had letter carriers 87 and 88 years old, still shouldering the satchel and still struggling around routes in all kinds of weather because, if they had quit they would have been faced with the choice either of starving to death or living off charity—or, perhaps, both. The plight of these valiant men—whom former Postmaster General Burleson scornfully referred to as “superannuated employees”—was a national disgrace, and a continuing embarrassment to those who were proclaiming the greatness, the wealth and the power of our Government.

In our opinion, Mr. Chairman, the Federal Government has never caught up with the retirement programs which prevail in private industry.

We have too many people in this country today who, after having devoted their entire adult life in the Federal service, are now forced to live—as retirees—in conditions of serious poverty.

According to the 1967 Civil Service Commission report on retirement and insurance, there are approximately 800,000 retired postal and Federal employees living in America today. Thirty-five percent of these retirees are receiving less than \$100 a month from a grateful Government. That is well over one-third. And 64 percent—or almost two-thirds—are receiving less than \$200 a month.

This means that two-thirds of all retired Federal employees receive considerably less in annuities than the \$3,000 a year which the Government has designated as the poverty level in America.

We certainly feel strongly that we can—and we must—do far better than this.

As officers of the N.A.L.C., we have a very deep interest in this subject. We have 20,000 retired members in our organization, and we have 200,000 other members who will eventually be reaching the retirement age. We have the strongest possible obligation to do everything humanly possible to help alleviate the condition of our present retirees, and to make the prospect of retirement a great deal more appetizing to our present members, and to our prospective members, than it is today.

Our position on H.R. 770 and its companion bills, Mr. Chairman, is the same as our position was on H.R. 10912 last year. We support the legislation in principle—we applaud its intention—but we strongly recommend certain amendments which we feel are necessary if the bill is to accomplish its purpose.

As you gentlemen know, our most significant opposition is to the proposal which would permit the Civil Service Commission to set the rate of contributions by employees to the fund, without congressional authority or approval.

Our objection to this proposal is purely impersonal and objective, and it is in no way intended to cast a slur on any individual or group of individuals presently connected with the Civil Service Commission. Our relationship with the Commission, at present, is very satisfactory.

But, Mr. Chairman, the personnel and policies of Federal agencies change, sometimes with dramatic swiftness. We have been disturbed in the past by the tendency on the part of the Civil Service Commission to favor Federal employees in the higher echelons of pay at the expense of those in the lower echelons—which, we regret to say, include every letter carrier in the country. It is quite conceivable that the Commission, some time in the future, would increase our percentage of contribution to an extent which would not seriously disturb employees in the upper Federal brackets but which could be very burdensome indeed to those in the lower brackets.

But, most of all, Mr. Chairman, by determining the amount to be deducted from an employee's paycheck, one is, in effect, determining the amount of take-home pay for that employee. This has been the traditional prerogative of the Congress, and we do not want to see that prerogative slip out of congressional hands—even in an indirect way such as this.

We feel that once this principle would be established—once Congress permits the bureaucrats autonomy, even to this degree, in affecting the take-home pay of postal employees—then efforts will be made to place the whole authority of setting wage schedules in the hands of the Civil Service Commission.

This is something that must never happen.

The provision in the present bill could very well be the fatal leak in the dike which, if not plugged up now, could lead to a catastrophe, as far as postal employees are concerned.

We strongly urge that this committee—and the membership of Congress itself—preserve with the utmost vigor its prerogatives and authority in this area. Frankly, we would rather not have a bill at all than have one with this dangerous provision included.

We recognize, Mr. Chairman, the necessity of meeting the cost of this legislation through raising the contribution of employees in one-half of 1 percent a year—and we don't really object to this provision. We are realists and, as I shall point out a little later, we are just as disturbed as you are about the dangerous state of the retirement fund.

However, we would like to state for the record that an increase of one-half of 1 percent a year, when extended over a career of 30 years, amounts to 15 percent of 1 year's salary. This is not an inconsiderable sum, and we feel that the Government should increase other benefits to compensate for this decrease in our take-home pay.

One way, Mr. Chairman—if I may be permitted to make a suggestion—would be to add a title to the bill we are discussing, to cover a section which would provide that the Government assume the entire cost of the Federal employees' health benefits program. As you know, we feel that this step must be taken if the Government is ever to keep pace with private industry as an employer. The present inequitable allocation of costs, which places about three-quarters of the burden on the shoulders of the employees, is a parody of modern employee relations as they are practiced in the private sector. I realize, Mr. Chairman, that this is not really germane to the question in hand, but I just couldn't resist putting in a plug for one of our most cherished goals!

We are very pleased that this bill attempts to attack the problem of stabilizing the present unfunded liability in the retirement fund of approximately \$57 billion. We hope that this system of 10 percent payments on the interest each year will prove sufficient to prevent the impending catastrophe which faces the fund.

As you so well know, in 5 years the retirement system will be paying out more money than it is taking in and, unless constructive steps are taken now, the fund will be absolutely bankrupt in about 18 years—and appropriations of about \$4 billion a year would then be necessary to meet the obligations of the Government, even at the present rate of annuities. This is a calamity that must be avoided through intelligent and prudent action now, and we applaud your efforts to meet the challenge at this time.

The National Association of Letter Carriers in its biennial conventions has been passing resolutions on retirement for many years and, as officers of the NALC, we are mandated to support the liberal programs which our members have demanded. We believe the program of improvement which our retirement committee—a permanent committee of our organization, by the way—has developed, is very temperate and thoughtful. I would like, with your permission, Mr. Chairman, to include the most recent report of our retirement committee, dated

January 28, 1969, at the conclusion of this statement. I feel it is eminently worth the attention and the study of the Congress.

We certainly agree with the intention of the bill in basing the annuities of retirees on their high 3 consecutive years of pay, instead of on the present high 5 years. This is a most progressive step. However, we feel that annuities should be based on a 2-percent factor rather than on the present formula.

We also support wholeheartedly the proposal to add an extra 1 percent to the annuity increase in addition to the increase automatically granted to meet every 3-percent increase in the cost of living. However, we might add that our retirees are playing a desperate game of catchup because of years of half-neglect, half-care on the part of their Government employers. We would very much prefer to see that 1-percent bonus increase raised to 2 percent.

There is still another point which we would like to discuss, Mr. Chairman. We—and the people we represent—are certainly realistic enough to know that only so much can be accomplished in each session of Congress, and we do not expect immediate action in the area we shall discuss—but we feel the time has come to give it serious consideration.

We feel that there has developed in the Government a certain fallacious mystique concerning the traditional 50-50 sharing of the cost of the retirement program. There is nothing really magic about the 50-50 partnership arrangement. In private industry it is customary for the employer to assume more than half the cost of retirement programs, and there really is no reason why the Federal Government—which should be the Nation's ideal employer of human beings—can't try to equal the performance in this area of even the least progressive major industries in the Nation.

Mr. Chairman and members of the committee, we hear a lot of complaints about the quality of the postal service today. Some of the complaints are justified, some are not. But, ultimately and decisively, the quality of the postal service in the United States depends upon the quality of the people we can attract into the Establishment, and the quality of the people we can keep within the Establishment.

It is a curious feature of today's society that a youngster considering a career—even though he is only 19 or 20 years of age—looks carefully at the retirement program offered him before he commits himself. When he enters the tunnel of postal employment, he wants to find out what kind of a world he will inhabit when he comes out the other end, as a retired employee.

I suggest that our present retirement program—just like our present wage structure, and our present conditions of work—does not present an attractive enough package to attract or retain first-class talent. There are millions of job opportunities in America which offer a far more inviting landscape at the other end of the employment tunnel. We simply must make the postal job more attractive if we are going to avoid a general deterioration and collapse of the system. The job must be made more attractive at the beginning—through better wages. It must be made more attractive in the middle—through better working conditions. And it must be made more attractive at the end—through a better retirement program.

We of the National Association of Letter Carriers salute you for what you are attempting to do by way of improvement of the retirement program. We have made suggestions which we feel will be helpful to you in your deliberations. And, finally, we would like to append to this testimony the report from our fine Retirement Committee, as a suggested chart for your future course.

Thank you very much for your courtesy in permitting us to appear before you and to state the views of our membership.

NATIONAL RETIREMENT COMMITTEE REPORT

The patience of the retired members of the National Association of Letter Carriers and all other civil service retirees is becoming exhausted and their frustrations more embittered and more pronounced by the slowness of congressional action in removing the many inequitable provisions contained in the present Federal retirement law. The one ray of hope lies in their continued and confident knowledge that we will not forsake them. They are keenly aware of the fact that our great National Association of Letter Carriers, under the capable and dynamic leadership of President Rademacher will remain in the forefront in seeking enactment of legislation that will have for its purpose the removal of the many prevailing injustices.

Our annuitants were the recipients of a 3.9-percent annuity increase when the Consumer Price Index reached 119 percent. This meant, adding 3 percent of 119, that an increase would again be forthcoming when the Consumer Price Index reached 22.6 percent and remained at that figure or higher for 3 consecutive months. The Consumer Price Index rose to 122.9 percent in October 1968 and to 123.4 percent in November 1968. The index report for December will not be released until 11 a.m. on Wednesday, January 29, and according to the trend, it is expected that the increase would be close to 4 percent.

The shuddering thought, however, were there a sudden reversal and the Consumer Price Index fell below 122.6 percent in December, the annuity increase would go down the drain, and we would again start from scratch. This is a possibility under the present formula, and though it may not happen now, it is a probability of the future that the Consumer Price Index could rise beyond the 3 percent for 1 or 2 months and fall below that figure on the second or third month. This would mean no increase, yet, our people would suffer a loss of close to 3 percent in income during such a fluctuating period or periods. We, therefore, urge that every effort be made to revise the present format to coincide with our adopted resolution calling for a 2-percent annuity increase on the second month following the Consumer Price Index rise of 1 percent. This should be in addition to the direly needed "catch-up" increase formula.

H.R. 3662, introduced in the present session by Chairman Dulski, granting a descending scale percentage increase, is a step in the right direction. The formula used, however, does not provide a sufficient amount for our retired brothers receiving less than the poverty minimum of \$3,450, under today's escalated cost-of-living standard. Social security has a minimum payment statute which was increased by 13 percent just a year ago. You hear talk of consideration for a minimum wage. What about a decent minimum annuity payment to our dedicated and loyal former postal and Federal employees, who have given most of their lives in conscientiously devoted service to the American people.

Under the provisions of the present Federal retirement law, a person entering the service at age 40 may retire optionally at age 60. An employee entering at age 18 cannot retire optionally until he reaches age 55, and must, therefore, serve at least 37 years. A person at age 19 must serve 36 years and at age 20 for 35 years, and so forth. This is totally unfair to the younger employees, the very men the service needs, and who should be offered the incentive to enroll. Chairman Dulski has introduced H.R. 422, which would allow Federal fire-fighters to retire with full annuity at age 50 with 20 years of service. We agree that a hazardous occupation deserves a 20-year retirement law. The records will indicate that we have a higher rate of deaths and service-connected disabilities among the letter carriers than any other agency, with the exception perhaps of the military. Therefore, as an added incentive to attract into the postal service the younger man, and in order to remove the present discriminatory provisions, a 20-year optional retirement law is absolutely necessary.

It has often been mentioned in the past that we would be naive if we believed that all of our approved resolutions, deserving as they are, would be enacted into law in any one session of Congress. Yet, every one of these resolutions can be substantiated for its merit, and point out the necessity for removal of the ambiguous and discriminating provisions of the present law. The big question is cost. Uncle Sam owes a debt to our people which should be repaid and we are talking about the unfunded liability in the retirement fund. Further, it is our belief that, were our meritorious recommendations to become law as suggested, without the usual emasculation or piecemeal adoption, we feel confident our people would not hesitate in paying an additional one-half of 1 percent into the fund.

In keeping with the adopted resolutions, we urge the introduction of an omnibus bill by members of the Post Office and Civil Service Committee, that would include our recommendations, headed by the following paramount features:

1. An increase in annuity with preference to the lower paid annuitants at a minimum of \$400.
2. Minimum annual annuity of \$3,450.
3. Cost-of-living increase of 2 percent when the cost-of-living index rises 1 percent, payable on the second month of such increase.
4. Twenty-year optional retirement, regardless of age, based on 2½ percent of the highest annual salary including overtime, multiplied by the years of service, with a 75 percent formula for widow's annuity, without reduction.

5. Sick leave be credited to annuity or cash refund, at the employee's option.
6. Widower's refund of deduction or privilege of naming his second wife, if he so chooses.
7. Full hospitalization premium paid for by the Government to include present retirees.
8. Federal retirees over 65 years of age be included under medicare coverage without cost.
9. Exemption from taxation of all annuities.
10. Life insurance minimum of at least 50 percent of top salary.
11. Biweekly annuity payments.
12. Equalization of pre-1956 annuity based upon current computations.

Mr. DANIELS. Mr. Rademacher, your prepared statement has been placed in the record, and you may proceed.

STATEMENT OF JAMES H. RADEMACHER, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO, ACCOMPANIED BY J. STANLY LEWIS, VICE PRESIDENT; WILLIAM T. SULLIVAN, SECRETARY-TREASURER; J. JOSEPH VACCA, ASSISTANT SECRETARY-TREASURER; GEORGE A. BANG, DIRECTOR OF LIFE INSURANCE; AUSTIN B. CARLSON, DIRECTOR OF HEALTH INSURANCE; AND GLENN M. HODGES, ASSISTANT DIRECTOR OF HEALTH INSURANCE

Mr. RADEMACHER. Thank you, Mr. Chairman. We intend to cooperate in every way. We are pleased to note the presence of "Captain" Dulski who has made it a point to appear at all of the sessions of the subcommittee because of his vital interest. We are happy to note that he is continuing his interest in this legislation.

Also, Mr. Chairman, it is good to see a sponsor of earlier retirement in the room this morning, Congressman Scott, who has always expressed himself for better retirement for Government workers.

Mr. Chairman, this bill, H.R. 770, is again further indication of your own dedication and devotion to the problems of the retired people. We are going to cooperate this morning, although we have brought the whole team here, well prepared to give evidence of our support. Because of our desire to cooperate, because, as you have indicated, Mr. Chairman, we have testified before, we are not going to belabor the point.

We have brought our whole officer group here today. They are our very able vice president on my right, J. Stanly Lewis; secretary-treasurer and one of the few Irishmen at headquarters any more, William T. Sullivan; then our good assistant secretary-treasurer, J. Joseph Vacca. On his left the director of our life insurance, which you have also expressed an interest in, Mr. Chairman, Brother George A. Bang. On my right the two men responsible for our health insurance program, Austin B. Carlson, director, and his assistant, Mr. Glenn Hodges.

In the audience we have the national field director of the Philadelphia region, which encompasses the States of New Jersey and Pennsylvania, Mr. Francis Connors. We also have the officers of the New Jersey State association, who have journeyed here today merely to point out there is great concern today, Mr. Chairman and members of this committee, in the problems of the retired people. Certainly,

legislation sponsored also by Chairman Dulski, H.R. 3661 and H.R. 3662, is vital legislation because it affects the actual annuity of the retiree. But, Mr. Chairman, today we are going to express our opinions and objections relative to H.R. 770.

Reference was made previously by the other spokesmen of the unions about responsibility. We are responsible leaders, too, but we are also responsible to the people we represent.

It is a definite deviation from trade union practices in the AFL-CIO movement to come before Congress or to go before any group and ask for a reduction in take-home pay. That is why we feel that we are being responsible when we come here today and say that we will go along with an increase in the deductions from 6½ to 7 percent. There are very few unions today that sit at a bargaining table, such as we are at today, the only place where we Government employees can come and bargain, and who would accept a reduction in take-home pay. We will get into that later.

As has been indicated by the other spokesmen, our chief concern also relative to the proposal which would give the Civil Service Commission the authority to raise the rates of deductions at their whim, our objection to this proposal is purely impersonal and objective. It is in no way intended to cast a slur on any individual or group of individuals presently connected with the Civil Service Commission. Our relationship with the Commission at present is very satisfactory.

Mr. Chairman, the personnel and policies of Federal agencies change sometimes with dramatic swiftness. We have been disturbed in the past by the tendency on the part of the Civil Service Commission to favor Federal employees in the higher echelons of pay at the expense of those in the lower echelons, which we regret to say include every letter carrier in the country. It is quite conceivable that the Commission some time in the future would increase our percentage of contribution to an extent which would not seriously disturb employees in the upper Federal brackets but which could be very burdensome indeed in the lower brackets. Most of all, by determining the amount to be deducted from an employee's paycheck one is, in effect, determining the amount of take-home pay for that employee. This has been the traditional prerogative of the Congress and we do not want to see that prerogative slip out of congressional hands, even in an indirect way such as this. We feel that once this principle would be established, once Congress permits the bureaucrats autonomy, even to this degree in affecting the take-home pay of postal employees, then efforts will be made to place the whole authority of setting wage schedules in the hands of the Civil Service Commission. This is something that must never happen.

We recognize, Mr. Chairman, the necessity of meeting the cost of this legislation through raising the contribution of employees by one-half of 1 percent. We do not really object to this provision. We are realists. As I shall point out a little later, we are just as disturbed as you are about the dangerous state of the retirement fund.

At this point I may say that on the surface the amount of the increase in deductions is one-half of 1 percent. The average employee who is working for the Federal service for 30 years—and we hope not any more than that—after Congressman Scott's bill is enacted and your 80 magic figure is enacted—but even so, Mr. Chairman, a

half percent for 30 years is 15 percent. This is a considerable amount. One way that we could eliminate the reduction in take-home pay because of the increased annuity would be to amend H.R. 770 by inclusion of a provision providing for complete payment by the Government of the health insurance premiums.

As you know, we feel this step must be taken if the Government is ever to keep pace with private industry as an employer.

The present inequitable allocation of costs which places about three-quarters of the burden on the shoulders of the employees is a paradox of modern employee relations as they are practiced in the private sector. We are pleased that this bill attempts to attack the problem of stabilizing the present unfunded liability in the retirement fund of approximately \$57 billion and we want to cooperate by endorsing the increased deductions.

Mr. DANIELS. Mr. Rademacher, at this point may I interrupt you to state that I have introduced a bill, H.R. 767, which provides for the Government to pay the entire premium on health insurance over a period of time; increasing it in the first step to 50 percent, effective July 1, 1969; to 75 percent July 1, 1970; and to 100 percent the following fiscal year, July 1, 1971. It is part of my program, that upon the completion of action on this bill, the next order of business of this subcommittee would be to conduct hearings on that particular bill.

Mr. RADEMACHER. Mr. Chairman, I might say at this point, in my humble opinion, that that legislation is more important to the morale of the Government worker than some of the pay raises that have been suggested. I do hope that the distinguished chairman, Mr. Dulski, will allow the committee to recess from their reorganization hearings long enough to hold hearings on the health insurance bill.

Mr. DANIELS. I shall make that request of him, if necessary.

Mr. RADEMACHER. There is still another point which we would like to discuss. We and the people we represent—which, incidentally, are 20,000 retired people and almost 200,000 others who someday will retire—are realistic enough to know that only so much can be accomplished at each session of Congress. We do not expect immediate action in the area we shall discuss but we feel the time has come to give it consideration. We feel that there has developed in the Government a certain fallacious mystique concerning the traditional 50-50 sharing of the cost of the retirement program. There is nothing really magic about the 50-50 partnership arrangement. In private industry it is customary for the employer to assume more than half the cost of retirement programs. If you will analyze some of the new contracts of the various trade unions throughout the country, you will find that the employer is paying the entire cost of the retirement program. We hear a lot of complaints today about the quality of postal service. Some of the complaints are justified and some are not. But ultimately and decisively the quality of the postal service depends upon the quality of the people that we can attract into the job. The quality of people, also, whom we can keep within the establishment. It is a curious feature of today's society that a youngster considering a career—even though he is only 19 or 20 years of age—looks carefully at the retirement program offered him before he commits himself. When he enters the tunnel of postal employment he wants to find out what kind of a world we will inhabit when he comes out the other end, as a retired

employee. I suggest that our present retirement program—just like our present wage structure—and our present conditions of work—does not present an attractive enough package to attract or retain first-class talent.

Mr. Chairman, we have included here the report of our national retirement committee. You will note that the retirement committee is being realistic and they are living in modern times, even though there are those who would throw up their hands and believe that a retired Government worker is reaching for the moon—but so are we all today, as evidenced by the billions of dollars being spent in that direction. Nevertheless, all of the points included on the agenda of our retirement committee are the attitudes of the people that they represent. This agenda was adopted unanimously by our recent national convention. We would urge more than usual consideration to some of these problems that are now facing the 800,000 U.S. citizens who are on the retired rolls of the U.S. civil service retirement fund.

I might say in conclusion that 35 percent of these retirees are receiving less than \$100 a month. That is well over one-third. Sixty-four percent, or almost two-thirds, are receiving less than \$200 a month. This means that two-thirds of all retired Federal employees receive considerably less than the \$3,000 a year which the Government has designated as the poverty level in America.

Mr. Chairman, in behalf of my colleagues and our entire membership, I want to congratulate the House Post Office and Civil Service Committee, especially this subcommittee, for being one of the first committees to act in the entire Congress this year and to act in the direction of assistance for the people that need it the most.

We extend our very deep appreciation to you and to the members of the committee.

Mr. DANIELS. Thank you, Mr. Rademacher, for those kind words. I want to compliment you on a very fine presentation of your views on this particular bill. I want to assure you that the recommendations of your retirement committee will receive the serious study and consideration of this subcommittee.

As I see it, in substance, your organization fully supports this bill, with the exception of the delegation of the authority by the Congress to the Civil Service Commission with respect to the adjustment of future contributions.

Mr. RADEMACHER. Mr. Chairman, this is our most vital objection. We have suggested other amendments, including the 2-percent formula and also including the amendment of your health insurance bill, without emphasis.

Mr. DANIELS. Thank you, Mr. Rademacher.

The gentleman from Virginia, Mr. Scott. Any questions?

Mr. SCOTT. Yes, sir, Mr. Chairman.

I notice that the national retirement committee report, in your prepared statement, is much more liberal than the matters we have had suggested to us or anything that I know that the Congress has under consideration. This 20-year optional retirement and 2½ percent of the highest annual salary, I am not aware of anything being considered along that line. It just looks to me like it might be some wish that the group might have for future consideration. But on this 30-year optional retirement, are you in agreement with it in substance?

Mr. RADEMACHER. We are in complete agreement, Congressman Scott. We were very elated last year when you did everything you possibly could to have such a law enacted. We are very much aware of the efforts that were extended by you and others last year because we think that this is one of the key issues when a young man enters employment: How long must he work?

Naturally, in the larger cities and some of our States, employees may retire with 20 years of service. That is why this report of our retirement committee is most liberal, most realistic.

Mr. SCOTT. Mr. Chairman, if you will permit me to indulge just briefly, when I came with the Government in 1934 I heard the hope expressed that a 30-year optional retirement bill would be passed by the Congress. That has been 35 years ago. I think this hope still exists.

Let me ask you, sir: Are you in substantial agreement with the testimony that the other witnesses on behalf of the other employee groups have given? Is there any real difference between their views and your views?

Mr. RADEMACHER. I listened very intently, Congressman Scott. I want to say that the previous speakers represent organizations affiliated with the Government Employees Council. We all have a part in the makeup of the agenda of that council and we are together solidly on the statements that have been made. I think that you will detect, sir, that there is veiled opposition to taking from the hands of this committee the change in the procedure affecting deductions of employees. I think that has been the most outspoken statement of the day.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. DANIELS. The gentleman from Maryland, Mr. Hogan.

Mr. HOGAN. I just want to make a comment on the 20-year retirement. I am sure my distinguished colleague from Virginia knows that the Federal Bureau of Investigation has a 20-year retirement for special agents at age 50 at a reduced annuity. I think that these are the kinds of things that the Government ought to be looking toward with an enlightened attitude toward employee-management relations. The Government should be leading private industry rather than following it. So I concur fully that earlier retirement ought to be a goal to strive for.

Mr. RADEMACHER. Mr. Chairman, may I say that we were waiting for the first response from your new colleague and we are elated to learn that he already has reviewed the situation and finds that a change is necessary.

I might also add, Congressman Hogan, we are pleased to have you as a member of this subcommittee and that eventually this same board of officers, this same team of letter carriers is going to come before the Congress and talk about hazardous pay and retirement for reasons of hazard. Our letter carriers are being brutally assaulted and even killed today, and some action has been taken because of Chairman Dulski's bill. We have had some people sentenced to jail already because of the actions taken by the chairman of this committee. But it is not enough. If our people are going to be subjected to these assaults, knifings, abuse that they never had to go through before, then perhaps an amendment to the retirement law for their protection is necessary.

Mr. HOGAN. I look forward to working with you on these types of bills.

Mr. SCOTT. Will the gentleman yield?

Mr. HOGAN. Yes.

Mr. SCOTT. I believe that my colleague from Maryland is a former FBI agent. That is why he is so familiar with the FBI?

Mr. HOGAN. Yes; and I think this FBI retirement program is excellent and ought to be extended to the full Federal service to help attract the kind of people we want to attract to the Federal service.

Mr. DANIELS. It is nice to have your views on the record, Mr. Hogan.

Have you any questions, Mr. Dulski?

Mr. DULSKI. I should like to associate myself with the remarks of our distinguished chairman here this morning and compliment the president of the letter carriers on the fine presentation he has made in brief.

I used to be a Treasury agent myself. So I understand the plight of the Government employees.

I want to go on record that I support the proposition that the Government should be the leader. As you stated, where else but in this great country of ours can management and labor sit down opposing each other and come to a compromise? I fully support the legislation that would require the Government to pay the full cost of the health benefits. I want to go on record on that right now.

Mr. RADEMACHER. Thank you very much, Mr. Chairman. We appreciate that.

Mr. DANIELS. Mr. Rademacher, I have no further questions. I do, however, wish to take this opportunity to compliment you and all of your associates who have appeared here this morning to express your interest in this legislation. You and your organization, and the officers of your organization, have always taken a very, very active part in all legislative endeavors which affect the health, welfare, and best interests of the Federal employee—not just those of letter carriers—but the whole rank and file of the personnel complement of the Federal Government.

You are to be congratulated because of your stand. You have been responsible for many of the benefits in the law today.

I also note that you have the head of the New Jersey Association of Letter Carriers in the audience, Mr. James Kennedy and his associates from New Jersey.

Congratulations; I wish other organizations would follow this same pattern.

Mr. RADEMACHER. It is strictly a coincidence that they happen to be from New Jersey.

Mr. DANIELS. Thank you.

Our next witness is Mr. David Silvergleid, president of the National Postal Union, accompanied by Mr. Robert P. Kephart, secretary-treasurer, and Mr. John A. Morgen, executive vice president.

If there are no objections, your prepared statement will be inserted in the record at this point.

(The statement follows:)

PREPARED STATEMENT OF DAVID SILVERGLEID, PRESIDENT, NATIONAL POSTAL UNION

Mr. Chairman and members of the committee, I am David Silvergleid, president of National Postal Union, located at 425 13th Street, NW., Washington, D.C. We represent over 70,000 postal employees, organized in over 600 local

affiliates in 50 States, including Puerto Rico, and the District of Columbia. I am accompanied by our secretary-treasurer, Robert P. Kephart, and our executive vice president, John A. Morgen.

At the outset, we wish to thank the chairman of this subcommittee for scheduling these early hearings on a matter which is of paramount importance to all Federal employees. We fully appreciate the long-standing problem of placing the retirement fund on a sound basis, and are hopeful this will be achieved by the first session of the 91st Congress.

However, I would like to remind this committee that there has actually been no basic improvement to the Retirement Act since 1956, other than relatively minor advances which include small increases for retirees, elimination of deductions for retirements occurring between the age of 55 and 60, and reduction of the cost of widows' and dependents' annuities. We submit herein National Postal Union's retirement program as adopted at our last national convention, in San Juan, P.R.:

1. Optional full retirement after 20 years of service, regardless of age, based upon $2\frac{1}{2}$ percent of the highest 1 year of service, multiplied by the number of years service, not to exceed 100 percent.
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 exemptions 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 survivors' benefits predeceases, the full annuity should be automatically restored.

While we do not anticipate consideration of our entire program during the 91st Congress, we should like to 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 increased social security benefits, have in many instances placed the Retirement Act in an inferior position.

As a postal union representing employees who have a considerable stake in the financial status of the civil service retirement system, we are deeply concerned with reports that indicate the fund may be left without any balance on or before 1990. Each time we seek liberalizations in retirements benefits, the inevitable question of the fund's financial status is raised as an obstacle. It is absolutely essential, therefore, that procedures be adopted which will enable achievement of financial stability in the near future, and permanently thereafter.

However, inasmuch as the Government has failed to make systematic and regular contributions to the civil service retirement fund, considerable normal income has been lost. If such payments had been made regularly and invested, interest at a rate of $1\frac{1}{2}$ billion per annum would have been added to the present balance. We feel that the alleged unfunded liability of more \$50 billion, plus annual increases in such unfunded liability, should be totally underwritten by the Government. Under no circumstances should employee contribution rates be raised to cover deficiencies because the Government has failed to contribute its full share to the civil service retirement fund.

We are opposed to that provision in H.R. 770 which confers on the Civil Service Commission authority to determine when an adjustment in the percentage of deductions is "necessary to meet fully the normal costs of the benefits then in effect." While we recognize that further provision is made that either House of Congress, within 90 days, may veto such proposed adjustment, we feel strongly that affirmative action should be initiated by Congress in the first place, rather than by the Civil Service Commission.

We believe that this subcommittee should give consideration to a change in the contribution formula, which presently provides that the employees and Government pay equal shares. There is more than enough precedent already established in the private sector, as well as in municipal and State governments, for the employer to make a substantially larger contribution than the employee.

The most recent report on State and local government retirement funds re-

veals that the employers contributed 60 percent as compared to a 40 percent contribution by the employees. However, the private sector has done even better by its workers than municipal and State governments. A recent Bureau of Labor Statistics report indicated that in 75 percent of the annuity plans in industry, the entire cost of retirement benefits was financed by the employer. Out of some 15.6 million workers who were covered by approximately 12,000 plans, about 11.8 million made no contribution whatsoever to their future annuities. Obviously, where the Federal Government should be setting the pace, it is instead falling behind both private industry and State and local governments.

We would also request the subcommittee to give consideration to the various bills introduced which provide for retirement after 25 and/or 30 years of service, regardless of age. Here again, many local and State governments have taken the play away from the Federal Government in permitting their employees to retire after 20 or more years of service with full annuities.

We submit that when a Federal employee has concluded 25 or 30 years of dedicated and loyal service, he or she should be given the opportunity to retire optionally, without any reduction in the annuities which they have so richly earned.

We make a special plea on behalf of retirees. The fact is that the nominal value 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. 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. While recent pay legislation attempts to accomplish nominal comparability in salary for active employees at July 1969, no such comparability is assured retirees.

A large number of retired workers now receive monthly benefits below \$200. More than 50 percent of all eligible survivors receive less than \$100 a month. The present cost of living formula for pension adjustment operates so that annuitants must necessarily be deprived of many necessities while costs are increasing. When they receive a cost of living increase, it is not sufficient to pick up the slack for expenditures they have incurred while living costs were going up.

We are in favor of the provision in H.R. 770 which would add 1 percent to all cost-of-living increases. However, this in of itself is not adequate relief for our annuitants. We suggest the subcommittee consider a flat increase in all present annuities of at least 10 percent, in addition to the provision presently in H.R. 770.

Mr. Chairman and members of the subcommittee, may we express our sincere appreciation for your interest in seeking a proper solution to the present financial difficulties of the civil service retirement fund, and for this opportunity you have given us to express our views. Thank you.

STATEMENT OF DAVID SILVERGLEID, PRESIDENT, NATIONAL POSTAL UNION, ACCOMPANIED BY ROBERT P. KEPHART, SECRETARY-TREASURER, AND JOHN A. MORGEN, EXECUTIVE VICE PRESIDENT

Mr. SILVERGLEID. On my left is our executive vice president, John A. Morgen, and on my right our secretary-treasurer, Bob Kephart, of Philadelphia.

I recognize that after two or three witnesses the testimony is going to be somewhat repetitive. So with the chairman's consent, I will make just a few comments.

Mr. DANIELS. You may proceed.

Mr. SILVERGLEID. I would like to say at the outset that we are extremely grateful for your calling meetings as early as you have. Our distinguished chairman and my good friend, Tad Dulski, I think is going to get this House Post Office and Civil Service Committee really working and I hope we get a lot of beneficial employee legislation out for the first session.

There can be very little argument about the essential features of H.R. 770. We are all in favor of those provisions that provide for refinancing and re-funding. We have long recognized, of course, that the fund, actuarially, is falling farther and farther behind and we have also recognized that every time we present ourselves to the Congress for what we consider justified beneficial legislation with respect to retirement, we are confronted with an almost insurmountable obstacle, the financial status of the fund. So, the chairman and his subcommittee are to be congratulated for trying to bring matters to a head. However, we are not entirely happy, frankly, with the bill as it is written at the present time. I dislike striking a discordant note on this beautiful day dedicated to the Patron Saint of Ireland, but we are not in complete agreement with the previous witnesses, particularly with respect to the one area of increasing the employee's contribution.

My good friend and associate, Jimmy Rademacher, emphasized very, very clearly what it meant to the average postal employee to have his retirement contributions raised even one-half percent. I am not going into extraneous suggestions such as pay or the health benefit situation because I realize members of this subcommittee are fully familiar with the facts; but it is a blow, particularly during these days of increasing costs, with spiraling inflation, to ask postal workers to take another cut in pay, which is exactly what this would be.

We have heard mention from previous witnesses of consideration being given to a possible change in the formula of contributions. In most instances they suggested it could be considered at a subsequent time. Well, I would like to point out, Mr. Chairman and members of the committee, a fairly recent report on State and local government retirement funds revealed that the employers contributed 60 percent as compared to a 40-percent contribution by the employees. However, the private sector has done even better by its workers than municipal and State governments. A Bureau of Labor Statistics survey indicates that in 75 percent of the annuity plans in industry the entire cost of retirement benefits was financed by the employer. Out of some 15.6 million workers—and I think there is a report subsequent to this—who were covered by approximately 12,000 plans, about 11.8 million made no contribution whatever to their future annuities. Here again, Mr. Chairman, where the Federal Government should be setting the pace, as far as treatment of employees is concerned, it is again lagging far, far behind the parade.

Now, we submit that there should be consideration, and we respectfully submit to the chairman that perhaps the subcommittee would go into it, to the feasibility of considering a recomputation because the entire basis of H.R. 770, the fundamental premise, is refinancing and re-funding. It seems to me that anything dealing with money, whether with contributions or with insuring that the fund becomes stable and remains stable, can be considered in the one piece of legislation.

Now, I want to stress also, and I agree wholeheartedly with my colleagues on that feature dealing with the Civil Service Commission, giving it the right to increase in units of one-quarter to 1 percent the contribution by employees and the Government as it sees fit, or in its discretion. I am particularly concerned about that because within the past 2 or 3 days there have already been reports released from the new Chairman of the Civil Service Commission that he will testify in favor

of re-funding and refinancing but will oppose all of the proposed liberalizations in H.R. 770.

Mr. DANIELS. Well, it may then be difficult to get a financing bill.

Mr. SILVERGLEID. I quite agree, but I think you are more familiar even than I am with the fact that in all probability he will have to take that position whether it is his personal opinion or not.

I merely point this out, Mr. Chairman, as a probability of what we can encounter in dealing with some of our Federal agencies, such as Budget and the Commission in the future when the issue of whether or not the fund needs additional financing or refinancing comes into play.

Mr. DANIELS. Your position, therefore, is the same as the previous witnesses who have testified here this morning; that is, that there be no delegation of authority to the Civil Service Commission in the future to adjust contributions of employees and employing agencies; that the authority should rest where it is at the present time; and that the Congress should continue to deal with that problem?

Mr. SILVERGLEID. That is correct, Mr. Chairman. We believe that the Congress should initiate any proposed increases, and then we would have the opportunity to come in and talk about it.

We recognize the bill gives Congress the right to a veto.

Mr. DANIELS. I want to get to another point that you have already dwelled upon, that consideration be given by this subcommittee at the present time to the contribution formula.

I take it, then, you do even object to the increase provided for in this bill from $6\frac{1}{2}$ to 7 percent by the employees and the employing agencies?

Mr. SILVERGLEID. Unequivocally, Mr. Chairman. I sincerely believe that there should be a recomputation, a formula, that would take care of it.

Mr. DANIELS. May I point this out to you: As of June 30 of this year it is estimated the unfunded liability will amount to \$57.7 billion; that on that date there will be only \$19.2 billion in the fund; that by 1975 the outpay to annuitants will exceed the income which is estimated to then be about \$3 $\frac{1}{2}$ billion; and, if it continues along this line without the Congress taking corrective action, that by the year 1987 the fund will be bankrupt; and then it will be necessary for the Congress from that date, and every year thereafter, to make tremendous annual appropriations. Now, it is estimated that the annual appropriations will amount to over \$4 billion per annum, bearing in mind, too, the \$4 billion per annum would have to be appropriated in addition to the \$3.5 billion that the employees and agencies will be contributing. Now, do you think, in view of this posture of events, that this committee and the Congress should fail to take action at this particular time?

Mr. SILVERGLEID. Mr. Chairman, I am in thorough accord with positive action and I am also in thorough accord with those provisions of H.R. 770 which provide for picking up this actuarial deficit over a period of years and also provide for preventing it from developing to that extent in the future.

Mr. DANIELS. I don't see how this committee can go into a study of redetermining the sharing formula at this time, because it would have to be a very extensive study of the plans offered by the private sector and other governmental entities. This committee has already

spent a year and a half to 2 years on this study. We were only able to get the bill through one House of the Congress last year. Now, if we enter into such an extensive study it may take another few years. In view of the perilous conditions of the fund, I feel—and I am only speaking for myself, I don't know what the attitudes of the other members of this committee will be—that it is imperative, as responsible legislators, that we take some affirmative action, and that action should be taken soon. That is the reason why I prevailed upon our good chairman, the gentleman from New York, the Honorable Thaddeus Dulski, to permit me to conduct these hearings early in this session and prior to his getting into the hearings on Postal Reorganization; because that is quite an involved and serious study, and is going to take some time. So, the chairman was good enough to allocate to me this time today, tomorrow, and Thursday of this week for these hearings. I do hope that we may be able to conclude the hearings on Thursday. Now, if we get into a study of what private industry is doing, and what other State and local governments are doing in this area, I envision it taking so much time that further consideration of this bill would be indefinitely deferred.

Mr. SILVERGLEID. Mr. Chairman, may I suggest that your logic is irrefutable and unassailable; so I would propose that the study be something for the future, but in lieu of 7 and 7 that it be $6\frac{1}{2}$ and $7\frac{1}{2}$, as at the present time, because you know any such study, Mr. Chairman, will reveal what the records already show, that there is a greater proportion being paid by the employer.

Mr. DANIELS. I am glad to see you take that position. I think that is a very responsible position for you to take.

Mr. SILVERGLEID. We want to be responsible, Mr. Chairman. We would like to see a bill. We would like to see the retirement fund set up on a solvent basis so that none of our people will be concerned that one of these days it will go up into thin air, for them. We are just as concerned about the younger people coming in as we are about the older people. We feel that there is no sound basis at this time for asking the employees to make a greater contribution. We know the Commission will ask for it. We know they will ask for that and that alone.

I am glad to hear you say, Mr. Chairman, that they may not get a bill under those conditions, but we still do need a bill to refinance.

Mr. DANIELS. With respect to the benefits provided for under this bill, let me say this: Accepting the testimony that was heretofore submitted by the various administration witnesses which indicated that the normal cost of carrying this fund comes to 13.86 percent, with employees and employing agencies contributing a similar sum of 7 percent each, the fund then will receive 14 percent of the annual salaries of employees. There arises, therefore, a surplus of 0.014 percent. The undisputed testimony before this committee is that 0.014 percent, when equated to dollars equals \$190 million. In its judgment, after due consideration by members of this subcommittee last year, the committee felt that the benefits provided for in this bill would not increase the normal costs beyond 14 percent, and therefore, that we could make these benefits available. We gave that a great deal of study. I don't see why the administration cannot go along with it. Personally, I feel that the provision with respect to giving full credit for unused sick leave toward retirement service credit will not result in any cost to the

Government. As a matter of fact, I believe that the Government will benefit by it. There was a debate which took place on the House floor last year with respect to the "Monday" holiday bill—when Columbus Day was made a national holiday. Now, if the words that were uttered on the House floor were then true, that giving the extra holiday would cost the Government \$90 million, then giving credit for sick leave should result in the Government benefiting as much as \$90 million. It was the opinion of the former Chairman of the Civil Service Commission, who testified before us, that this provision might result in the conservation of at least 1 additional day of sick leave, and therefore, save \$90 million.

Mr. SILVERGLEID. As I stated, Mr. Chairman, and I repeat, your logic is unassailable.

May I make just one comment on our retired people because although our written statement comments, I think it cannot be over-emphasized: I am sure the members of the subcommittee are fully aware of the conditions under which our retired people live today. The former witness went into certain figures. We know, the records show that 50 percent of the retirees or their annuitants don't get over \$100 per month. Now, this is incredible in this day and age. I congratulate the Chairman for the provision in H.R. 770 to help retirees pick up the slack every time there is a cost of living increase. But our own opinion is that they have fallen so far behind in the interim that consideration should be given to a flat increase for the annuitants in addition to the 1 percent for the future. I would like the subcommittee to consider that.

Mr. DANIELS. Mr. Silvergleid, would you also comment on the question that I presented to the first witness? I believe you were present in the room when I pointed out that last Saturday I had a constituent visit me at my district office to express his objection to including overtime and other forms of extra compensation as basic pay. May I have the views of your organization on that question?

Mr. SILVERGLEID. I might advise the chairman that this has been a subject that goes back in my 40 years of postal service as one of continual discussion and some concern with the employees. The impression I have received, and still have, is that most postal employees would like to have the aggregate pay computed, that is, overtime, night differential, and so on. This is our position on that score; we support that provision.

Mr. DANIELS. Thank you, gentlemen. We appreciate your coming here and giving us the benefit of your views.

Mr. SILVERGLEID. Thank you very much.

Mr. DANIELS. Our final witness today is Mr. Henry Wilson, legislative director of the Federal and Public Service Division, Laborers' International Union, accompanied by Mr. Jack Curran, legislative director, Laborers' International Union, AFL-CIO, and Mr. Al Kinsey, who is with the National Association of Mail Handlers.

May I suggest to you, sir, that if you have a formal statement you present the statement and then you may summarize your views. Without objection, that will be done.

(The statement follows:)

PREPARED STATEMENT OF HENRY T. WILSON, LEGISLATIVE DIRECTOR, FEDERAL-PUBLIC SERVICE DIVISION, LABORERS' INTERNATIONAL UNION OF NORTH AMERICA

Mr. Chairman and members of the subcommittee, my name is Henry T. Wilson. I am legislative director of the Federal-public service employee division of the

Laborers' International Union of North America. We would like to thank the chairman, Representative Daniels, and members of the subcommittee for the opportunity to appear here today on H.R. 770. The retirement issues covered by H.R. 770 have been of growing concern for many years to the thousands of Federal employees we represent.

With a membership of more than 550,000, the Laborers' International Union is the fifth largest union in the AFL-CIO. Included in our membership are thousands of blue-collar Federal employees. Within the past year the National Association of Post Office Mail Handlers, Watchmen, Messengers, and Group Leaders merged with the laborers to substantially increase the number of Federal employees now represented by the Laborers' International Union. 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 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. We have pioneered in negotiating pension plans for nonappropriated fund employees working in Government activities. It seems inconceivable to us that Congress has seen fit to regulate these funds, most of which are properly funded and ably administered while the Federal government ignores its own responsibility in developing a financially sound retirement program.

As a representative of Federal employees, the Laborers' International Union is quite concerned about several features of the retirement system. We would like to see the benefits liberalized; we would like the formula changed for computing annuities; we would like the survivor annuity increased; permit optional retirement after 30 years with full benefits, regardless of age. Our union supports the integration of the social security system to Federal employees. There are large blocks of low paid Federal workers who come in and out of Federal employment. These employees should not lose the advantage obtained through coverage under the social security system while in private employment when they transfer into Federal employment. The low-wage Federal employee needs this protection.

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 labor's stand on H.R. 770, a bill specifically designed to correct certain deficiencies in the retirement system. We will direct our remarks to those issues covered by the bill.

Federal employees have been growing increasingly disturbed about the mounting unfunded liability of the civil service retirement system. No one has ever seriously doubted that the Government would fail to meet its obligations to its retired employees, despite the poor financial conditions 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 Members of Congress quite upset. We hope the concern you have shown is a prelude to increased congressional action in this area.

We did oppose the provision of earlier bills that would have given 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. H.R. 770 is a compromise on this point. We can see no justification for increasing the employees' contributions to the fund at this time, even if benefits were increased. Pension benefits probably could have been liberalized many times without additional contributions by either party had the Government made its proper contribution. In order to correct this long injustice, we see no other fair alternative than for the Government to pay a larger share.

Our proposal is by no means excessive. Many private pension plans today find the employer paying the total cost. And on most joint contributory plans the employer pays a far greater percentage than the employee. Why should it be different for the Federal employee?

The Laborers' International Union supports the basic intent of H.R. 770 providing a time schedule for appropriations to make up for the unfunded liability of the retirement program. We do not question the schedule of payments proposed in the bill to make up the Government's share in the fund over the next 10 years. We are not actuaries. We assume the schedule is accurate and fair. What we do urge, however, is that should this bill be adopted into law that 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 covered 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.

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.

In spite of the reservations we have with respect to H.R. 770 we feel that the bill offers many improvements which should be made in the civil service retirement program. The Laborers' International Union, therefore, supports the bill as drafted.

STATEMENT OF HENRY T. WILSON, LEGISLATIVE DIRECTOR, FEDERAL-PUBLIC SERVICE DIVISION, LABORERS' INTERNATIONAL UNION OF NORTH AMERICA; ACCOMPANIED BY JACK CURRAN, LEGISLATIVE DIRECTOR, LABORERS' INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO; AND AL KINSEY, ADMINISTRATIVE AIDE, NATIONAL ASSOCIATION OF MAIL HANDLERS, LABORERS' INTERNATIONAL UNION

Mr. WILSON. I will summarize, if I may. For the record, my name is Henry Wilson. Mr. Jack Curran, legislative director, is on my left, and Mr. Al Kinsey, who is representing the Mail Handlers Division of the Laborers' International Union, is on my right.

In order to summarize, I just want to say that our position basically is the same as that expressed by the other unions appearing before the committee. The Laborers' International Union is affiliated with the Government Employees Council. We have all gotten together in terms of our basic position. I think that from our point of view we want to compliment the committee and the chairman for the bill H.R. 770, especially as it relates to taking care of the unfunded liability that now exists in the retirement program. We feel that this is a major problem right now and one which we had addressed ourselves to in earlier testimony before this committee.

In the statement which I have submitted, I suggested that the Government should eventually get to the point of considering increasing its percentage of contribution to the retirement plan in line with the programs that now exist in the private sector. We realize that most of the private negotiated pension plans are integrated into the social

security system so that you have a base already in existence providing sizable benefits under that program and that the additional benefits that are paid under the privately negotiated plans really supplement the social security program.

Because of the nature of the membership which we represent in shipyards, VA hospitals, Postal Department, basically all of which are low paid, low wage earners in the Federal service, we have a special concern with respect to the application of social security. Many of our people are coming in and out of the Federal service because of their low wage levels—they come in and when there is a reduction in force they are usually the first group to go. They then go back into the private sector and in a few years they may be back in again. These are the people who have had limited periods of time in the Federal service and I think would benefit most from some kind of system which would permit the integration or the possibility of employees who come in for a few years and go out, to get these benefits so that when they finally get to the point of retirement they do not have to say, well, they don't have an adequate number of years under social security and very few under the Federal program and therefore they are in that state where benefits just don't amount to anything.

Mr. DANIELS. I might say to you at this point, Mr. Wilson, that in the last Congress we did consider legislation to give employees who had less than 5 years of Federal service the opportunity to receive benefits under the social security system with a payment of the cost to the Social Security Administration being paid from this fund. But, because of the crossing of jurisdiction with the Ways and Means Committee, this committee could not undertake to report a bill without their implementing legislation. The Ways and Means Committee did likewise conduct hearings, but no favorable action was taken by them. It would have been fruitless on our part to report out a bill which would not have been implemented to the extent necessary to become fully operative. So that is a matter of unfinished business, I might say, so far as this committee and the Ways and Means Committee is concerned. But you raise a very good point.

Mr. WILSON. I appreciate there are real problems in it. It is the same type of problems that many State and local government retirement programs have had. Some have ignored the problem and continued the same old plan of not integrating, but a large number of them have either integrated or supplemented their State plans with the Federal social security. I think our membership, in the wage brackets we represent, have a special interest in this. We realize H.R. 770 does not go to this problem, but this is one area we are seriously concerned about.

We are also concerned about raising the contribution rate from 6½ to 7 percent. Our concern there, again, is the concern of the low wage earners. I think we are really a conglomerate union representing a large group of the low wage earners in all departments, really. In our previous testimony in other hearings we have taken the position that we did not want any increase in contribution rates. We realize that sometime somehow there has to be this adjustment and that this may be the time, especially in terms of other benefits that come out of this bill.

In terms of the general bill, we support its provisions and support its intent. On the Civil Service Commission's responsibility in recommending contribution rates, we follow the position that other unions have taken on this and we would as soon have this left with the Congress. We realize H.R. 770 is a compromise, but this is a compromise we would rather do without and we hope this provision can be amended.

Mr. DANIELS. Do you feel, in view of the present position of the fund and the promise to take action on it, that it is wise to proceed with the financial provisions of the bill, which recommend a joint increase in contribution rate of 1 percent by employees and the Government?

Mr. WILSON. We feel this has to be done. We opposed it in the past. We think now you have to do it and we support the bill in that sense.

Mr. DANIELS. You do, however, recommend that this committee or the Congress look into the matter of modifying the formula at some future time?

Mr. WILSON. Yes.

I think that would conclude our statement to the committee.

Mr. DANIELS. What is your position with respect to the delegation of authority by the Congress to the Civil Service Commission in regard to adjustment of contributions in the future?

Mr. WILSON. We object to this primarily because we think this is a decision the Congress should make. We feel, as a trade union operating with the Civil Service Commission in other areas, that they don't really speak on behalf of the employees. We do not have an opportunity to go before the Commission and indicate our views in many matters.

Mr. DANIELS. Did you hear the testimony of Mr. Griner, Mr. Nilan, and Mr. Silvergleid on this point?

Mr. WILSON. Yes.

Mr. DANIELS. And your testimony is in agreement with theirs?

Mr. WILSON. We would support theirs.

Mr. DANIELS. Thank you.

Any questions, Mr. Dulski?

Mr. DULSKI. No.

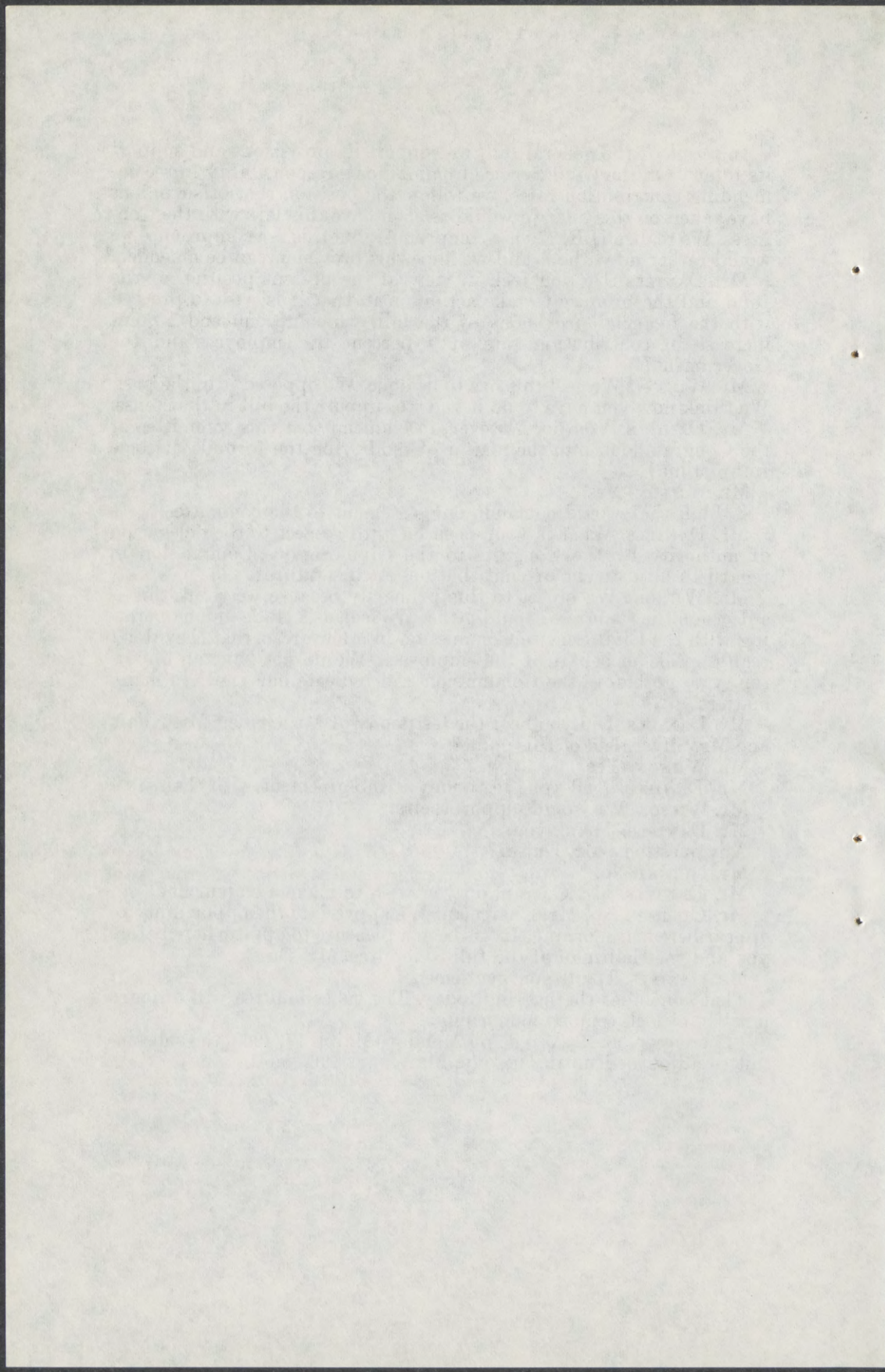
Mr. DANIELS. Mr. Curran, do you wish to make a statement?

Mr. CURRAN. No, Mr. Chairman. We appreciate the opportunity to appear here this morning. It has been a pleasure to appear here before you and the chairman of the full committee, Mr. Dulski.

Mr. DANIELS. Thank you, gentlemen.

That concludes the hearing today. The subcommittee will adjourn until 10 o'clock tomorrow morning.

(Thereupon, at 12:05 p.m. on Monday, March 17, 1969, the subcommittee adjourned until Tuesday, March 18, 1969, at 10 a.m.)



RETIREMENT FINANCING

TUESDAY, MARCH 18, 1969

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

The subcommittee met at 10:05 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. This morning we will continue with hearings on H.R. 770, a bill to improve the financing and funding practices of the civil service retirement system.

Yesterday we had a number of witnesses representing employee unions. Today, likewise, we have a number of organizations who desire to be heard on this very important bill.

Our first witness this morning is Mr. Nathan T. Wolkomir, president of the National Federation of Federal Employees. Mr. Wolkomir, would you step forward?

Mr. WOLKOMIR. Yes, sir.

Mr. DANIELS. I might say, for the benefit of all the witnesses who have expressed the desire to testify here today, that inasmuch as the committee has held extensive hearings on this legislation over the past 2 years, the ground has pretty much been covered, so to speak, with respect to the issues involved in this bill.

In an endeavor to expedite the hearings, I would suggest that you file your statement, if you have a prepared statement, and summarize the contents thereof. You may then implement any ideas that you desire to put forth.

Mr. WOLKOMIR. Thank you very much. We shall do the same to expedite the hearing. I have a prepared statement, sir; and I believe you all have copies.

Mr. DANIELS. If there is no objection, your prepared statement will be printed in the record at this point.

Hearing none, it is so ordered.

(The prepared statement follows:)

PREPARED STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES

Mr. Chairman and members of the subcommittee, I am Nathan T. Wolkomir, president of the National Federation of Federal Employees. We are an independent union of Federal employees and for over 50 years have been testifying and promoting the welfare of Federal employees and the public interest. At my right is Mr. Ben Hinden, legislative and legal representative of the National Federation of Federal Employees.

The subcommittee is addressing itself to H.R. 770, a bill to amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes. The primary purpose of this bill is to meet the unfunded liability and mounting deficit of the civil service retirement fund. In view of the extensive consideration given the proposed legislation last year you contemplated that these hearings would be brief and my remarks will be in keeping with said objective. The subcommittee has my statement of May 6, 1968, wherein the views of the National Federation of Federal Employees on the subjects covered by the proposed legislation were fully expressed. Relative to civil service retirement financing, we offered last year the possibility of floating a bond issue, if permissible, on the open market to pay in part the unfunded liability of the civil service retirement fund. We felt that many Federal employees would buy these bonds to support the objective behind the bond issue. And that it could be made attractive to investors generally—both large and small. However, the interest rate would have to be a great deal higher than the rate on savings bonds which is extremely low. The rate should be realistic—similar to the interest rates of recent U.S. Treasury notes. Our feeling last year was that the unfunded liability should be totally met by the Government and this still represents our views. The NFFE recommendation was to the effect that the amortization schedule pay off the unfunded liability in full over a 20-year period. If a bond or Treasury note issue is not placed on the open market to pay in part the unfunded liability and it is considered too great a drain upon the general fund of the U.S. Treasury to pay off the unfunded liability in 20 years, the National Federation of Federal Employees would concur with financing the unfunded liability over a period of 30 years as proposed.

The contribution rates of Government employees to the civil service retirement fund should not be raised to cover deficiencies on account of the fact that the Government has not contributed its full share to the fund. As I stated last year, employees have paid their share for increased retirement benefits and are willing to pay their fair share for added benefits. H.R. 770 proposes to raise the contribution of Government employees to 7 percent which means, of course, that they will have less take-home pay. While Government employees appreciate the civil service retirement benefits contained in H.R. 770, we do not feel that these benefits are sufficient in the light of the additional contribution to be made by the employees. Moreover, the contribution rate of Government employees to the cost of employee health insurance has been steadily increasing. Therefore, I recommend that the provisions of H.R. 767, a bill to amend chapter 89 of title 5, United States Code, relating to enrollment charges for Federal employees' health benefits, which you, Mr. Chairman, introduced, should be included as part of this proposed legislation. H.R. 767 would increase the Government's contribution to the cost of employee health insurance from its present 28 percent to 50 percent for the fiscal year 1970, 75 percent for the fiscal year 1971, and 100 percent for the fiscal year 1972 and for each year thereafter.

We feel that the employees have paid their share in the past for increased retirement benefits since the rate of contribution has been raised from 2½ to 6½ percent over the years and now 7 percent is proposed under the provisions of H.R. 770. The contribution rate of the Government to the civil service retirement fund should not be less than 60 percent (with employees' contribution 40 percent). If the contribution of the Government would be raised to 75 percent, it would not be out of line with private industry. A number of private employers pay the full cost of the pension plan of the employees. And the trend in private industry is toward noncontributing retirement plans.

In our statement of May 6, 1968, we recommended that the annuity formula be changed to use the highest 3 consecutive years of service rather than the present highest 5 consecutive years and this provision is included in H.R. 770. The National Federation of Federal Employees recommended certain other civil service retirement benefits in our earlier testimony including credit of unused sick leave toward length of total service for annuity purposes and this provision is contained in H.R. 770. We are, of course, glad to see such provisions are incorporated in this bill. The NFFE favors the principle of equal treatment for all Government retirees and their survivors based upon equal service regardless of the date of retirement. We repeat that the rights and benefits should be equalized for those who retired prior to July 18, 1966, both with respect to their own annuities and their survivors' annuities, including

removal of the percentage deductions of individuals between the ages of 55 and 60 with 30 years or more of service who retired before July 18, 1966. 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. We urge the enactment of legislation exempting annuities under the civil service retirement laws from Federal and State income and inheritance taxes as well as the enactment of legislation restoring the full annuity to retirees when the survivor annuitant predeceases the retiree where a survivor deduction has been made. In our statement of May 6, 1968, we also outlined long delayed needed improvements in the civil service retirement system. Some of these improvements I have already mentioned today. However, because of their importance, I am citing in outline form the overall improvements in the civil service retirement system previously proposed by NFFE, all of which we feel are urgently needed. Moreover, since I testified last year, the NFFE has held its biennial national convention and our position in support of these proposals has been overwhelmingly approved. In this connection I may point out that of the many resolutions presented to that convention, the subject drawing the largest single group of resolutions was retirement, indicative of the employees' great interest in this issue. I am sure that you, Mr. Chairman, and members of the subcommittee, already have heard from many of our locals and individual members, evidencing their deep interest and concern in improvements in the civil service retirement system. The National Federation of Federal Employees regards liberalization in Federal retirement benefits as absolutely essential if the Government wishes to recruit and retain qualified personnel now and in the years ahead. The NFFE proposals for broad improvement of the retirement system are outlined in this 15-point program:

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. Enactment of legislation to include firefighters within the retirement laws of Federal employees in hazardous occupations.
14. 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 who retired on and after July 18, 1966. It is fair and equitable to accord similar rights and benefits to these earlier retirees.

15. Enactment of legislation to authorize the benefits under section 18(a) of Public Law 89-205 to all those who retired on or before October 1, 1956. This section authorizes these benefits if the commencing date of the annuity of the retired employee occurred on or before October 1, 1956. There are some employees who retired on or before October 1, 1956, but whose annuity did not commence until after October 1, 1956. It is only fair that all those who retired on or before October 1, 1956, receive similar benefits.

Mr. Chairman, the NFFE is grateful to you and to the members of the subcommittee for your constructive interest in the areas covered by this piece of legislation. While we have made certain suggestions which we earnestly believe improve the proposed legislation, I wish to make it quite clear that the NFFE is appreciative of the great amount of work which has gone into the preparation of this legislation and, of paramount importance, the motivation of the legislation, which is considerate of the interests of the Federal employees, the Government, and the public interest as a whole.

I should like to emphasize also that there is an urgency about this matter which we hope will be taken into full account by both Houses of Congress and by the administration.

Surely the need to bring order and equity out of the chaotic financing of the fund is clear. Further delay can seriously worsen the deficit. While it is true that the full faith and credit of the United States stands back of the retirement fund, the huge and mounting deficit inevitably casts a shadow over the system. It may be overstating the case to imply that the integrity of the fund is at stake—but surely it is not overstating the case to say that a deficit of this magnitude should no longer be tolerated. Moreover, various other provisions of this bill are urgently needed in order to enable the Government to keep pace as an employer—and as an employer who does not forget those who served it well in the past and their dependents.

There is a no more important aspect of employee-management relations than the character of a retirement system to which employees, and their families can look forward. We must bring the civil service retirement system up to date—completely up to date in all respects—if it is to fully benefit not only the employees but the Government and the people of this country.

A substantial increase in present annuities depending upon the amounts received should be granted to retirees and survivors. I am certain that they appreciate the 1 percent added to the cost-of-living increase as provided in H.R. 770. There are retirees and survivors who live on less than subsistence incomes. The subcommittee should consider increasing the 1-percent addition to the cost of living increase.

As a result of the initiative of the chairman and members of the subcommittee and the interest of so many Members of the House of Representatives, a similar measure passed the House at the last session. It is our hope that this legislation will be passed by the House again and as early as possible in this session so that prompt action also can be achieved in the Senate.

Early action would, in our judgment, have far-reaching beneficial effects, moralewise as well as in the other practical advantages which this legislation would provide.

Mr. Chairman, it is respectfully urged that our views be carefully considered. I appreciate the opportunity to present them in behalf of the NFFE.

Mr. DANIELS. You may proceed with your summary, Mr. Wolkomir.

**STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES, ACCOMPANIED BY BEN
E. HINDEN, ASSISTANT DIRECTOR OF LEGAL AND EMPLOYEE
RELATIONS**

Mr. WOLKOMIR. I am Nathan T. Wolkomir, president of the National Federation of Federal Employees. The statement before you I will cut short and merely extract from it the key points that I believe will be of interest to this hearing.

Of course, the subcommittee is addressing itself to H.R. 770, a bill to amend chapter 83 of title 5. At the bottom of page 1, I read intact, the subcommittee has my statement of May 6, 1968, wherein the views

of the National Federation of Federal Employees on the subjects covered by the proposed legislation were fully expressed. Relative to civil service retirement financing, we offered last year the possibility of floating a bond issue, if permissible, on the open market to pay in part the unfunded liability of the civil service retirement fund. We felt that many Federal employees would buy these bonds to support the objective behind the bond issue.

May I state at our last national convention in September of last year, held in St. Louis, this same question was raised and we again received the endorsement of our complete delegation on the possibility of floating such a bond issue.

In order to make it more attractive to investors generally both large and small, we felt that the interest rate would have to be a great deal higher than the rate on savings bonds. It should be realistic, similar to the U.S. Treasury bonds.

Our opinion last year was that the unfunded liability should be totally met by the Government and this still represents our views. It was to the effect that the amortization schedule pay off the funded liability in full over a 20-year period.

If a bond or Treasury note issue is not placed on the open market, the unfunded liability, it is considered too great a drain upon the general fund of the U.S. Treasury to pay off the unfunded liability in 20 years, the employees would concur with financing the unfunded liability over a period of 30 years as previously proposed, I believe, by the chairman of the committee.

The contribution rates, however, should not be raised to cover deficiencies on account of the fact that the Government has not contributed its full share to the fund. As I stated last year, employees have paid their share for increased retirement benefits and are willing to pay their fare share for added benefits.

The bill proposes to raise the contribution to 7 percent which means of course they will have less take home pay. While Government employees appreciate the provisions contained in the bill, we do not feel these benefits are sufficient in light of the contribution to be made by the employees.

Moreover, the cost of employee health insurance has been increasing. Therefore, I recommend that the bill to amend chapter 85, United States Code, relating to Federal employees' health benefits should be included as part of this proposed legislation.

H.R. 767 would increase the Government's contribution to the cost of employee health insurance from its present 28 to 50 percent for the fiscal year 1970, 75 percent in 1971, and 100 percent for fiscal year 1972 and each thereafter. We feel the employees have paid their share in the past for retirement benefits, since the rate of contribution has been raised from $2\frac{1}{2}$ to 6 percent over the years. Now 7 percent is proposed.

The contribution should not be less than 60 percent by the Government with the employees' contribution 40 percent. If it was raised to 75 percent, it certainly would not be out of line with private industry.

A number of private employers pay the full cost of the pension fund and the trend is toward noncontributing retirement funds.

At this point I would skip pages 3 and 4 and call your attention to the items on page 5. This is the 15-point program mentioned. Some

of the highlights are in number 2 and 3, the enactment of legislation to obtain a straight 2-percent calculation factor in the annuity formula.

No. 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.

At this point, I would like to conclude by saying that at our national convention we discussed over 880 resolutions. Over 40 percent of them were on the subject of retirement, which is an indication of the fact to us that the majority of our people are so vitally interested in this particular legislation that it should receive the usual profound and we believe justified treatment from the subcommittee.

Mr. Chairman, the NFFE is grateful to you and members of the subcommittee for your constructive interest in this area. While we made certain suggestions, which we earnestly believe improve the proposed legislation, I wish to make it quite clear that the NFFE is appreciative for the great amount of work done on this legislation.

It is of paramount importance.

Mr. DANIELS. Thank you, Mr. Wolkomir. I see from your testimony that you have given this bill very careful consideration.

Now, I note particularly that you object to the financing provisions contained in this bill and would, with respect to the unfunded liability—both the present and future unfunded liability—float a bond issue in place of what has been proposed here.

Mr. WOLKOMIR. That is right, sir.

Mr. DANIELS. With respect to the unfunded liability already incurred, the bill proposes that the Government would pick up the entire tab by paying interest in the fund at a rate of 10 percent, perhaps starting in 1971, and gradually increasing it by 10 percent each year, until we achieved the 100-percent interest on the present unfunded liability.

With respect to the future unfunded liability, we would amortize those over a period of 30 years.

Do you object to those provisions? They have been very seriously recommended to us by the General Accounting Office.

Mr. WOLKOMIR. We appreciate the responsibilities of the funding involved and the terrific amounts of money that must be obtained. Our major objection to the bill is that it merely takes care of the interest and over a period of 30 years eventually the entire fund.

Our feeling is this: We have swept under the rug this indebtedness for so long that for us to be running back to you year after year to ask for the additional fringe type benefits that are absolutely necessary, such as 30 years regardless of age and other factors, we feel if we could fund it and fund it completely, not just the interest, but the complete liability over a period of 20 years, we would not have to go through this exercise yearly of making the Government comparable to what private industry is doing.

Mr. DANIELS. For any additional future benefits you would have to come to Congress. This bill provides, with respect to future benefits, that funds would have to be appropriated to cover additional unfunded liabilities then incurred.

Mr. WOLKOMIR. Well, the promise is of funding but the funding never shows up.

Mr. DANIELS. The experts that come before us say it is not necessary to have it completely 100-percent funded. If it is funded in the manner provided in this bill, I believe it takes the assets of the fund to about \$68 billion, which is deemed sufficient to make the fund sound.

Mr. WOLKOMIR. We have no arguments with the figures that the insurance people use in retirement programs. The major aspect is the fact that if the money is in the hand, then you can talk in terms of better benefits.

Over a period of 20 to 30 years, anything can happen in terms of congressional action. By past experience, I believe we have seen where we are promised the funding and it never shows up. That is the reason that we are requesting that aspect in your legislation. We are in agreement with you basically.

Mr. DANIELS. Well, I will say this. The employees have, in most cases, contributed their just shares to the fund. If anybody has been lacking it has been the Government.

Congress tried to tackle that problem 12 years ago by making the agency contribute an equal sum with the employee, which is presently 6½ percent each.

In this bill the Government is picking up the tab on the present unfunded liability. We don't ask the employees to contribute to that; we ask the Government to pay the entire interest.

Mr. WOLKOMIR. We have no argument with that aspect. Now, why the increase of 7 percent?

Mr. DANIELS. Because we have to meet the normal cost. It has been estimated that the normal cost for carrying this fund today amounts to 13.86 percent of payroll. With the employees contributing 6½ percent, there is a deficiency of 0.86 percent, which amounts to \$190 million.

We want it on a sound basis, that is why we are conducting these hearings. Employees continually ask for increased benefits. Now, I think we have to share some responsibility here.

If you are getting increased benefits, somebody has to pay the cost. Who do you recommend to pay the cost?

Mr. WOLKOMIR. I believe that the employees, Congressman, have clearly indicated the fact that they are willing to pay their fair share. There is no argument about the fact that they are willing to pay their fair share. We are asking you, in truth, to do it quicker and faster and in actuality to be realists.

Mr. DANIELS. In pages 5 to 7 of your statement, you made 15 recommendations of improved benefits. As to item No. 2, have you any idea what the cost involved would be if this committee enacted such a straight 2 percent multiplier?

Mr. WOLKOMIR. I believe you yourselves came out with a statement as to what these costs would be and I believe the figure was something like \$80 million a year, am I right?

I believe that was the figure.

Mr. DANIELS. Counsel points out to me that his recollection is not too clear on that point, but he thinks it is more nearly a quarter of a billion dollars a year, rather than \$80 million.

Mr. WOLKOMIR. I stand corrected. I believe it came up in the hearings last year; maybe it was \$180 million.

I appreciate the cost, if I could show you how to save \$180 million elsewhere in the Government, would you be willing to do it?

Mr. DANIELS. Thank you.

Do you have any questions, Mr. Henderson?

Mr. HENDERSON. Mr. Chairman, I will not take the time to ask any questions. I am sure Mr. Wolkomir will agree that in getting the basic aspect of this legislation enacted into law, we don't want to spend too much time talking about how we will do that. Anything that we might consider in the course of these years or the future should follow enactment of the basic legislation.

I do want to commend the chairman for very prompt action on this legislation this year. I couldn't agree more, with any portion of your statement, than with what you said about the interest of Federal employees in prompt enactment of the legislation.

Thank you, Mr. Chairman.

Mr. DANIELS. Thank you, Mr. Henderson.

Mr. Scott, do you have any questions?

Mr. SCOTT. Mr. Chairman, thank you.

I couldn't help but notice somewhat of a constraint between the desire in the testimony for increased benefits and the lack of desire for an increase in the contributions. So I was very pleased to see that your statement on page 5 is 30 years' optional retirement with full annuities, regardless of age.

But are you, on behalf of your employees that are in your organization, willing to pay whatever is necessary for these benefits on a 50-50 contribution basis?

Mr. WOLKOMIR. I believe our statement identifies a 60-40 figure. The reason we use the 60-40 is because my mandates are given to me by our membership by resolutions at national conventions.

Mr. SCOTT. If the present 50-50 is continued, would you rather not have the benefits or would you rather increase the percentage of contributions? If we had to choose between the two which would you choose?

Mr. WOLKOMIR. I would choose a combination of costs, in other words, increase the benefits and let the Government as well as the employees pay a share.

Mr. DANIELS. Mr. Hanley.

Mr. HANLEY. Thank you, Mr. Chairman.

I want to commend Mr. Wolkomir for his very fine statement.

Just one question. Have you checked with the appropriate agency of Government regarding the permissibility of the bond issue which you suggest?

Mr. WOLKOMIR. Just a week ago last Monday we spoke with Mr. Mayo in the Bureau of the Budget about this possibility and frankly from a legal point of view no one seems to question the fact that it can be done. So we believe that there is a way. The Comptroller General, I believe, has never voiced a disagreement with this general modus operandi that we recommend. No one has said no.

Mr. HANLEY. I see. I would hope that the subcommittee would see fit to pose a question to the Bureau of the Budget for a position.

Thank you.

Mr. DANIELS. Mr. Hogan, do you have any questions?

Mr. HOGAN. Yes. I was wondering if you had any observations about section 102, paragraph 2, which would permit the Civil Service Com-

mission to set the rate of contributions by employees without action by Congress?

Mr. WOLKOMIR. We definitely are against this arbitrary determination by the Civil Service Commission. I believe that the Civil Service Commission as well as the employees' organization should be subject to the considerations of Congress before such determinations are made.

Mr. HOGAN. Of course the bill gives Congress a veto over what the Commission might do.

Mr. WOLKOMIR. It doesn't satisfy us because to us actually it is an abdication of Federal powers to the Civil Service Commission.

Mr. HOGAN. I am sure the chairman's intent was to expedite the process in making changes.

Mr. WOLKOMIR. We would rather go through that exercise than to leave it to the simple discretion of the Civil Service Commission.

Mr. HOGAN. Thank you.

Mr. BRASCO. Mr. Wolkomir, you said that you checked with a number of people concerning the floating of a bond issue and you said no one indicated that it could not be done. Did they set forth any objections to this kind of approach at all?

Mr. WOLKOMIR. Actually, I think it is so radical that they evaded the question rather than answer it. It is rather new. It is an approach where we are opening up a bond issue. In all honesty I seem to feel they evade the legal aspects of it rather than make a decision.

Mr. BRASCO. Then you have no answer with respect to the implementation or the legality of it?

Mr. WOLKOMIR. Except my own legal staff says it is legal.

Mr. BRASCO. I also note in your statement you said that the interest rate on these bonds would have to be higher. What rate were you talking about?

Mr. WOLKOMIR. As you gentlemen of the committee know, the recent U.S. Treasury notes have come out at 6 or $6\frac{1}{4}$ percent. We wanted to emphasize that we didn't think the bond issue that was floated should be at low interest like the U.S. savings bonds. It would be very attractive in this market today. What we were suggesting was a realistic interest rate comparable to the issues put out by the Government in the form of U.S. Treasury notes. I would say not less than 6 percent. This is merely to make it competitive with any other bond issues on the market today. Even banking certificates.

Mr. BRASCO. I misunderstood your statement. I thought you were indicating something over and above the interest on Treasury bonds?

Mr. WOLKOMIR. No. We believe the response would be excellent if you kept it at the present Treasury interest rate.

Mr. DANIELS. Mr. Nix.

Mr. NIX. Yes, Mr. Chairman.

You stated there was no question that the employees were willing to pay their fair share, but you did not say what you thought their fair share should be.

Mr. WOLKOMIR. I believe, based upon the 60-40 proportion that we are advocating, that the employee's share would be interpolated very similar to what we are doing today, really. If the rise calls for an increase in time to from 7 percent, let's say, a year from now to 8 percent, because the actual cost of the program keeps increasing, we say in this proportion we would be certainly saying they would

pay their fair share. What the percentages would be I don't think anyone knows.

Mr. NIX. Are you in disagreement with the proposed method of this bill?

Mr. WOLKOMIR. In terms of paying off the interest and the terminal location indicated, that is right.

Mr. NIX. Is that your only disagreement?

Mr. WOLKOMIR. That is right. Knowing the amount of effort put into this thing, we certainly are appreciative of the fact that you expedited it so early in the Congress.

Mr. DANIELS. Thank you.

One final question. In view of the condition of this fund which is estimated to have an unfunded liability of \$57.7 billion, as of June 30 this year; and the fact that the outpay will exceed the intake by 1975; and bearing in mind that the intake will then amount to over \$3 billion a year; and the further fact that if nothing is done about the financing of this fund, that in 1977 the fund will go bankrupt; that then it will be necessary to resort to Congress making the necessary appropriations each and every year, which is estimated to be in excess of \$4 billion a year, in addition to the contributions of over \$3 billion; would you accept the financing proposed by this bill in order to remedy this situation?

Mr. WOLKOMIR. You are asking me to deviate from the prepared statement and my answer would be "Yes."

Mr. DANIELS. Well, I just want you to give serious consideration to the answer to my question.

Mr. WOLKOMIR. As an alternate I can give you no other answer but definitely "Yes."

Mr. SCOTT. Mr. Chairman, we received considerable mail and I represent a large number of Government employees and some of them are concerned about this statement about the fund going bankrupt. Certainly I am aware of what the chairman has in mind and share completely his desire to have all of the liability funded. But I think it would be fair to say, and I believe the Chair will agree, that the Congress is not going to let the retirees not receive the amounts that they are entitled to. The moneys will be appropriated should what the Chair has in mind come to pass.

Mr. DANIELS. I have been in the forefront sponsoring legislation for the benefit of retirees. I have been active in this field ever since I became a member of this committee. I not only supported legislation increasing their benefits in the early part of the 1960's, but was responsible for the cost-of-living formula being changed in 1965. But here we have a different question, the question of putting this fund on a sound basis.

I would say that I feel that the retirement benefits due to the retirees should have another look at any improvement which can be made. I am in full support of giving future benefits and improvement.

Of course, one question arises, who is going to pay the bill? We have a responsibility just as you gentlemen have a responsibility representing your employees. However, the question of cost arises.

I want to be reasonable and equitable, and I ask you gentlemen to take the same attitude.

Mr. WOLKOMIR. I believe we will be. As I recall the Senate used the safe plan versus the sound plan. The sound plan has the finances to operate by itself. A safe plan is a device whereby you can stay in business safely and it is not a sound plan.

Our retirement program is not a sound plan.

Mr. SCOTT. Well, my only concern was some of the employees may not fully understand the problems involved and certainly we are in complete agreement, I am sure, but I think the Government employees should be assured that Congress will meet its obligation, nobody is going to do without a paycheck.

Mr. WOLKOMIR. I certainly appreciate that statement because in every issue of our periodicals, we make clear that the Government is not out to do them out of their retirement. That the Government stands behind their retirement program and they don't have to worry about the fact that they will not receive their checks. We make this clear. We know the Government will stand in back of us.

Also, Mr. Chairman, if I may state, that certainly later you will find out that the House Appropriations Committee backed you up 100 percent in this bill. This is an indication of the fact that you have done a terrific job of bird dogging this program where it counts the most, in the House.

Mr. DANIELS. Thank you for your kind words.

Our next witness is Mr. Dan Jaspan, legislative representative, National Association of Postal Supervisors.

Welcome, Mr. Jaspan. If I remember correctly, you testified at the last session of Congress.

Mr. JASPAN. That is correct.

Mr. DANIELS. Let me welcome you back this morning.

Mr. JASPAN. Thank you.

STATEMENT OF DAN JASPAN, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. JASPAN. My name is Daniel Jaspan. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 33,000 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.

We are deeply appreciative of the interest of Chairman Daniels and the members of this subcommittee who have cosponsored H.R. 770. The enactment of this bill into law, with a few changes will accomplish some much needed changes in the present retirement laws. Our members were very disappointed last year when the House-passed bill, H.R. 17682, was not even considered by the Senate. We hope that the House and Senate will both act this year on this most important bill.

We have had resolutions over the years at our national conventions to seek legislation or other appropriate action to insure that the retirement fund will be adequate at all times to cover annuities of those entitled to them. We are also mandated to oppose any increase in retirement deductions unless the benefits are increased proportionately.

Since this committee is well aware of one of the major reasons for the poor condition of the retirement fund today, we will not dwell on this subject.

We are referring to the fact that the Government made no contributions between 1920 and 1928 and only token appropriations to the fund until 1956. This lack of full Government participation affected the fund adversely not only by the fact that the Government did not contribute a fair share, but also because large amounts of interest were lost over the years due to this lack of appropriations. We also believe that this subcommittee should study the advisability of increasing the interest rate on the money that is in the fund. Most investments of today, including deposits in banks and savings institutions, receive an interest of at least 5 percent. We believe that the money in the retirement fund should earn an amount near this more realistic percentage.

Since the Government did not contribute a proportionate amount over the years, we believe that it is only fair that the Government contribution should now be increased more than the employee contribution. This should be done at least until the amount in the fund contributed by Uncle Sam equals the amount contributed by employees plus the interest that would have been earned if the Government had matched employee contributions from the beginning. If this is done and the fund still needs additional money, then consideration should be given to increasing employees' contributions.

We are very much concerned with the section of H.R. 770 giving the Civil Service Commission authority to propose future increases in retirement deductions. We would like to see this section eliminated from the bill and have the Congress retain its present authority so that such adjustments will be made only when absolutely necessary in the opinion of the Congress.

Even though the Civil Service Commission recommendations would be subject to a review by the Congress, it is always possible that an unjust increase could be enacted by default. We believe that the Congress should take a positive rather than a negative stand on whether or not to increase retirement deductions.

In our opinion there is much merit in the proposal to have the Government appropriate money which, when fully effective, will pay 100 percent of the amount equivalent to interest on the unfunded liability. That stabilization of the fund will erase a great deal of worry from the minds of employees and retirees.

We are quite concerned about section 103(h) on page 7 of H.R. 770. Although we believe that annuity increases authorized by law should be covered by direct appropriations, we can foresee instances when the Congress will pass laws liberalizing the Retirement Act, but this action will be nullified by lack of the necessary appropriations to cover these benefits. We hope that the subcommittee will take a closer look at this section.

We have suggested for many years that the Secretary of Defense pay into the fund an amount sufficient to cover those annuity disbursements attributable to military service. The rapidly increasing drain on the fund over the years by annuities paid to military retirees who made no contributions to the fund has contributed greatly to the general insolvency of the fund.

RETIREMENT BENEFITS

H.R. 770 provides a very necessary change by including all earnings instead of merely the base pay in computing annuities. We fully support this change.

We would like to see the "5 consecutive years" reduced to "2 consecutive years" instead of three. This would bring about a more realistic annuity.

Giving credit for unused sick leave is a step in the right direction. In our opinion, even this small return will lead to conservation of sick leave by employees and we believe that the number of days used will decrease to such an extent that further liberalization will have to be considered in the very near future. Our objective is to have the option of having the total amount of unused sick leave added to the retirement account or permitting the employee to receive cash payment for one-half the value of the sick leave.

Including 1 percent additional cost-of-living annuity will help considerably in tiding over the retired employees between annuity adjustments based on the consumer price index. It is always difficult for retired employees with fixed annuities to combat inflation, but this will be of some assistance.

We were happy to see the realistic attitude in section 206 of H.R. 770 which will give the same benefits to all widows or widowers who remarry on or after July 18, 1966, as now restricted to those whose spouses were on the rolls on that date. Section 206 will help resolve an unfortunate situation whereby the widow or widower of an employee who retired prior to July 18, 1966, was at a disadvantage if he or she remarried after that date.

While on the subject of survivors, we would like this subcommittee to take another look at the percentage of annuity received by the survivor. Under social security, the survivor receives 82.5 percent of the employee's annuity. President Nixon has been quoted as stating that the survivor should receive 100 percent of the employee's annuity. We agree wholeheartedly with the President. Even though he has gone all the way, we would like this subcommittee to consider increasing the survivor annuity from the present 55 percent to at least 75 percent of the employee's annuity. The 45 percent reduction in money as at present is not realistic. Most of the expenses continue after the death of the employee or annuitant. This sharp reduction works an extreme hardship on the survivor.

Based on our convention resolutions, we have the following proposals with the hope that those that cannot be adopted this year, will be given serious consideration in the near future:

1. The Government should contribute a larger amount to the fund than the employee, since it had not contributed its fair share in the past.
2. The Congress should retain its control over the amount to be contributed and not delegate this authority to the Civil Service Commission, even with controls.
3. Reduce the "high five" to "high two."
4. Increase survivor annuity from 55 percent to 75 percent.
5. Eliminate the deduction to provide survivor annuity. There is no such deduction under social security or the Railroad Retirement Act.

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

7. Compute annuities by substituting 2 percent for the present 1½, 1¾, and 2 percent. Postal supervisors do not object to paying a fair share for the liberalization of the Retirement Act. However, we strongly suggest that this subcommittee recommend that the Government pay a greater share of the cost than the employee. This would help make up for the years during which the Government contributed nothing, or made token appropriations to the fund.

We appreciate the opportunity of appearing before this subcommittee to present our views, and we hope that there will soon be a retirement law known as the Daniels Act of 1969.

Mr. DANIELS. Thank you, Mr. Jaspán.

The Chair has no questions.

Mr. Henderson?

Mr. HENDERSON. Just one, Mr. Chairman, thank you.

Mr. Jaspán, on page 3, you refer to section 103(h), H.R. 770, page 7.

Do you feel that if Congress should provide benefits, but that with the requirement in the bill, these benefits would be nullified after the first year if there were not appropriations?

The previous witness mentioned that the entire membership of the Independent Offices Appropriations Subcommittee have endorsed this bill by introducing it and are on the record in support of it.

It would seem to me that with the enactment of this bill—if the representatives of the employees would determine that they were going to make just as much effort once the Congress, through the legislative committees, had enacted the benefit provision—that you would get the appropriations.

You have to, or you are going to lose what you really have in hand.

Mr. JASPÁN. The only thing is, this still gives them the option.

We are not concerned about the present members, because we feel if these members of the committee back up the bill, they mean business. But what could happen in the future?

Mr. HENDERSON. Well, see if you agree with me.

After Congress made a determination that a benefit should be given and it has gone through the process of becoming law and being paid for 1 year, I don't believe that employee organizations are going to sit around and take no action and let that benefit expire, by the lack of appropriations.

I certainly agree with you that we would not want to see the bill liberalized and the benefits taken away by the lack of appropriations. But I don't know of a better way to insure that the money will be appropriated, and the fund will be kept sound, than this method.

If you know of a better way we can do it, I would like to hear from you.

Mr. JASPÁN. One of the reasons we are so concerned is the fact that we have had pretty bad experiences over the years with lack of appropriations, as you know.

For the first 8 years, I believe there were no appropriations made for the fund and then token appropriations until 1956, so we have always been concerned with the possible lack of appropriations.

This bill does not say they must put the appropriations in the fund. It authorizes it.

Mr. HENDERSON. Well, suppose in the present situation we find ourselves in with regards to pay that this July pay increase likewise was subject to specific appropriations to cover the cost of it? Where do you think we would be standing today?

Mr. JASPAN. Well, I hope there won't be any problem in that.

Mr. HENDERSON. I think you realize that you don't have a problem with the legislative committees. We enacted it. We intend for it to be paid and we are in agreement on that.

Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. Thank you.

I want to commend the gentleman for his fine statement, specifically with reference to the suggestion that the survivors' benefit might be increased from the current 55 percent.

I agree it is totally unrealistic that this should be reduced by 45 percent, and I do hope the subcommittee will give this suggestion some thought.

Thank you.

Mr. JASPAN. We would like to see that, Mr. Hanley, because that is a terrific reduction to take. Most of the expenses go on just the same. None of the expenses stop when the retiree dies.

Mr. DANIELS. Mr. Hogan?

Mr. HOGAN. I have no questions at this time, Mr. Chairman.

Mr. DANIELS. The gentleman from Pennsylvania, Mr. Nix?

Mr. NIX. Yes, Mr. Chairman.

You stated, Mr. Jaspán, that President Nixon stated that he favored 100-percent retirement. Was this a statement made during the campaign?

Mr. JASPAN. That was made after his election, Mr. Nix. I believe it was in January.

Mr. NIX. Now, just one other thing.

The caption of your testimony is, "Testimony in Favor of H.R. 770." That being true, I take it that the disagreements that are set forth in your statement are merely suggestions. It is not that you are in opposition to the provisions of the bill?

Mr. JASPAN. I hope I didn't leave any implication that we are opposed to the bill. We are in favor of it. We favored it last year and we were very much disappointed that it did not become law last year. We are in favor of the passage of the bill.

Of course, we would like to see some changes made in it, but we would still support the bill.

Mr. DANIELS. Mr. Brasco?

Mr. BRASCO. Mr. Jaspán, you indicated before that you would like to see the interest rate on money in the fund, which is borrowed, increased.

Now, I am not thoroughly familiar with it, but I understand the Government borrows quite a bit of this money; is that correct?

Mr. JASPAN. I don't know how much they borrow. They do borrow, but I believe the interest rate on it is three and a half percent.

Mr. BRASCO. Do we have any figures, Mr. Chairman, as to what the Government borrows from this fund?

I understand from Mr. Jaspán that the Government borrows money from the fund; is that correct?

Mr. DANIELS. Well, the Government does invest the assets of this fund into Government securities.

Mr. BRASCO. And the Government pays how much?

Mr. DANIELS. The average yield on all investments right now is exceeding three and a half percent. This encompasses investments ranging from 3 to 4 percent.

Mr. BRASCO. Do we know how much is involved in dollars and cents in this?

Mr. DANIELS. The current interest earnings are amounting to about \$800 million a year.

Mr. BRASCO. Suppose the interest rate was raised to 5 percent, what would that mean in dollars and cents?

Mr. DANIELS. It would approach \$1 billion a year, based upon the \$20 billion fund balance.

Mr. BRASCO. Coming from a State like New York, you have to forgive me if I ask a naive question. I am more of an agriculture expert than a finance expert.

Suppose this was raised to 5 percent, would that help to alleviate this problem at all?

Mr. DANIELS. It would have a limited effect.

Mr. BRASCO. Well, I know this is difficult, and it is just something that happened as I was listening to Mr. Jaspán's testimony, but I was wondering if the Government paid a more realistic interest rate on the money it is using, and investing, whether or not that would make any significant contribution to the chaotic state of this retirement fund?

Mr. DANIELS. I don't know how significant it might be in relationship to the entire program. A billion dollars is a significant amount, Mr. Brasco. It would give you about a 25-percent increase on your current interest earnings.

Mr. BRASCO. Then it would be most helpful?

Mr. DANIELS. Yes.

Mr. JASPÁN. The interest earned up to June of 1967, the last chart I have available, was over \$6 billion. So it is not a small sum. It has been earning at the rate of a little over \$600 million a year in recent years, with the total earnings of over \$6 billion since the beginning of the fund.

Mr. BRASCO. Have we explored this possibility at all?

Mr. DANIELS. We haven't, in terms of this particular bill.

It has been suggested by several witnesses, during consideration of the bill last year, that the Government give consideration to investing at a higher yield.

The provision of law with respect to this particular fund is that the fund will be invested in investments that will at least give the average yield of all other Government securities.

Prior to that time, I believe these funds were going into investments that had as little as 2-percent yield. That requirement has helped the fund in the past 8 or 9 years, since that particular provision was enacted.

Mr. BRASCO. Thank you.

Mr. DANIELS. Thank you, Mr. Jaspán.

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

You may proceed, Mr. Dorson.

STATEMENT OF C. L. DORSON, PRESIDENT, RETIREMENT FEDERATION OF CIVIL SERVICE EMPLOYEES OF THE U.S. GOVERNMENT

Mr. DORSON. Thank you, Mr. Chairman.

My written statement is pretty much of a summary.

My name is C. L. Dorson. I am president of the Retirement Federation of Civil Service Employees of the U.S. Government, 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, and particularly appreciate your consideration of this legislation so promptly after it failed of final enactment in the 90th Congress.

The bill under consideration is, as you know, substantially the same as H.R. 17682 of the 90th Congress which passed the House but did not pass the Senate. Since you are so familiar with the content of H.R. 770, we shall not impose upon your time by commenting upon each of the bill's several provisions. Rather, we will confine our remarks to those few points to which we feel your attention should be specifically invited.

We do not quarrel with the increase in employee deductions from $6\frac{1}{2}$ to 7 percent of basic pay, because we believe it justified on the basis of an equal sharing of normal cost. However, we notice that the deduction rate for Members of Congress remains at $7\frac{1}{2}$ percent of basic salary—it would have risen to 8 percent under the terms of H.R. 17682 as it passed the House last year—and we wonder why they are exempt from paying an equal share of the normal cost.

Mr. DANIELS. I understand that bill has been introduced with reference to the retirement fund relating to Members of Congress, whereby it is proposed to increase their contribution to a much larger sum than one-half of 1 percent; but in return for which it is also proposed that their benefits be liberalized. That bill is pending before another committee of this Congress.

Such a bill was introduced last year and the committee gave its consideration to it, but no final action was taken on it.

Mr. DORSON. Thank you.

While Members are denied some minor benefits to which employees are entitled, their annuities are computed at $2\frac{1}{2}$ percent of average salary as opposed to the employee computation rate of $1\frac{1}{2}$ percent, $1\frac{3}{4}$ percent, and 2 percent only for service in excess of 10 years. The net effect is a much larger annuity, as a percentage of average salary, for the same amount of service. As an example, a Member retiring with 30 years' service would receive 75 percent of his average salary while an employee with equal service would receive $56\frac{1}{4}$ percent, or $18\frac{3}{4}$ percent less than the Member.

We are advised that the additional normal cost of providing a $2\frac{1}{2}$ percent computation rate for employees would be 2.9 percent of the basic salary. We would be most happy to buy this, together with existing benefits and those proposed in H.R. 770, for an employee cost of $8\frac{1}{2}$ percent of basic salary and feel, therefore, that Members should not object to paying at least 8 percent.

H.R. 10912 of the 90th Congress contained a proposed amendment to section 8348(g) of title 5, United States Code, which we thought had a great deal of merit. This provision would have required 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 greater."

We find no fault with the amendment to section 8348(g) as proposed in H.R. 770. In fact, it seems to us that it has clearer justification and, particularly in 1975 and thereafter, may result in greater contributions to the fund. While we are, quite frankly, not certain, we are concerned that this method will not be adequate in the years before 1975. Therefore, we suggest that the committee consider the possibility of including both provisions in H.R. 770.

Mr. Chairman, except as indicated, we endorse the provisions of H.R. 770 and pray that it be favorably reported and rapidly enacted. We again thank the subcommittee for its interest and effort and appreciate greatly the opportunity you have afforded for the expression of our views.

Mr. DANIELS. Thank you, Mr. Dorson.

The gentleman from Pennsylvania, do you have any questions?

Mr. NIX. No, Mr. Chairman.

Mr. DANIELS. Mr. Scott?

Mr. SCOTT. No.

Mr. DANIELS. The gentleman from New York?

Mr. BRASCO. No.

Mr. DANIELS. Mr. Hogan?

Mr. HOGAN. No.

Mr. DANIELS. Mr. Dulski?

Mr. DULSKI. All I am going to do is apologize for being late. I had a meeting with legislative members of various unions this morning, that is the reason I was delayed. I appreciate being here with you.

Mr. DANIELS. All right, Mr. Dorson, thank you very much.

The next witness is Mr. Thomas G. Walters, president of the National Association of Retired Civil Employees.

STATEMENT OF THOMAS G. WALTERS, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES, ACCOMPANIED BY OTHIE G. BURK, VICE PRESIDENT, AND MISS JUDITH E. PARK, ADMINISTRATIVE ASSISTANT

Mr. WALTERS. Thank you, Mr. Chairman.

For the record, my name is Thomas G. Walters, president of the National Association of Retired Civil Employees, and I have with me on my left, our vice president, Mr. Burk, and on my right, administrative assistant, Miss Judith Park.

First of all, I want to compliment the chairman and the committee for the early hearings on this important legislation. As most of you gentlemen know, I have been around Washington a long time, and when I noticed a week ago yesterday that the subcommittee of the House Appropriations Committee had supported this legislation by the introduction of a bill, that all members of that subcommittee co-sponsored, that certainly made me feel that not only this committee

is interested, but the Appropriations Committee is likewise interested in attempting to strengthen and bring our fund up to where we all think it should be, in a better financial condition.

Now, Mr. Chairman, with your permission I would like to ask to file a statement and to call attention to just a few items on pages 2 and 3 of the statement.

Mr. DANIELS. Without objection, your statement will be placed in the record at the end of your testimony.

Mr. WALTERS. On page 7 of H.R. 770, we endorse subsection (h), lines 17, 18, and 19, but we have some reservations, as has been discussed here by other members, other witnesses, that there might come a time when the Congress didn't see fit to make an appropriation, and then, of course, the benefits provided for would not be paid.

But I want it distinctly understood that we endorse the principles of H.R. 770, but we do ask that certain items be considered now or at a later time by this committee that we feel would strengthen and improve the conditions of the retired people.

Reading from page 2:

We support subsection (i) beginning with line 7 on page 8 through line 11, providing for the Secretary of Defense to pay into the Fund a sufficient amount to cover the annuity disbursements made during that fiscal year which are attributable to military service. * * *

We believe it is nothing but fair and just that that part of the bill should be enacted into law. Of course, we strongly support that portion of the bill that the chairman of the subcommittee placed in to give 1 percent addition to the cost of living phase of the bill to offset somewhat the 5-month lag of time before the payment is received.

As you know, the cost of living reached the point of kickoff several months ago, but the checks received on April 1 will be the first ones to show the increase of an average of 3.9 percent.

If this portion of the bill had been in law, of course they would have received an average of 4.9 percent.

On page 3, we would suggest very strongly that the bill be amended by the elimination of the words "on or after July 18, 1966."

Now, it is going to be hard to explain to people who are survivors that because they don't meet this date, July 18, 1966, that they are not entitled to the coverage and provisions of this law. We would hope that either in this bill or during this session of Congress that this could be amended to take care of all of these people.

The restrictions on marriages placed on those who receive survivor annuities are unnatural, in our opinion, unrealistic, and we believe unjust. One of the greatest problems of the elderly is loneliness, and I say that, Mr. Chairman, after reading many hundreds of letters since July 1 of last year, when I became president of NARCE, our people are dying from loneliness and it is impossible for them to have enough money to properly dress and get around and have prescriptions filled.

I furnished the Civil Service Commission about 10 days ago with more than 300 letters giving names, dates, and years of service and the amount of money they are receiving. We didn't count anybody with less than 15 years of service. We didn't give any short-term service, or any deferred annuities. So the great thing these people

need is more money. Marriage should be encouraged among the elderly as a natural, more desirable way of life.

We strongly believe this to be one of the most important benefits in the civil service system, second only to the annuity granted to retired employees. We hope and trust that we are not unreasonable when we state that it seems only fair and just that the benefit should be extended to all survivors.

Mr. Chairman and members of the subcommittee, there is one more provision that we would like to see added to this bill. It is to add the substance of H.R. 3661, sponsored by the great chairman of the House Post Office and Civil Service Committee, Mr. Dulski. The provision would eliminate the reduction of an annuity which an employee has elected for the purpose of providing a survivor annuity if the person named as survivor predeceases the annuitant.

In the event the designated spouse predeceases an employee, this bill, referring to 3661, would amend the civil service retirement law to provide for a restoration of the reduction of the annuity elected for the purpose of providing a survivor annuity. An employee may designate a new spouse to receive survivor benefits with the requirement that the reduction of the employee's annuity previously restored must be repaid to the fund. We support this.

There would be further stipulations that the new spouse would receive an annuity only upon the attainment of age 60.

Now, we have thousands and thousands of annuitants who elected to provide for their spouse and the spouse is now deceased and some of these people are paying 20 and 25 percent reduction in their annuity, these older people, to provide for their spouse and now the spouse is deceased and they must continue to pay that high reduction as long as they live, but they have nothing at the end of the rainbow.

If they remarry they cannot provide for the second spouse. We would hope that this will be given serious consideration and, in closing, I would like to call attention to this one other fact: the people retired before July 1, 1960, are having a desperate time obtaining any additional health benefits other than medicare and just yesterday the company that writes a goodly number of our policies, known as NARCE services, told me they were paying out from 115 to 125 percent of all the premiums they received, and of course, something has got to give. It is going to have to give drastically.

So I join with some of the others to state that we support the intent of your bill that has for its purpose the full payment of health benefits by the Government, but these people who retired prior to July 1, 1960, are between the rock and the hard place. This is just simply nowhere to go, no company wants to insure them with any degree of activity, and we are just going to have to do something, and I know this committee will, for these people who are 80 and 90 years old. And occasionally we get a letter saying I'm 100 years old, and these people are suffering right here in our own country, and we have thousands of these letters that we have received in the last 2 or 3 months, and we don't count any of them, Mr. Chairman, unless they give us the years of service and how much their retirement was when they retired, and what it is today, and how much is the survivor annuity.

Now, we have thousands and thousands—in fact, three-fourths of all the annuitants on the rolls get less than \$3,000 a year. These are

just some of the things that I'm sure you are going to give attention to, if not in this bill, at a later date.

We appreciate the privilege and opportunity of appearing here and appreciate the earnestness and the great contribution that you and the members of the committee, as well as the chair, have made in attempting to bring this legislation to the floor at an early date.

Mr. DANIELS. I might tell you that some of the items that you refer to were given serious consideration by the committee in the last session of the Congress. However, it was due to the cost involved that no action was taken thereon.

I do, later on in this session, if time permits, intend to go into those areas to see what can be done.

Any questions?

Mr. BRASCO. No questions.

Mr. SCOTT. Mr. Chairman, I would like to commend Mr. Walters for adding the human touch that he has brought to the committee. I enjoyed hearing your remarks and I'm sure the committee will be sensitive to that.

Mr. WALTERS. I might add a lot of these letters we have are from your district. You folks who have a great concentration of retired people in your districts realize this problem just as much as we do.

Mr. DANIELS. I might say I received a number of them in the past month or two from people who are senior citizens, but not retirees of the Federal Government, so I appreciate the problem that they face.

The gentleman from Pennsylvania?

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

Mr. DANIELS. Mr. Dulski?

Mr. DULSKI. No questions, Mr. Chairman.

Mr. DANIELS. Thank you, Mr. Walters.

(The prepared statement follows:)

PREPARED STATEMENT OF THOMAS G. WALTERS, PRESIDENT, NATIONAL ASSOCIATION
OF RETIRED CIVIL EMPLOYEES

Mr. Chairman and members of the subcommittee, by way of introduction, my name is Thomas G. Walters, president of the National Association of Retired Civil Employees (NARCE). This organization was formed February 19, 1921, and has been in continuous operation since that date. We now have over 133,000 members with more than 1,100 chapters in every State in the Union, Puerto Rico, Canal Zone, and the Philippines. Our membership is made up of retirees from the Federal Government and their survivors. I appear this morning on behalf of our membership plus all other civil service annuitants and their dependents.

I wish to express the thanks and appreciation of NARCE to you, Mr. Chairman, Mr. Henderson, Mr. Udall, Mr. Nix, Mr. Hanley, Mr. Charles H. Wilson, Mr. Waldie, Mr. White, Mr. William D. Ford, Mr. Tiernan, Mr. Cunningham, Mr. Johnson of Pennsylvania, Mr. Broyhill of North Carolina, Mr. Button, and Mr. Thompson of Georgia, for the introduction of H.R. 770 and for the early scheduling of hearings on this most important piece of legislation. I also appreciate the cooperation that you have received from Chairman Thaddeus J. Dulski and from senior minority member of this committee, Hon. Robert J. Corbett, in their support of these hearings.

NARCE is the only organization that restricts its membership to retired Federal employees and their survivors. Our main objective is to support legislation that is beneficial to our members and those eligible to be members of NARCE. Therefore, since H.R. 770 is a broad bill covering many items affecting active employees and many items affecting those eligible for membership in NARCE, I will attempt to pinpoint our testimony to those things that more directly affect our membership. We compliment you Mr. Chairman, and your cosponsors, for this

legislation and generally speaking we endorse the intent of H.R. 770 but would like to call your special attention to certain sections of the bill that directly affect our membership.

On page 7, beginning with line 17 of H.R. 770 we endorse subsection (h), lines 17, 18, and 19, through the third word on line 20, "Fund." We strongly recommend that the remainder of line 20 and lines 21 through 24 on page 7, and lines 1 through 6, on page 8 be deleted. We believe that otherwise there arises an inconsistency of intent which would permit enactment of a provisional law and at the same time make it completely inactive by failure to appropriate the needed funds to make it operative. If the procedure was followed indefinitely as provided for in H.R. 770, that appropriation be made from year to year, it might soon cause the U.S. Civil Service Commission to be requesting appropriation items on many amendments liberalizing the civil service retirement law. We strongly recommend, Mr. Chairman and members of the subcommittee, that our recommendations be followed and that a portion of subsection (h) be deleted as we have suggested.

We support subsection (i) beginning with line 7 on page 8 through line 11, providing for the Secretary of Defense to pay into the fund a sufficient amount to cover the annuity disbursements made during that fiscal year which are attributable to military service, and, as stated earlier, we will leave those items in this bill directly affecting active employees to the representatives of these organizations.

It is our desire also to endorse section 205 of the bill which would add 1 percent to the percentage increase provided by the retirement law for a rise of the Consumer Price Index of at least 3 percent. This provision is fully justified by the fact that the retired person must wait 3 months after the Consumer Price Index advances 3 percent over the previous base, while the 3-percent increase is held for 3 consecutive months. Then the increase may not become effective until the first day of the third month following the 3-month period in which the index rose at least 3 percent.

At present the retiree must wait 5 months from the time the price index rises 3 percent until that increase can be reflected in his annuity check. It means that for 5 months he is the victim of additional inflation.

It is suggested that section 206 of this bill be amended by striking out the words "on or after July 18, 1966" which appear on line 2 of page 11. The purpose of this amendment is to permit restoration of survivor annuities terminated before July 18, 1966, because of remarriage. While I do not know the exact number of surviving spouses who would be affected, I believe that the number would not be great. The amendment would apply only to a surviving spouse who had attained age 60.

The restrictions on marriage placed on those who receive survivor annuities are unnatural, unrealistic, and we believe, unjust. One of the greatest problems of the elderly is loneliness. We are taught that God did not create people to live alone. Marriage should be encouraged among the elderly, as the natural, most desirable way of life. We strongly believe that survivor annuities are considered to be one of the most important benefits in the civil service retirement system, second only to the annuity granted to retired employees. We hope and trust that we are not unreasonable when we state it seems only fair and just that liberalized benefits should be extended to all survivors instead of only to the survivors who remarry after July 18, 1966.

Mr. Chairman and members of the subcommittee, there is one more provision we would like to see added to this bill. It is to add the substance of H.R. 3661 sponsored by the chairman of the House Post Office and Civil Service Committee, Thaddeus J. Dulski. This provision would eliminate the reduction of an annuity which an employee had elected for the purpose of providing a survivor annuity if the person named as survivor predeceased the annuitant.

In the event the designated spouse predeceases an employee, this bill would amend the civil service retirement law to provide for restoration of the reduction of the annuity elected for the purpose of providing a survivor's annuity. An employee may designate a new spouse to receive survivor benefit with the requirement that the reduction of the employee's annuity previously restored must be repaid to the fund. We support this requirement. There would be further stipulation that the new spouse would receive an annuity only upon attainment of age 60. The benefits of this bill would by its terms be applied to annuitants on the retirement roll at the time of enactment whose spouses had predeceased their retirement.

Mr. Chairman and members of the subcommittee, I again express our thanks to you for the introduction of H.R. 770 and for the early hearings. I also want to express our appreciation for the privilege of appearing on behalf of NARCE.

Mr. DANIELS. Our next witness is Mr. Lawson.

STATEMENT OF WILLIAM S. LAWSON, VICE CHAIRMAN, NATIONAL FEDERATION OF PROFESSIONAL ORGANIZATIONS

Mr. LAWSON. For the record, I am William S. Lawson, vice chairman of the National Federation of Professional Organizations. I have a prepared statement.

Mr. DANIELS. It will appear in the record at this point.

(The statement referred to follows:)

PREPARED STATEMENT OF WILLIAM S. LAWSON, VICE CHAIRMAN, NATIONAL FEDERATION OF PROFESSIONAL ORGANIZATIONS

Mr. Chairman, this testimony is presented in behalf of the National Federation of Professional Organizations.

The federation, composed of 13 professional organizations with a combined membership of about 35,000 Federal professional employees, is in full support of H.R. 770. It also commends the chairman for his constructive approach to the problem of funding the Federal civil service retirement system. We especially appreciate your efforts to get this legislation passed and signed into law at the earliest practicable date.

There are additional changes which we hope will be considered in the near future. However, there is one suggestion we wish to make at this time. It is that the percentage factor used in the formula for computing annuities be reversed. Instead of the lower percentages being applied to the first 10 years of service, we suggest they be applied to the latter 10 years. For example, an employee would have an annuity based on 2 percent of his first 32 years of service, 1¾ percent on the next 5 years, and 1½ percent on the last 5 years. A person could still get 80 percent of his salary after serving the Federal Government 41 years, 7 months plus.

We are introducing this idea with the belief that it would relieve some of the pressure from many future retirees for supplements to their annuities.

Mr. Chairman, we wish to again thank you for this opportunity to add our support for this important piece of legislation.

Mr. LAWSON. We would like to go on record very strongly as being in favor of this bill, and would like to extend our appreciation to you, sir, and to the committee for your strong efforts in getting this bill passed at an early date.

Like most of the organizations before you, we have our bag of retirement liberalization benefits that we think over the long haul should be enacted into law. Today we only have one to mention.

The straight 2-percent benefits have been discussed before you many times, and the cost of it has been raised often as one reason why it would be difficult to get into law at this time.

One consideration on this we might like to suggest is the possibility of reversing the formula by which benefits are computed at this time.

As you know, the first 10 years are lower than 2 percent. We would suggest this 10-year period be put at the end of an individual's career service, after 32 years, so that a maximum benefit of 80 percent would still be possible, but those with less service could get the benefit of a straight 2 percent.

Our people, the professionals, a number of them come to the Federal Government from industry and State and local government, and they don't have as much service sometimes as some of the other employees.

Mr. DANIELS. How would that work out?

Mr. LAWSON. An employee would have annuity based on 2 percent of his first 32 years of service, $1\frac{3}{4}$ percent for the next 5 years, and $1\frac{1}{2}$ percent on the last 5 years. This is the reverse of what it is now.

We would suggest that this lessening of annuity be put at the end rather than at the beginning. We realize this would cost more money, not quite as much as the straight 2 percent across the board, but it would cost more, and we suggest that the cost be borne equally by the Government and the employee.

Having made these two points, we give our strong support to the bill and the suggestion for your consideration. We want to thank you for this opportunity to voice our support for the bill and the privilege of having appeared before you today.

Mr. DANIELS. Mr. Brasco, any questions?

Mr. BRASCO. No.

Mr. DANIELS. Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Lawson, in this suggestion of yours, the 32 years, wouldn't that be just about tantamount to a straight 2 percent? What percentage of the total Government employees serve more than 32 years? Isn't it just a small fraction?

Mr. LAWSON. It is. We looked into it, and it is not a large number. I don't know the exact figures. It would lessen the cost somewhat. Not a tremendous amount, but it is sort of a foot-in-the-door type of thing. It would also have the side benefit that it would encourage earlier retirement from the Government. Once you hit that point, you realize from that point on you are getting less of a benefit for retirement purposes. So it could have a side benefit this way.

Mr. DANIELS. It might have another effect, the pressure would be on Congress to make it a straight 2 percent.

Mr. LAWSON. Yes.

Mr. DANIELS. The gentleman from Pennsylvania?

Mr. NIX. No questions.

Mr. DANIELS. Mr. Dulski.

Mr. DULSKI. No questions.

Mr. DANIELS. Next witness, Mr. John J. Murphy, president of the National Customs Service Association.

Mr. MURPHY. Thank you, Mr. Chairman. I am accompanied today by Mr. Harvey L. Perry, the chairman of our executive committee.

Mr. DANIELS. Welcome.

STATEMENT OF JOHN J. MURPHY, PRESIDENT, NATIONAL CUSTOMS SERVICE ASSOCIATION

Mr. MURPHY. 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 occupations. 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 representatives 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 early 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 appreciate the opportunity to appear before you, Mr. Chairman, and do not want to take up your time unnecessarily by repeating what has gone before, or by belaboring the many obvious points that undoubtedly need to be considered. We would like to take this opportunity, however, 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.

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.

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. With your permission, 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.

CONTRIBUTIONS TO THE FUND

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 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 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.

ADDED BENEFITS

We respectfully suggest that the Government 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.

ANNUITY FORMULA

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 five. We believe that this would be more equitable to the 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, $1\frac{1}{2}$ — $1\frac{3}{4}$ 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 their contributions to the fund increased without receiving any additional benefits.

THIRTY YEAR RETIREMENT

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.

HAZARDOUS DUTIES

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, from walking among rails and switches at railroad terminals, from speeding fork trucks 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 now covered who are subject to no greater hazards in the performance of their assigned duties.

GROSS EARNINGS AS BASIC PAY

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.

SURVIVOR ANNUITIES

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.

TAX-EXEMPT ANNUITIES

We strongly urge the committee to give serious consideration to exempting annuities under the civil service retirement law from Federal and State income taxes.

RETIRED ANNUITANTS

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.

SICK LEAVE

We strongly endorse that section of the bill providing that unused sick leave will be considered in computing the employee's annuity. We believe this change to be long overdue.

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.

We thank you very much for your patience and courtesy.

If there is any aspect of my statement that I could clarify I would be happy to try.

Mr. DANIELS. Mr. Murphy, I notice on page 5, you have a paragraph about the taxation of annuities. I might say this committee has no jurisdiction over that subject matter which is properly a matter for the Ways and Means Committee.

I would like to explore with you for a moment your comment with regard to overtime being included as basic pay for retirement purposes. I notice you endorse that provision of the bill.

Mr. MURPHY. Yes, sir.

Mr. DANIELS. How does it affect the employees of your organization?

Mr. MURPHY. It would be basic pay as now defined, plus whatever additional items, overtime, night or other differentials, it would be a sum total amount which would form the foundation for computing annuities.

Mr. DANIELS. The reason I ask this question is that I was visited at my district office by an employee residing in my district, and he protested that provision. He said it would be unjust, certain employees getting overtime for retirement purposes to the detriment of those people not getting overtime. Do you care to make any comment on that?

Mr. MURPHY. Well, I would certainly feel that overtime in the Federal service is being assigned in a fair and proper manner. I don't know of any area here where there would be discrimination. I think if a job carries with it the requirement that you work overtime, which the members of our association do, this is a requirement of the job. You are assigned to overtime and you must work overtime. We feel that it is just a matter of fairness and equity that these amounts of money should be totaled and the annuity computed on it, since they are totaled for tax purposes.

Mr. DANIELS. One further question. To what extent will this particular provision affect the employees or the members of your organization?

Mr. MURPHY. You mean in numbers?

Mr. DANIELS. Yes.

Mr. MURPHY. I would say it would affect possibly 40 percent of the total population of the customs service, which is in the neighborhood of 4,000 people.

Mr. DANIELS. How much overtime would be involved?

Mr. MURPHY. It would vary greatly. I believe that the present average of the inspectional force would be about \$4,000 a year. It would vary beyond that, but that would be a fair average, I think.

Mr. DANIELS. For the 40 percent that are involved?

Mr. MURPHY. Yes, sir; the average of full participants.

Mr. DANIELS. Each employee?

Mr. MURPHY. The average of 4,000 people—no; it wouldn't be that many—the average of 2,000 people would be about \$4,000. The average of the other 2,000 I couldn't say. It would vary greatly from a few dollars to a couple of thousand, possibly.

Mr. DANIELS. Any questions, gentlemen?

Mr. SCOTT. Mr. Chairman, I was interested in Mr. Murphy's endorsement of this 30-year retirement and I am certainly aware of the employees desiring this.

But I was wondering if you have any opinion as to how the Government would benefit from a 30-year optional retirement? Is it your feeling that it would have any effect on the recruitment of employees?

Mr. MURPHY. We believe that it would be a very important inducement to recruiting people for the service and I think we would have them during their most active and productive years.

Thirty years is the best part of a lifetime. Our general feeling is that this should be the basis for retirement rather than one's particular age.

Mr. SCOTT. Thank you, sir.

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

Mr. BRASCO. No questions.

Mr. DANIELS. The gentleman from Pennsylvania?

Mr. NIX. No questions.

Mr. DANIELS. Mr. Dulski.

Mr. DULSKI. Mr. Murphy, you recommended changes for employees engaged in hazardous duties. Don't you think those changes should be made in a separate bill?

Mr. MURPHY. We wouldn't want this to be the means of holding up H.R. 770, which is a good bill and which we endorse as it is. But we have the recommendation in there, more to bring it to your attention than to have an effect on H.R. 770, or to ask that it be amended to include hazardous duties.

We think H.R. 770 is a good bill; and as I stated, we'd be happy to accept it as it passed last year.

Mr. DANIELS. I want to commend you for your remarks on behalf of the committee.

Mr. MURPHY. Thank you.

Mr. DANIELS. Our final witness for the day is Mr. John Carter, executive director of the National Association of Postmasters.

STATEMENT OF JOHN P. CARTER, EXECUTIVE DIRECTOR OF THE NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. CARTER. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is John P. Carter, and I am executive director of the National Association of Postmasters of the United States. I am here today representing

our national president, Thomas P. Costin, Jr., who is the postmaster at Lynn, Mass.

The National Association of Postmasters represents 90 percent of all of the active postmasters in the United States as well as thousands of former postmasters. Incidentally, I want to point out that the postmasters of this country are doing an outstanding job in providing the best possible postal service for the American people that they have ever enjoyed.

It is indeed a pleasure for me to appear before this committee to endorse in its entirety H.R. 770.

In reviewing the history of NAPUS, I have found that since 1955 many of the provisions in this bill have been the aims and goals of our association.

I would like to point out that the average age of our members is 50 years. They have an average of 20 years postal experience and have paid into the civil service retirement fund for these years.

We are very happy to support the provision to change the contributions of both the employees and the Federal Government to put the unfunded liability back on a sound fiscal basis. One of the chief concerns among our members is that when they become eligible to retire, they will be assured that their annuity checks will arrive. Although this feature of the bill causes an additional cost at this time, it is felt that they are better capable of paying the price now than at some future date when they would have their income taxes raised to support the retirement fund.

We strongly urge your favorable consideration of this provision of the bill.

The next point I would like to address myself to is the provision which would change the requirement of the average high 5 to the average high 3 years in the computation of annuities. Again, we feel that this more favorably reflects a true earning wage of an employee. Needless to say, postmasters and other Government employees would be greatly benefited by this provision.

And now speaking for the members of the management team, I would like to endorse the provision of the bill regarding credit for sick leave at retirement.

As managers, many times postmasters do not have the tools to encourage their employees to conserve their sick leave. As you know, Mr. Chairman, when an employee is young, it is very hard to convince them of the value of sick leave. It is felt that this provision will provide the necessary incentive among all employees to treat sick leave with the respect that it is due and will overall improve the morale of all employees.

Again, I want to thank you for this opportunity to appear before this subcommittee on this important legislation.

I will be happy to answer any questions you may have.

There are many points we could cover and bring up but we want to again endorse the bill in its entirety.

Mr. DANIELS. I note that you endorse H.R. 770 in its entirety?

Mr. CARTER. Yes, sir.

Mr. DANIELS. I would like to ask you one question relating to overtime. You are familiar with this bill with regard to overtime?

Mr. CARTER. Yes, sir.

Mr. DANIELS. What effect would this particular provision have with respect to postmasters granting overtime to their employees? Would they show any favoritism to certain employees?

Mr. CARTER. No, sir, Mr. Chairman. In the first place, no postmaster is granted overtime, he is not reimbursed at an overtime rate.

In regard to employees under his supervision receiving overtime, in my opinion, overtime has been equally distributed among all employees and it is felt again that the employees' morale would be benefited from this bill to the point that the postmasters should endorse that provision.

Mr. DANIELS. Thank you.

Mr. Henderson, any questions?

Mr. HENDERSON. Yes, Mr. Chairman.

You mentioned the provision with regard to giving credit for unused sick leave. I would like to ask you to express your own opinion on this point a little more than you did in your statement.

There has been some contention that this provision really would not be the incentive that you say that it is. What extent do you think this provision would conserve the use of sick leave or the abuse of sick leave?

Mr. CARTER. I think this would serve in two ways, Mr. Congressman. First, it would be used as a preventive measure; that is, it would encourage more people not to abuse their sick leave. The second point would be that younger employees would be encouraged to save their sick leave until they actually needed it or until they retired. If this feature could conserve 1 day per year sick leave of all employees, it would be a significant amount of money.

Mr. HENDERSON. Last year, as I recall, the figures were used of sick leave amounting to something over 7 days a year.

Do you know how that would compare in the postal service?

Mr. CARTER. No, sir; I do not have the figures exactly for that. I do think this provision would encourage all employees to conserve their sick leave. We think approximately 1 day a year sick leave will be saved.

Mr. HENDERSON. I believe it was indicated that this would be a savings of \$90 million more than the cost of the provision in the retirement bill?

Mr. CARTER. Yes, sir; that is my understanding.

Mr. DANIELS. I understood that it was the basis of the holiday bill, whereby Columbus Day was made an additional holiday. The debate on the floor indicated that this additional holiday would cost the Government \$85 to \$90 million.

I pointed out yesterday at the hearing, if that were true, it would be true here. If we could save on an average of 1 day of sick leave for every Federal employee, the Government would be saving money here.

Mr. HENDERSON. I believe my recollection is that we pressed Mr. Macy on that last year and he did confirm that figure. But I anticipate that there may be some controversy from the Commission witnesses this year as to whether or not it will save a day and this point Mr. Carter made is very helpful to us.

As they come before us, I think they would admit that if it would save a day then it would save money.

I wanted to get the benefit of Mr. Carter's experience and his opinion that it would save as much as a day on the average within the postal service.

Mr. CARTER. That is our opinion as postal managers.

Mr. HENDERSON. That is all, Mr. Chairman.

Mr. SCOTT. Mr. Chairman, my recollection is that last year when we were considering this bill that the suggestion was made by one of the members that sick leave was something that was for sick people. Not something that Government employees were entitled to unless they were sick. This objection was made to including it or counting it for retirement benefits. I am just wondering if say one-half of the sick leave was counted rather than all of it, would that have the same desirable effect?

Mr. CARTER. If I understand you correctly, Mr. Scott, you want me to comment in regard to the total sick leave or if they only took half of it?

Mr. SCOTT. No; just as it relates to retirement benefits. If one-half of the accrued sick leave was counted toward retirement benefits, would that have the same desirable effect as if 100 percent was included toward sick leave?

Mr. CARTER. The problem at many of our national conventions that we come up with, Congressman, is first they would like to be reimbursed for all the money for accumulated sick leave. Being a realist, we feel that credit for the sick leave that is accrued at retirement time for retirement purposes more truly reflects the true intent of the sick leave.

Mr. SCOTT. Well, the suggestion was made last year that this was a contingent leave, contingent on somebody getting sick and if they didn't get sick they weren't entitled to it.

Now by giving them full credit for retirement purposes, we were making something that was contingent upon being sick a vested right.

My thought was if half of it was given to the employee, this would be sort of a compromise. I was wondering what your response would be to 50 percent rather than 100 percent.

Mr. CARTER. Well, half a loaf is better than no loaf at all. But we are talking about after 20 years service, the employee is eligible to retire at the end of 20 years, which many postmasters do, and he had accumulated the full year's sick leave which would amount to only 2 percent of his annuity.

You are asking for 1-percent annuity instead of 2 percent. Again, I say half a loaf is better than no loaf at all.

Mr. DANIELS. The gentleman from New York.

Mr. BRASCO. How many days is an employee in the postal service entitled to or allowed for sick leave?

Mr. CARTER. All Government employees, to my knowledge, accumulate sick leave at the rate of 13 days per year.

Mr. BRASCO. Thirteen days per year?

Mr. CARTER. Yes; 4 hours per pay period or every 2 weeks.

Mr. BRASCO. I am inclined to agree with you that this would be an incentive to save sick leave and I think people are entitled to get sick at least 13 days out of a year. I think it would be a kind of boyhood morality to approach the problem in any other light.

You know we could finite this thing by sending investigators to someone's house. I think this way you have a respectable kind of system and certainly in the end I would agree with you that it would have a tendency to preserve sick leave.

Mr. DANIELS. Any further questions?

Well, that concludes the list of witnesses who were scheduled to appear here today.

I want to compliment all of the witnesses who appeared here today for their cooperation in expediting the hearing. Here we have concluded today's hearing, after listening to seven witnesses, 20 minutes before noon. I think that is quite a record.

I also wish to take this opportunity to compliment the members of this subcommittee for their prompt attention here. I think the witnesses who appeared today ought to feel highly honored that we had seven of the eight members of this subcommittee in attendance.

The man who is absent, I understand, is unduly delayed in getting to Washington from his district, and I say this is a tribute to you gentlemen.

We were delighted to hear your testimony on this very, very important subject matter.

I further wish to announce that I will hold the record open for a period of 10 days for anybody who desires to file a statement—that is, 10 days after the hearings conclude.

The final day of these hearings will take place on Thursday of this week, so we will adjourn to March 20, at 10 a.m., at which time the Government witnesses are scheduled to appear. I understand at the present time that the Honorable Robert M. Hampton, Chairman of the United States Civil Service Commission, will be our only witness.

(Whereupon, at 11:42 a.m., the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 20, 1969.)

RETIREMENT FINANCING

THURSDAY, MARCH 20, 1969

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

The subcommittee met at 10:15 a.m. in room 210, Cannon House Office Building, the Honorable 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 today to conclude public hearings on the bill, H.R. 770, the major purpose of which is to improve the financial condition of the civil service retirement system.

The subcommittee is pleased to have as its witness today, representing the executive branch, a gentleman who has served as a member of the Civil Service Commission for the past 7½ years, and who, just a few weeks ago, was elevated by the President of the United States to the chairmanship of the Commission.

The Chair desires to extend, in behalf of the members of this subcommittee and the Committee on Post Office and Civil Service, a very warm welcome to the new Chairman of the Civil Service Commission, the Honorable Robert E. Hampton, on this occasion—an occasion which I believe marks his initial public appearance before a congressional committee.

The Chair also extends the heartiest congratulations of himself and his colleagues to Chairman Hampton on the honor bestowed upon him by the President, to compliment the President upon the wisdom of his selection, and to express our best wishes for unlimited success in your endeavors as chairman of the Commission.

The Chair wants the record to also show that Chairman Hampton is accompanied by a gentleman whose outstanding ability is already well known to most of the members of this subcommittee, the Director of the Bureau of Retirement, Insurance, and Occupational Health, Mr. Andrew E. Ruddock. We are pleased to welcome you again, Mr. Ruddock.

I do note that Chairman Hampton has a prepared statement, copies of which are before each member of this subcommittee.

I might suggest to my colleagues that the chairman and his associate, Mr. Ruddock, be permitted to give their testimony before we go into the interrogation period.

I also note that you have prepared a little booklet which you probably will use during the course of your testimony to illustrate the effect of your testimony. So, Mr. Chairman, you may proceed.

STATEMENT OF HON. ROBERT E. HAMPTON, CHAIRMAN, U.S. CIVIL SERVICE COMMISSION, ACCOMPANIED BY ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH

Mr. HAMPTON. Thank you very much, Mr. Chairman, for the most cordial welcome.

Mr. DANIELS. Are you familiar with the members of this committee who are in attendance this morning?

Mr. HAMPTON. I have met all the members who are here.

Mr. Chairman and members of the subcommittee, I am pleased that my first appearance here as chairman of the Civil Service Commission is to support much-needed legislation on which both ends of "the Avenue" appear to be in substantial agreement.

The bill before you, H.R. 770, would provide sound and permanent financing of the civil service retirement system. This is an objective sought long and hard by various administrations in recent years. The problem is a difficult one administratively, financially, and politically. I think that you have the solution in title I of this bill.

The three major financing provisions of the bill represent a combination of the judgment of this committee, the General Accounting Office, the Bureau of the Budget, and the Civil Service Commission. These provisions have also been incorporated in H.R. 8608, introduced March 11 by Mr. Evins of Tennessee for himself and all the members of his Appropriations Subcommittee. I trust that this strong support indicates early passage of those basic provisions.

These financing measures are intended to accomplish the purposes listed on the inside cover of the booklet before you. I think that you can follow my testimony more easily if you will leaf through the booklet as I go through my statement.

The purposes of the financing proposal are to assure—

Full recognition of retirement costs;

Orderly advance arrangements to meet those costs;

Control of the "unfunded liability," a deficit that is now out of hand; and

Enough money in the fund to meet annuity payments, in full and on time, when they are due. This is something that we have not always been able to do in the past.

The proposed legislation would achieve these results through a three-stop plan under which—

Employees and their agencies would share, 50-50, the normal cost of present retirement benefits and of future liberalization of those benefits;

Government would amortize other retirement costs that result from future legislation in 30 equal, annual installments; and

Government would meet its responsibility for the existing deficit by appropriating amounts gradually increasing from 10 to 100 percent of the interest now being lost by the fund.

Page 2 shows the present situation. On June 30 of last year, we had a balance on hand of \$19.2 billion. Receipts in fiscal year 1969 will be \$3.6 billion—derived from the sources shown—and disbursements will be \$2.3 billion.

As shown on page 3, employees and their agencies make matching contributions to the fund, each at the rate of $6\frac{1}{2}$ percent of the employee's pay. Treasury invests these contributions, at interest, in Government securities.

Combined agency-employee contributions, plus interest, are supposed to cover the cost of retirement benefits that are now being earned and that would be earned in the future under the same benefit structure. Actually, however, the benefit structure has been liberalized since contribution rates were last adjusted, and the normal cost of present benefits now amounts to 13.86 percent of payroll. Current contributions, on the other hand, total only 13 percent of payroll. So we are running in the red with respect to current payment for present benefits, even though income this year will exceed disbursements.

And that is only part of the story, as you can see from page 4.

Although we will have a fund balance of \$20.6 billion on June 30 of this year, the total due to be paid in the future—for services already performed—will be \$78.3 billion. This is a deficit, an unfunded liability, of \$57.7 billion. This is money we do not have, and will not have under present financing, but we must have it in order to pay benefits already earned.

This deficit increases every year by \$2 billion or more. It increased \$4.5 billion in 1968, and will increase another \$5.1 billion in 1969. It is the chief object of our present concern. The reasons for it are listed on pages 6 and 7.

First, though employees have always paid what the law required of them, Government hasn't always paid its full share of the cost. When the retirement system first started operations in the twenties, for example, Government made no contributions. It paid all benefits from current contributions of employees. Government has appropriated substantial amounts from time to time, but it has not always done so regularly and systematically. Only since 1957, for instance, have we had the present automatic contributions from agencies to match employees' contributions.

Second, the fund has been, and still is, losing the interest it would have earned if all required contributions had been made, and invested, on time. The interest loss now runs nearly \$2 billion a year, and goes up each year.

Third, Government has liberalized benefits many times without fully financing their actual cost. Page 7 lists some of the kinds of benefits which have been granted but not fully financed:

- annuity increases to people already receiving benefits and, of course, no longer contributing;

- early retirement, without corresponding reduction in benefits;

- underfinanced past service, such as military service for which no contributions were made; higher annuities based on service contributed for at rates designed to finance a much lower level of benefit; and general pay raises.

Pay raises have a dramatic, and sobering, effect: Every \$1 general pay increase adds \$2.55 to the unfunded liability of the retirement system. We estimate that the proposed July 1 pay raise will automatically add \$3.4 billion to the existing unfunded liability.

The overall results of past and present financing practices are illustrated on pages 8 and 9. By 1975 we will be paying out more than we are taking in from all sources. By 1987 the fund balance will hit zero. Then all current contributions from agencies and from active employees will be paid out immediately in benefits to retirees, and additional direct appropriations beginning at \$1 billion, and increasing to \$5 billion, will be required every year to make current benefit payments.

The financing provisions of the bill would solve this problem by the 3-step method outlined earlier.

One, full normal costs of present benefits, and of all changes legislated in the future, would be paid currently through matching agency and employee contributions. Since the normal cost of present benefits is not now being covered, contribution rates would have to be raised. The bill would increase contribution rates to 7 percent, effective next January. It would also authorize the Commission to make future rate adjustments, provided Congress does not stop or modify the proposed adjustment within 90 days after being notified of it.

Two, Government would amortize, in 30 equal annual installments, all increases in the unfunded liability created by new legislation. That would include pay raises; benefit liberalizations for active employees; annuity increases for those already retired; and coverage for any new groups of employees brought into the system by future legislation. The 30-year amortization schedule requires a \$52,500 annual payment for each \$1 million unfunded liability increase created by new legislation. Thus, a newly authorized benefit that added \$1 billion to the unfunded liability would require a \$52.5 million payment each year for 30 years.

Three, Government would meet its responsibility for the unfunded liability created by laws already on the books through gradually increasing appropriations which after 10 years would equal, and replace, the interest being lost by the fund. This is the provision that would cover cost-of-living increases resulting from changes in the Consumer Price Index, because those increases are authorized by existing legislation.

These three steps, in combination, would provide sound and permanent financing of the system and would restore full confidence in it. They would cover full costs of all future changes; ease their budgetary impact; control growth of the unfunded liability; keep the fund solvent, at the same time avoiding an excessive build-up of the balance before the money is actually needed; and assure prompt, full benefit payments.

This last result is one of major interest and concern to us at the Commission. Government has never yet failed to provide funds for benefits due from the system, but it has on occasion failed to provide those funds soon enough to permit us to pay benefits as soon as they are due. Delay in paying is an extremely serious matter to thousands of these elderly people. Many of them have no other source of income and must depend on regular and timely monthly checks from the fund for the necessities of their every-day living.

The results of adopting this 3-step approach are illustrated on pages 14 and 15. Income would increase to keep pace with outgo. The fund's balance would stay at a safe, sound level. We would always be able to meet our payroll.

Adoption of these three measures would take care of the whole problem, and there would be no need for any additional financing provisions. We therefore recommend deletion from the bill of those provisions that would—

1. Require the Secretary of Defense to transfer to the retirement fund each year an amount equal to annuity disbursements attributable to military service.

2. Require agencies to transfer to the fund an amount equal to 25 percent of the cash value of unused sick leave for an employee who retires, or dies in service leaving a qualified survivor.

These provisions do not add anything to the financial soundness of the system, nor do they save Government a single dollar. They only add the bookkeeping transactions that would be required for the various agencies to obtain the necessary appropriations from Congress and then transfer them to the fund.

We also recommend deletion of that provision of the bill which would make payment of annuity increases after the first full fiscal year contingent upon appropriation of the necessary additional amounts of money. The basic 3-step plan makes this provision unnecessary. Eliminating it from the bill would avoid possible embarrassment to Congress and to the Commission if a delayed appropriation should make it necessary for us to defer payment of a benefit already due. There is just no acceptable way of explaining such a situation away, and it could easily arise if this provision is retained. I urge that you delete the provision.

We further recommend deletion of the five benefit liberalizations that would be authorized by title II of the bill:

1. Gross earnings rather than basic pay as a basis for determining both benefits and deductions.

2. A high-three rather than a high-five average salary.

3. Time credit for unused sick leave in computing annuities.

4. A 1-percent add-on to each cost-of-living annuity increase.

5. Continuation of annuity when a surviving spouse aged 60 or more remarries after July 17, 1966.

I fully agree with Mr. Evins' statement on the floor of the House on March 11, 1969, that benefit liberalizations are "secondary in importance to the paramount issue of assuring that the retirement system be financed on a sound basis" and that accomplishment of this objective is "of overriding importance." I urge that Congress keep faith with employees by early enactment of legislation to accomplish that single objective. The three-step plan incorporated in title I would do the job, and do it well. I hope that you will adopt that plan.

(The booklet entitled "Retirement Funding and Financing," referred to in the previous testimony, follows:)

1. The first part of the report deals with the general situation of the country and the progress of the work during the year. It is divided into two main sections: the first section deals with the general situation of the country and the progress of the work during the year, and the second section deals with the specific results of the work.

2. The second part of the report deals with the specific results of the work. It is divided into three main sections: the first section deals with the results of the work in the field of research, the second section deals with the results of the work in the field of education, and the third section deals with the results of the work in the field of social work.

3. The third part of the report deals with the conclusions and recommendations. It is divided into two main sections: the first section deals with the conclusions, and the second section deals with the recommendations.

4. The fourth part of the report deals with the appendix. It contains a list of the names of the members of the committee, a list of the names of the members of the staff, and a list of the names of the members of the public.

RETIREMENT FUNDING AND FINANCING

U.S. CIVIL SERVICE COMMISSION
BUREAU OF RETIREMENT, INSURANCE,
AND OCCUPATIONAL HEALTH
MARCH, 1969

PURPOSES

- Full recognition of retirement costs
- Orderly advance preparation to meet them
- Control of " Unfunded Liability "
- Fund balance sufficient to assure prompt,
full benefit payments

PROPOSAL IN BRIEF

1. Employees and agencies share equally the
 "Normal Cost" of present benefits and
 future liberalizations
2. Government amortize other retirement costs of
 future legislation in equal installments
 scheduled over 30 year period
3. Government meet interest on existing unfunded
 liability by appropriating amounts gradually
 increasing from 10 % in FY 1971 to 100 % in

FY 1980

WHERE WE ARE

Fund Balance (6-30-68) \$ 19.2 billion

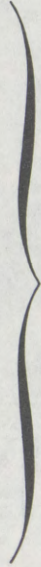
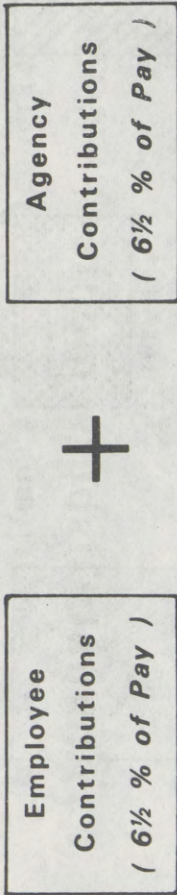
Annual Receipts (FY 1969) \$ 3.6 billion

\$ 1.4 billion from agencies

\$ 1.4 billion from employees

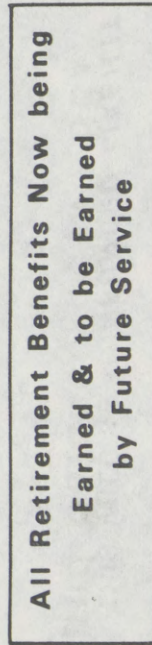
\$ 0.8 billion from interest

Annual Disbursements (FY 1969) \$ 2.3 billion



when

Invested and Earning Interest Intended to Cover



This is " **NORMAL COST** " Financing
Now 13.86 %

4

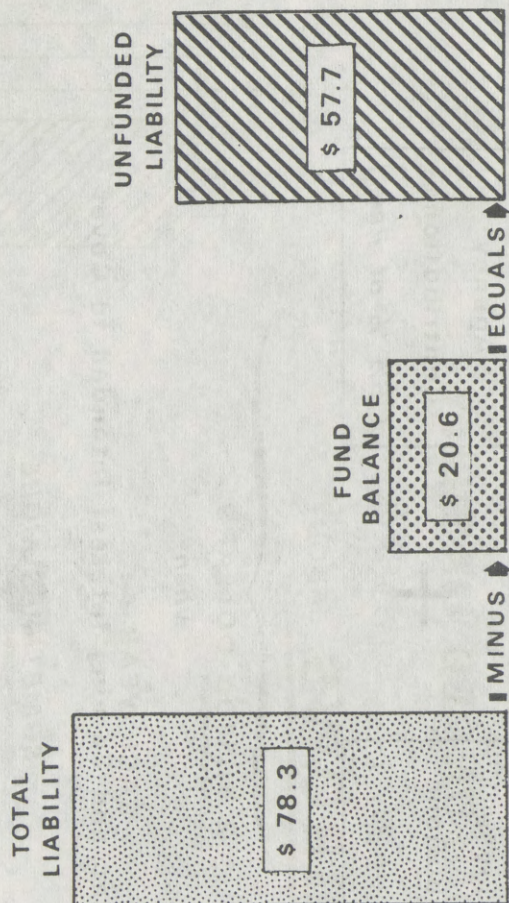
NORMAL COST ONLY PART OF STORY:

as of 6-30-69

LIABILITIES WILL EXCEED ASSETS BY \$ 57.7 BILLION

and

THIS WILL BE "UNFUNDED LIABILITY" PICTURE:



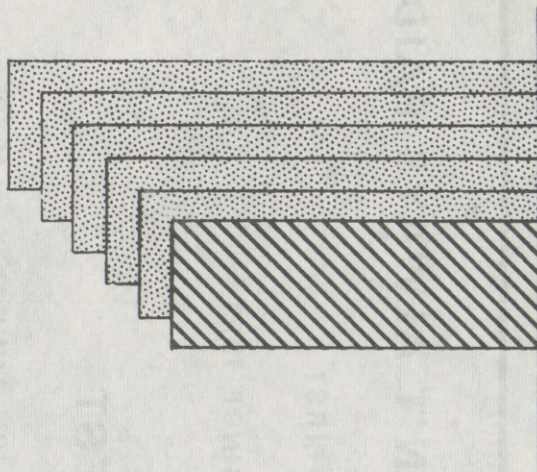
THE UNFUNDED LIABILITY

GROWS ABOUT

2 BILLION DOLLARS

EACH YEAR —

SOMETIMES MORE



WHY ? ?



6

REASONS FOR UNFUNDED LIABILITY

1. GOVERNMENT HASN'T ALWAYS PAID

— NO CONTRIBUTIONS AT FIRST

— 50/50 SHARING ONLY SINCE 1957

2. FUND LOST INTEREST

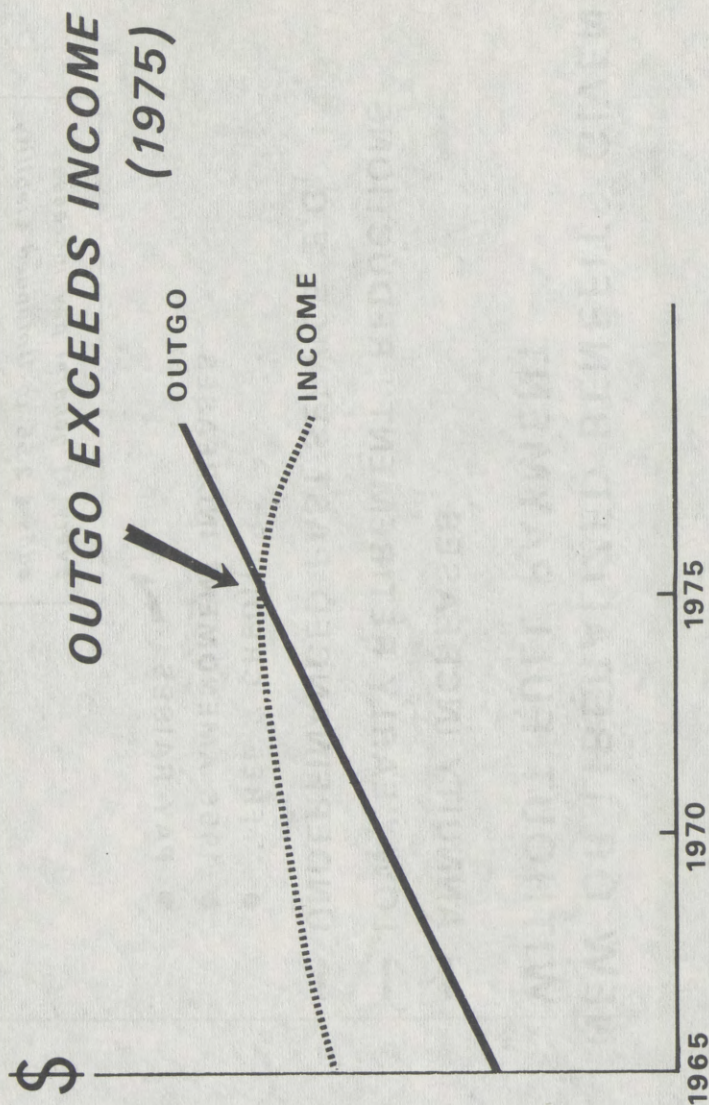
— LOSS RUNNING \$ 1.9 BILLION ANNUALLY IN 1969

3. NEW OR LIBERALIZED BENEFITS GIVEN WITHOUT FULL PAYMENT

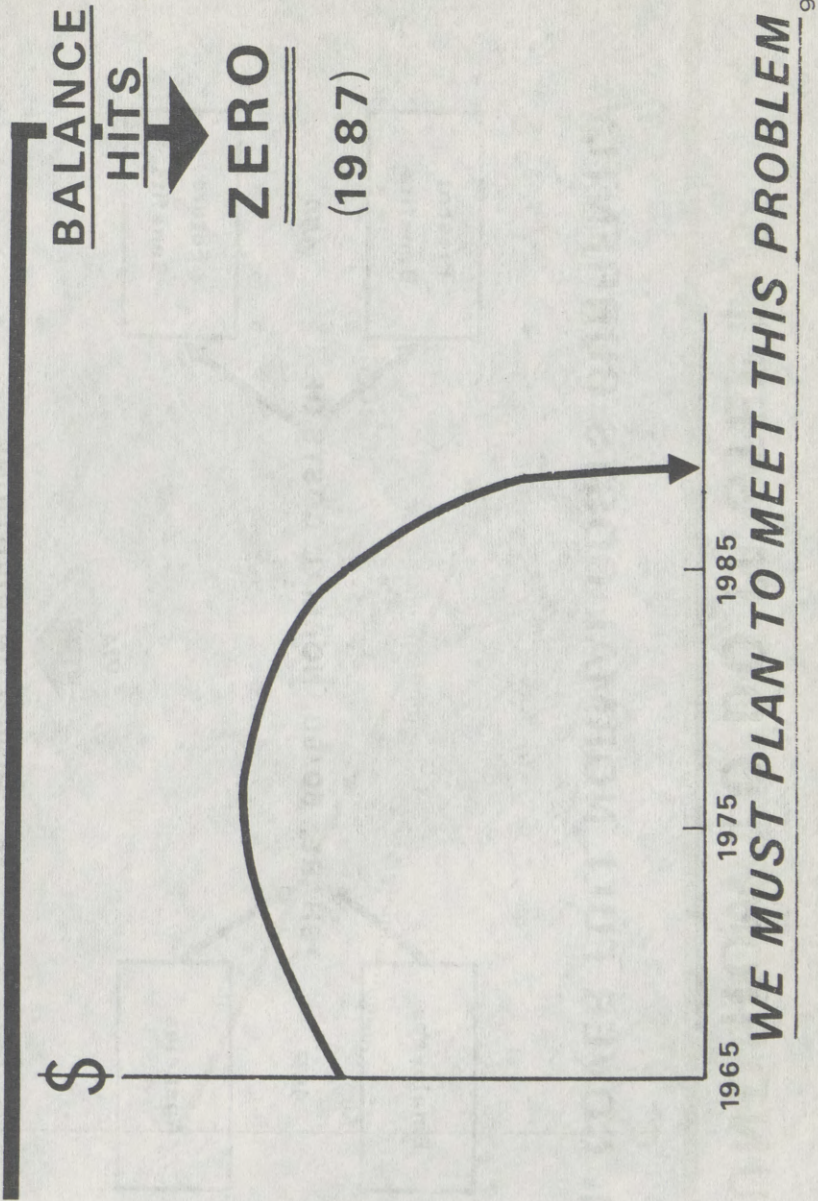
- ANNUITY INCREASES
- LOW "EARLY RETIREMENT" REDUCTIONS
- UNDERFINANCED PAST SERVICE, E.G.
 - " FREE " CREDIT
 - 1956 AMENDMENT INCREASES
 - PAY RAISES

*Every \$1 general pay increase
adds \$ 2.55 to Unfunded Liability*

UNDER PRESENT FINANCING

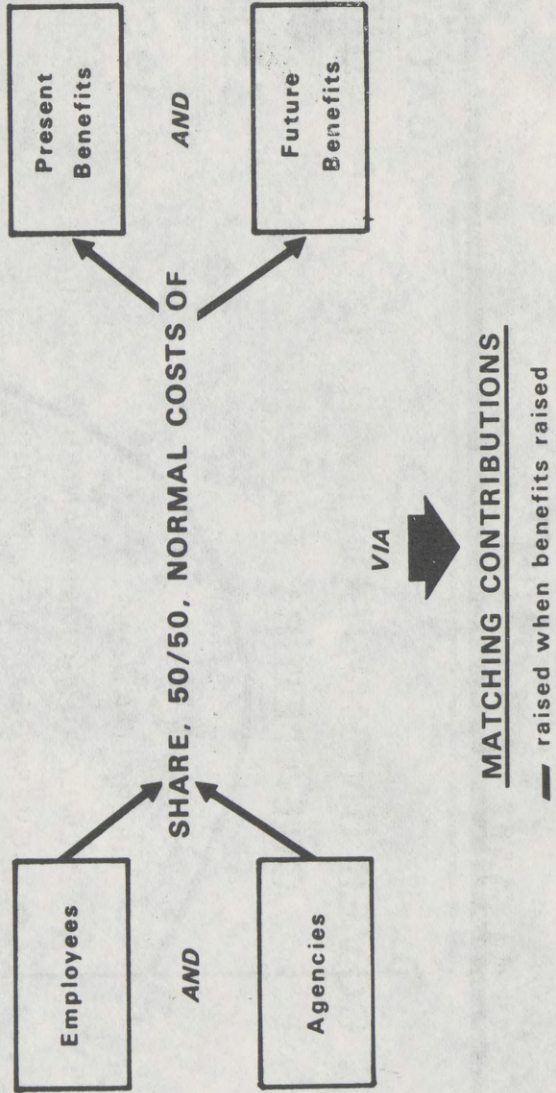


AND



HOW TO DO IT: STEP 1

1. COVER FULL NORMAL COSTS CURRENTLY



HOW TO DO IT:STEP 2

2. COVER UNFUNDED LIABILITY INCREASES CREATED BY FUTURE LAWS

including

- PAY INCREASES
 - LIBERALIZATIONS
 - NEWLY AUTHORIZED ANNUITY INCREASES
 - COVERAGE OF NEW GROUPS
- } FOR ACTIVES

IN 30 EQUAL ANNUAL INSTALLMENTS

EVERY NEWLY CREATED \$ 1 MILLION INCREASE IN UNFUNDED
LIABILITY WOULD REQUIRE A \$ 52,500 ANNUAL PAYMENT
FOR 30 YEARS.

HOW TO DO IT: STEP 3

3. GOVERNMENT MEET INTEREST ON UNFUNDED LIABILITY DUE TO LAWS ALREADY PASSED

including-

■ PRESENT UNFUNDED LIABILITY

■ COST-OF-LIVING INCREASES

via-

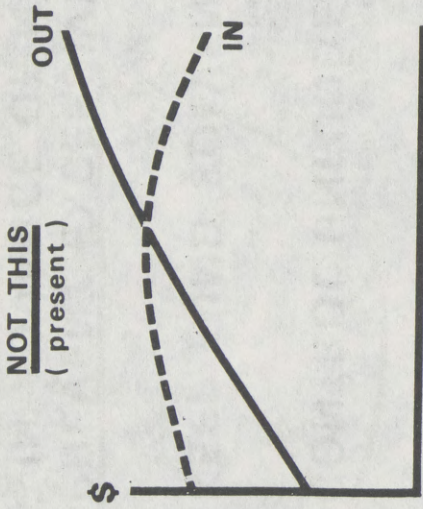
GRADUALLY INCREASING APPROPRIATIONS
WHICH IN 10 YEARS WOULD EQUAL
INTEREST ON THE UNFUNDED LIABILITY

- 10% first year
- 20% second year, etc.

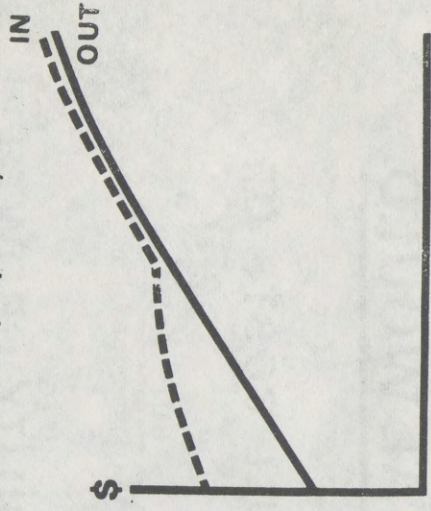
THIS 3 STEP PROPOSAL WOULD

- RECOGNIZE AND MEET FULL COSTS OF
FUTURE CHANGES
- EASE THEIR BUDGET IMPACT
- CONTROL UNFUNDED LIABILITY GROWTH
- KEEP FUND SOLVENT
- PREVENT EXCESSIVE FUND BUILD-UP
IN ADVANCE OF NEED
- ASSURE PROMPT, FULL BENEFIT PAYMENT

RESULTS: FUND INCOME VS OUTGO

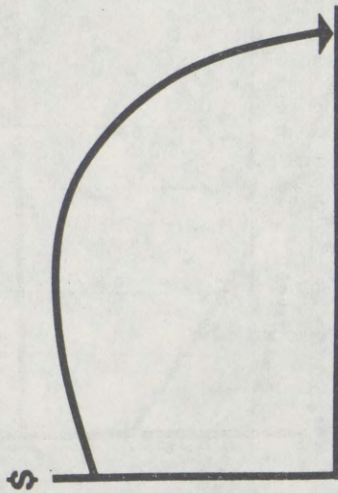


BUT THIS
(proposed)



RESULTS: FUND BALANCE

NOT THIS
(present)



BUT THIS
(proposed)

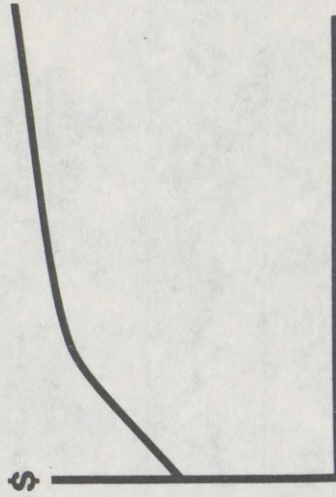


Table A

Civil Service Retirement System

Estimated progress of the Fund, with Government payments matching employee deductions at 6½%, plus direct appropriations when needed to meet benefit payments

(In millions)

Fiscal year	Employee deductions and deposits Amount As % of payroll	Government payments		Interest at 3½%	Total receipts	Disbursements	Balance in fund at end of year	Unfunded liability at end of year
		Agency contributions Amount As % of payroll	Direct appropriations					
1969	\$1,543	6½%	\$1,528	6½%			\$20,616	\$65,540 1/
70					\$3,795	\$2,933	21,478	68,192
71				750	3,821	3,150	22,149	70,937
72				770	3,841	3,371	22,619	73,778
73				783	3,854	3,591	22,882	76,718
74				788	3,859	3,817	22,924	79,761
1975				785	3,856	4,043	22,737	82,911
76				774	3,845	4,299	22,283	86,171
77				754	3,825	4,548	21,560	89,545
78				725	3,796	4,788	20,568	93,037
79				686	3,757	5,023	19,302	96,651
1980				637	3,708	5,250	17,760	100,392
81				579	3,650	5,485	15,925	104,264
82				511	3,582	5,707	13,800	108,271
83				433	3,504	5,915	11,389	112,418
84				345	3,416	6,108	8,697	116,711
1985				248	3,319	6,287	5,729	121,154
86				142	3,213	6,438	2,504	125,752
87	\$1,006			-	4,077	6,581	-	129,546
88	3,647			-	6,718	6,718	-	130,727
89	3,776			-	6,847	6,847	-	131,818
1990	3,899			-	6,970	6,970	-	132,822
91	3,999			-	7,070	7,070	-	133,760
92	4,101			-	7,172	7,172	-	134,627

Table B

Civil Service Retirement System

Estimated progress of the Fund, with Government payments to cover (A) 50% of normal cost; (B) 30-year level amortization of newly created unfunded liability; (C) interest on the unfunded liability, commencing at 10% of such interest in F.Y. 1971, 20% in F.Y. 1972, and increasing by 10% each year to 100% in F.Y. 1980 and thereafter

(In millions)

Fiscal year	Employee deductions and deposits Amount	As % of payroll	Government payments			Interest at 3½	Total receipts	Disbursements	Balance in fund at end of year	Unfunded liability at end of year
			Agency contributions Amount	As % of payroll	30-year level amortization					
1969	\$1,719	7½%	\$1,704	7½%	\$105	\$734	\$4,262	\$2,933	\$20,616	\$63,540 1/
70	↑	↑	↑	↑	↑	777	4,535	3,150	21,945	62,764
71						821	4,824	3,371	23,330	67,836
72						868	5,128	3,591	24,783	69,735
73						918	5,446	3,817	26,320	71,444
74									27,949	72,945
1975						971	5,776	4,043	29,682	74,221
76						1,027	6,114	4,299	31,497	75,260
77						1,086	6,458	4,548	33,407	76,050
78						1,149	6,806	4,788	35,425	76,583
79						1,216	7,156	5,023	37,558	76,851
1980										
81						1,286	7,504	5,250	39,812	76,851
82						1,361	7,879	5,485	41,906	↑
83						1,430	8,279	5,707	43,847	
84						1,495	8,695	5,915	45,645	
						1,554	9,133	6,108	47,309	
1985										
86						1,609	9,597	6,287	48,849	
87						1,661	10,100	6,438	50,290	
88						1,709	10,627	6,581	51,636	
89						1,753	11,180	6,718	52,889	
						1,795	11,755	6,847	54,055	
1990										
						1,834	12,369	6,970	55,137	

91	1,870	8,088	7,070	56,155
92	1,903	8,121	7,172	57,104
93	1,935	8,153	7,273	57,984
94	1,964	8,182	7,375	58,791
1995	1,990	8,208	7,478	59,521
96	2,014	8,232	7,614	60,139
97	2,033	8,251	7,733	60,657
98	2,049	8,267	7,839	61,085
99	2,063	8,281	7,926	61,440
2000	2,070	8,183	7,999	61,624
01	2,076	8,189	8,029	61,784
02	2,081	8,194	8,056	61,922
03	2,086	8,199	8,082	62,039
04	2,089	8,202	8,103	62,138
2005	2,093	8,206	8,122	62,222
06	2,095	8,208	8,133	62,297
07	2,098	8,211	8,144	62,364
08	2,100	8,213	8,154	62,423
09	2,102	8,215	8,165	62,473
2010	2,103	8,216	8,175	62,514
11	2,105	8,218	8,189	62,543
12	2,105	8,218	8,200	62,561
13	2,106	8,219	8,210	62,570
14	2,106	8,219	8,215	62,574
2015 & after	2,106	8,219	8,219	62,574
	2,690			76,851

Assumptions:

- (1) Liberalizations effective July 1, 1969, increase normal cost by $\frac{1}{2}\%$ and create unfunded liability of \$2 billion.
- (2) Pay increases, effective July 1969, create additional unfunded liability of \$3.4 billion.
- (3) Requirement for annual appropriations to meet requirement of P.L. 87-793 is repealed.

Footnote:

- 1/ Includes increases in unfunded liability assumed to occur July 1, 1969.

U. S. Civil Service Commission
Bureau of Retirement, Insurance
and Occupational Health
March 13, 1969

Mr. HAMPTON. Mr. Ruddock, who is our expert on retirement, and I, will be pleased to answer any questions.

Mr. DANIELS. Thank you, Chairman Hampton, for your very clear presentation of the magnitude of the problem with which both the executive branch and the Congress is faced and to which it is imperative that we address ourselves promptly and positively.

Your testimony this morning, as did that of your predecessor, the Honorable John W. Macy, Jr., in the 90th Congress, most assuredly attests to the fact that it is of the utmost urgency that we direct all our energies to this alarming situation so as to insure that the civil service retirement fund will have the ability to fulfill its obligations to its present and future retirees, and to their families.

Your testimony here this morning, for which I want to commend you, certainly staggers the imagination of the members of this subcommittee. But I am quite sure, in spite of that fact, that the members of this subcommittee will not be at a loss to present questions to you. I too wish to make the observation, as you have done at least twice in the course of your testimony, of the fact that the Appropriations Subcommittee having jurisdiction over this subject matter, has introduced a bill—in fact, it was cosponsored by all the members of that subcommittee—endorsing most of the financing provisions of this bill. I want to commend the chairman, the gentleman from Tennessee, Mr. Evins, for his endorsement of this bill and for backing up this committee in seeing that something is done in the near future to put this fund on a sound financial basis.

I have prepared a number of questions, having had the benefit of your statement yesterday. I would not want to usurp all the time, but I would like to get a few facts on the record.

I would like first to direct your attention to the report of this subcommittee which accompanied H.R. 17682 in the 90th Congress. In analyzing the table showing the operating receipts and disbursements from the retirement fund from 1920 to 1967, which appears on page 7 of the report, I observed that from the system's inception until the early 1960's, annual disbursements approximated, on the average, about one-half of the annual income. Is this a reasonable assessment?

Mr. RUDDOCK. Yes, it is.

Mr. DANIELS. I noted further, however, that in the present decade the percentage of disbursements has gradually increased in proportion to the income. Now, referring to the figures cited on page 2 of your very fine booklet, am I correct in observing that disbursements in the past several years and during the present fiscal year are equivalent, not to 50 percent, but about 65 percent of current income?

Mr. RUDDOCK. That is right, sir, and it is growing. We estimate, as Chairman Hampton indicated, that by 1975 we will be in a position where disbursements will exceed income from all sources.

Mr. DANIELS. Carrying that question a few steps further, and referring to the graph on page 8 of the booklet and the appended table A, is my observation correct that under existing funding practices disbursements will continue to gradually exceed this 65 percent of annual income by an additional average of 5 percent each year, and then equal receipts by 1975?

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. Isn't it indicated by table A that outgo will continue to progressively exceed income over the following 12 years and be twice as great as income in the fiscal year 1986?

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. In order to pay out more than 100 percent of current income during that 12-year period, it will be necessary to spend the entire assets of the retirement fund; is that true?

Mr. RUDDOCK. That is right. The entire fund is appropriated for the payment of benefits, and benefits would be paid as long as there was a penny in that fund, supplemented by whatever is coming in in current employee deductions and agency contributions.

Mr. DANIELS. In the second paragraph on page 3 of your statement, and as indicated on page 3 of the booklet, you refer to the investment of income in interest-bearing securities. Would you give us some history of the fund's past and present investment policy and the benefit of any suggestions you might have with respect to the future interest-earning potentials?

Mr. RUDDOCK. For many years the fund was invested, and the interest rate was 4 percent. The investments were then, and still are today, made by the Secretary of the Treasury, and he makes them as authorized by law.

Then right after World War II the 4-percent interest rate greatly exceeded actual market rates and so the interest rate was changed to an arbitrary 3 percent.

The next change that was made was one of directing the Secretary of the Treasury, by law, to make investments in special issues, and he was to make them at the average coupon rate of all outstanding long-term securities. That resulted, because of low interest rates at that time, in many investments being made at $2\frac{1}{2}$, $2\frac{5}{8}$ percent, et cetera.

The change that was made later, and this is the current practice, is one which directs the Secretary of the Treasury to invest either in the open market or in special issues; and if he invests in special issues, they are to be at the average yield rate of outstanding long-term securities. This is the same method which is used for investment of the social security system.

We now hold the assets of the fund in interest-bearing securities of the United States. As of December 31, 1968, we had nothing left at the $2\frac{1}{2}$ -percent rate. We still had almost \$2.5 billion at an interest rate of $2\frac{5}{8}$ percent. This represents the moneys which were invested at that time and are still remaining in those investments.

However, coming on down the line, we also held almost \$2 billion in issues at an interest rate of $5\frac{5}{8}$ percent. The average rate on all of the investments of the fund, as of December 31, 1968, was 4.282.

Mr. DANIELS. What was the balance as of December 31, 1968?

Mr. RUDDOCK. \$19,400 million.

Mr. DANIELS. Your chart indicates that, as of June 30 of this year—that is, June 30, 1969—you estimate the fund balance to be \$20,600 million?

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. Is the practice to invest all of the money in the fund?

Mr. RUDDOCK. It is not reinvested each year. The special issues which are made by the Secretary of the Treasury are for a term of years and then, normally, unless it is necessary or desirable to cash in in order to have cash on hand—

Mr. DANIELS. What is the present interest income of the fund?

Mr. RUDDOCK. \$800 million.

Mr. DANIELS. Do you have anything further to say on the last question, or have you completed your testimony here?

Mr. RUDDOCK. I would add only one point: That investments being made currently by the Secretary of the Treasury obviously are at the higher rates, representing current yield rates rather than being at the interest rates which prevailed many years ago. The system itself has some flexibility.

Mr. DANIELS. You state in the middle of page 4 of your statement that "employees have always paid what the law requires of them." But you indicate at the bottom of that page that benefits have been liberalized many times without the Government requiring their actual costs to be fully funded. Are you saying, among other reasons, that neither the employee nor employing agency has been required by law to contribute, on a 50-50 basis, the rate of deductions required to pay the "normal cost" of the liberalized or new benefits added since 1957?

Mr. HAMPTON. Yes; that is right. You mean in terms of the normal cost, there is a difference of about eighty-six one-hundredths of a percent?

Mr. RUDDOCK. That is the present deficiency in normal cost, 0.86.

Mr. DANIELS. Equating 0.86 to dollars, what would that amount to, approximately?

Mr. RUDDOCK. It would be about \$190 million.

Mr. DANIELS. Mr. Ruddock, can you elaborate on some of the legislative actions that are attributable to the normal cost having risen from 13 to 13.86 percent of payroll over the last decade?

Mr. RUDDOCK. Yes, sir. One of those was a lesser reduction in the annuity of retiring employees in order to provide benefits to a surviving widow. It was $2\frac{1}{2}$ percent of the first \$2,400 of annuity, and 10 percent of the balance. Then it was changed to $2\frac{1}{2}$ percent of the first \$3,600 and 10 percent of the balance. The annuity of a surviving widow or widower was 50 percent of the earned annuity of the employee; that was increased to 55 percent of the earned annuity. Annuities to children, surviving children, used to terminate at age 18. By two amendments they are now continued through the end of the school year in which the child reaches his 22d birthday if he is a full-time student.

It is items of this kind which have changed the normal cost without the change being reflected in the employee deduction rate.

Mr. DANIELS. Are there any other items besides those you have enumerated?

Mr. RUDDOCK. Yes, sir; I am sure there are. I cannot think specifically of any others at the moment.

Mr. HAMPTON. If you would like those, Mr. Chairman, we can look them up and submit them for the record.

Mr. DANIELS. I was just going to suggest that you furnish the committee with a statement on that, so it will be incorporated in the record at this point.

(The statement referred to follows:)

OTHER LIBERALIZATIONS WHICH HAVE INCREASED NORMAL COST SINCE THE 6½-PERCENT DEDUCTION RATE BECAME EFFECTIVE ON OCTOBER 1, 1956

Public Law 89-504, enacted July 18, 1966:

1. Permit retirement on unreduced annuity at age 55 with 30 years of service; age 60 with 20 years.
2. Permit optional retirement at age 60 with 20 years of service.
3. Eliminate annuity reduction between ages 55 and 60 in involuntary retirements.

Mr. DANIELS. My curiosity has been somewhat aroused by your use of the word "automatic" being encased by quotation marks. As used in that context, does it have any particular significance, or are you merely indicating that agency matching contributions are in fact dependent upon appropriations by the Congress?

Mr. RUDDOCK. They are dependent upon the appropriations. The appropriation is made to the agency as a part of its appropriation for salaries and expenses. It is automatic only in the sense that the Civil Service Commission as administrators of the retirement system does not come before a congressional committee and request and justify an appropriation to the retirement fund.

Mr. DANIELS. In the last paragraph on page 5 of your statement, you state quite emphatically, but in effect, do you not, by continuing present funding practice, that in 1988 because the fund will then have been depleted, that you will need (1) the employees' \$1.5 million of then current deductions; (2) the agencies' \$1.5 million of current contributions; and (3) a \$4 billion direct appropriation to meet contemplated obligations of \$6.5 billion. I refer you to table A.

You are also saying, are you not, that by the turn of the century, the \$3 billion employee-agency contributions, plus \$5 billion of direct appropriations, will be needed annually to meet an estimated \$8 billion annual obligation?

Mr. RUDDOCK. Yes, sir.

Mr. HAMPTON. Yes, sir.

Mr. DANIELS. I have just one more question, and then I will give my colleagues an opportunity to make inquiry of you about anything that is on their minds.

Most of the public witnesses in testifying on this bill earlier this week have strongly opposed the provision of the bill which would delegate to the Commission the authority to upwardly adjust contribution rates, subject to congressional disapproval subsequent to the enactment of future legislation that would further increase normal costs. Since it is assumed that you are well aware of such opposition, would you care to give the subcommittee your views on this seemingly controversial issue?

Mr. HAMPTON. I think by having this in the law that we have a spelled-out responsibility. When we notice that normal costs are not being met and that there needs to be an increase in the Government's contribution as well, that this is a mandate to us to submit it to the Congress for consideration. If this was not in the bill, we would still be able to do this but we would have to go through the whole legis-

lative process, as I understand it, of taking an administration position and then submitting it to the Congress to increase these contributions. I think that it is important that we have this because it gives us something very definite to work on in keeping our responsibility and seeing that this fund is solvent; that it is kept up to the level needed to pay out the benefits.

Mr. DANIELS. I do not want to put you on the spot, Mr. Chairman, but assuming that this subcommittee approves the financing methods that you have testified to here this morning; if that provision were eliminated, would you still support the bill?

Mr. HAMPTON. You have put me on the spot. I do not really think it is the most essential thing in the bill. I still think that the important part is the three financing provisions.

Mr. DANIELS. Mr. Chairman, since this bill was introduced last year, many Members of the House have spoken to me personally, voicing their objections to this provision. I have not discussed the matter with my colleagues on this subcommittee or on the full committee as yet, but I do know that it will be an important question arising in deliberation of this subcommittee when we meet in executive session. So, I thought we would have some expression from you or Mr. Rud-dock as to whether or not the new administration has given some thought to this, and what their views are on it.

Mr. HAMPTON. Let me say that when you look at the bill in its totality, this is a neat way of making it easier for us to keep the fund up to date and to have the Government paying its share as well as the employee paying his fair share. If we did not have this provision, we could still do it, only it would be the hard way.

Mr. DANIELS. Is it not also the responsibility of this committee to keep current on this subject matter. You, in your position as the Civil Service Chairman, will keep this committee apprised of what the status of the fund is; and could not this committee from time to time review this subject matter, get your views, and then recommend appropriate action to the Congress?

Mr. HAMPTON. Right. That is true. I don't think that the deletion of this would ruin the total bill. I am not familiar enough with the history of past efforts by the Civil Service Commission to make these increases, or what obstacles were run into. I know that this would be a very appropriate way to do it, and the Congress would still have the ultimate say as to whether or not they accepted any recommendations that we made. And our recommendations would not be—according to some of the testimony that I have heard about but have not really seen—arbitrary. These recommendations would only be based on sound actuarial data. Certainly there is a Government expenditure involved as well as an employee expenditure, and it is something that we would not take lightly nor would we exercise it arbitrarily.

Mr. RUDDOCK. Let me add to that only that there is another way in which the Congress and this committee will normally have a voice in the process. The necessity for an increase in employee deductions would usually come about because of a change in benefits, a liberalization. Before there is any liberalization of benefits, we are before your committee discussing it, giving you our estimate of the cost of the proposed liberalization, telling you what we see as its effect on normal cost. So it would not be a surprise, or anything coming out of the blue,

when we came then to the Congress proposing to change the deduction rate and the agency contribution rate because we had had a liberalization of benefits. We would all be fully aware of the circumstances.

Mr. DANIELS. Thank you, gentlemen. I am now going to ask my colleague from North Carolina, Mr. Henderson, if he has any questions to ask of you.

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

I commend the chairman and Mr. Ruddock for a very fine statement. It is most helpful to us, and I think that we are all aware that the chairman and members of the subcommittee are determined to take the best action that we possibly can here. I have been impressed these past months with the sincerity of all of you at the Commission, as well as the members of the subcommittee, with the primary purpose of our bill, even though there may be some minor disagreements on revisions, and particularly with regard to your recommendation for deleting the five benefit liberalizations in this bill.

If I were on that side of the table, I am sure I would make the same recommendations that you do. I think we can all recognize why you make the recommendation.

But I hope you can recognize, as this bill may move along, the "sex appeal," I call it, of this legislation. In the months we have had this under serious consideration, I have found the human inclination of the employee is to be interested in even these minor liberalizations. I think they are comparatively minor and are possible within the framework of this legislation.

It is impossible to expect the average employee to understand the really serious nature and the most important aspects of this bill, and that is the financing provisions. I am rather inclined to believe that by having just these minor liberalizations, and focusing upon the cost of these in this vehicle, is one very good way of bringing to their attention what is a serious problem with our entire financing of the retirement system. I hope that you will be understanding of our position. I feel sure that the majority of our subcommittee are not going to agree with you on all your recommendations, but it is not because we completely disagree with you. It is because we are practical, practicing politicians.

We feel that it is so important to get the major provisions of this enacted into law, that if we can get the attention and support of the employee organizations and the employees themselves, we think it is worth while.

So it would be my position, and I do not mind going on the record here and now, if for any reason we were to lose these provisions I still would support the basic principle of the legislation as you have recommended. I am very appreciative of the position you have taken.

Mr. HAMPTON. Thank you very much, sir.

Mr. DANIELS. The gentleman from Virginia, the ranking minority member, Mr. Scott, do you have any questions?

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Chairman, I would like to add my word of welcome to the Chairman of the Commission and Mr. Ruddock. We are certainly happy to have you here.

I wonder, Mr. Chairman, if it would be possible for a staff member to earmark copies of the bill for the benefit of the subcommittee that would just show the objections of the Commission, and possibly to suggest some alternatives so that when we are later going through this bill, perhaps in executive session, we would have this as we come to each section.

It just calls to mind what the Chairman had suggested to us.

Mr. DANIELS. Mr. Scott, when we marked up the bill in the last session, we had the benefit of counsel on both sides, the minority and majority side, together with the chief of staff.

I believe Mr. Ruddock attended one or two of the informal sessions we had prior to meeting in executive session and marking up the bill. We discussed various provisions of the bill and it was a result of our meetings and exchanging ideas that we finally came out with the bill which passed the House last year.

Mr. HAMPTON. We will be glad to do that again this year, Mr. Chairman.

Mr. SCOTT. Mr. Chairman, with regard to the delegation of the right to set rates to the Commission, the employee organizations do appear to be opposed to this, and I am wondering whether the Commission, in doing this, would consider it as an accounting process to make the fund actuarially sound as you would change the rate? Would that be the consideration that you would give to making adjustments in the rates? Would it just be the actuarial soundness of the fund? This is what you would do?

Mr. RUDDOCK. It would be a technical calculation.

Mr. SCOTT. My thinking is that undoubtedly the organizations feel that the Congress is somebody that they can reach a little more, and it perhaps might be more sympathetic with new views that they might have. As I understand, there would not be any mechanism under which the employee organizations would reach the Commission prior to any adjustment in the rate. Is that a fair statement?

Mr. HAMPTON. There is no formal mechanism. But we do consult with the unions, and they have an opportunity to get their 2 cents in on this situation.

The thing is, even having the Commission make the recommendation, the unions still can come to Congress. You have 90 days in which to modify the proposal.

I think one of the things we feel is that after so many years of discussion on refinancing we come to a point now where we are going to come up with a bill that carries out this responsibility, and yet here is a mechanism that makes it easy for us to continue to have this soundly financed, and there is opposition to it.

Mr. HOGAN. Will the gentleman yield at that point?

Mr. SCOTT. Just 1 minute.

Is there any reason why the Congress cannot do this without referring it to the Commission?

Mr. HAMPTON. I do not look at this myself as a make-or-break issue.

Mr. SCOTT. I will be glad to yield.

Mr. HOGAN. I want to make the observation that it is much more laborious for Congress to veto action within the 90 days, as many of us wanted to do with the congressional pay raise but were unable to bring it to the floor for a vote. This is a much more difficult process

than you indicated by saying that Congress could act on it within 90 days.

Mr. SCOTT. Mr. Chairman, I am wondering if there is any portion of this deficit that we speak of that might be unclaimed. Does that include any unclaimed funds that people, perhaps leaving the Government service and not being heard of again, or people who do retire, not claiming the funds that they are entitled to? Is this entire deficit money that is going to be claimed? Or is there some within there that probably never will be claimed?

Mr. RUDDOCK. Sir, it is our best estimate that this is the total amount of the liability. We recognize that there will be occasions—although I believe they are rare—in which an individual will have money in the retirement fund and he will die and no one will claim it.

On the other hand, the nature of the process is such that we are probably underestimating some other element of liability. So to the best of our ability to estimate unfunded liability, this is it.

Mr. SCOTT. It would cancel out, you are saying?

Mr. RUDDOCK. I am saying there are probably compensating errors, yes, sir.

Mr. SCOTT. On page 7 of the presentation, Mr. Chairman, it is mentioned that the Government has on occasion failed to provide these funds soon enough to permit us to pay benefits as soon as they are due. Could you elaborate on that, sir?

Mr. HAMPTON. We were discussing that yesterday and we were getting together a number of examples.

Do you have those now, Andy?

Mr. RUDDOCK. I think the best example I can give was the enactment of Public Law 87-793, which did a number of things, including increasing annuities already on the roll. That was enacted in October; part of it went into effect on October 11, 1962, and part on January 1, 1963. Because of the so-called Thomas rider which requires that some provision be made to prevent an increase in the unfunded liability before a liberalized benefit goes into effect, and because no exception was provided, we were unable to pay the increased benefits provided by that legislation until we got the appropriation. As I remember it, it was May of the following year when the money was appropriated.

In the meantime we kept paying beneficiaries under the provisions of the law prior to the amendment, at the same time keeping track of what was accruing under the liberalized provisions. When we got the appropriation we paid the liberalized provisions and we have paid them since that time.

Mr. SCOTT. This is increased benefits but not the basic benefit. Do you have any example when the regular benefits due the employees were not paid?

Mr. RUDDOCK. Not under the civil service retirement system because of the existence of the fund. There has always been that fund and the balance in it from which we could pay.

We also administer systems for Panama Canal construction employees and for Lighthouse widows. About 2 years ago there was an increase by legislation in the benefits payable to the Lighthouse widows. This went into effect on December 1. We anticipated getting a supplemental appropriation to pay it. There is no fund from which they are paid. They are paid from annual appropriations. In June

the funds ran out and the new money had not been appropriated. We had to authorize Treasury to issue checks equivalent to 50 percent of the benefit due, with the statement that as soon as we got the appropriation we would pay the additional amount. It was about 2 weeks before we got that.

We would be in the same kind of a position if we brought the retirement fund balance down to zero and were dependent on annual appropriations to meet disbursements.

Mr. SCOTT. Mr. Chairman, let me just conclude by asking some questions with regard to page 9.

The first one has to do with the first objection to the proposal, the gross earnings. I would think that these gross earnings that we are talking about might be the lower-income employees of the Government and that they might obtain higher benefits by the inclusion of gross earnings. I just wonder why that would be a bad thing?

Mr. HAMPTON. I don't think these are all low-grade employees. I think the large bulk of them that have a consistent amount of overtime are your customs service people. One of the situations here is that this is an item that adds over \$2.5 billion to the unfunded liability. I think it treats a group of employees a little bit different than the average employee. An employee who works a large amount of overtime receives that overtime. That is his, at a premium rate, at his overtime rate. I think there is an inequity there in this sense.

I just think it is a very costly liberalization at this time because of what it will cost each year to operate, and because it treats one group of employees different than the other groups of employees.

Mr. SCOTT. And on number three where you suggest the deletion of the time credit for unused sick leave, I am wondering what your thoughts would be about allowing one-half of the sick leave rather than the full sick leave benefits? I say this because there have been suggestions that sick leave is not something that people are entitled to unconditionally but it is conditioned on them being sick. Yet we would like to encourage Government employees not to unnecessarily use their sick leave; and if they were given that—half a loaf is better than none—wouldn't that have the same good effect? What would be the feeling of the Commission with regard to cutting this in half?

Mr. HAMPTON. We hadn't considered that, Mr. Scott, in the movement away from giving time credit for all unused sick leave, I don't think this is a real tough item. If the Congress feels that this is an essential part of this bill, I am not sure that any stringent objections would be raised.

Mr. SCOTT. My last question, Mr. Chairman. On number five of the suggested deletions, we have heard testimony before the committee that was rather human testimony: That these elderly people do have a need for companionship. I am wondering if perhaps some of the elderly might be encouraged to live together without getting married if the law is not changed? And I wonder if the Commission has given any consideration to this?

Mr. HAMPTON. Yes, sir, we have. I think that in another piece of legislation we have supported this proposal.

Mr. SCOTT. You have supported another piece of legislation?

Mr. HAMPTON. Yes, sir.

Mr. SCOTT. Why not include it in this one?

Mr. RUDDOCK. I might point out that the principal position the Chairman has expressed is one of urging concentration on the financing and deletion of the liberalizations from this particular piece of legislation.

It is difficult for the executive branch to say, "We believe this bill should be confined to financing, but it is all right if you want to put in that liberalization or this one," because once you depart from the strict position of confining the legislation to financing, then you really bring into question the validity of separate items.

Mr. SCOTT. You are just objecting to the provision being in this bill, not the principle involved?

Mr. RUDDOCK. We would support this provision in a separate bill.

Mr. SCOTT. Thank you.

Mr. DANIELS. Is that Item No. 5?

Mr. RUDDOCK. Yes, sir.

Mr. HAMPTON. Our major priority in commenting on this bill is our serious concern with refinancing. Liberalizations as part of this bill tend to cloud up that particular issue, rather than the issue being objections on specific items.

Mr. SCOTT. Mr. Chairman, I think the gentleman knows the entire Congress shares his concern with regard to financing.

Thank you, Mr. Chairman.

Mr. DANIELS. The gentleman from New York, Mr. Hanley. Do you have any questions?

Mr. HANLEY. Thank you, Mr. Chairman.

I want to commend Chairman Hampton for his very fine statement. It certainly evidences a recognition by the Commission of the prevailing problem.

There are just two areas that I would like to talk about. I know that you certainly have sound bases for your suggestion that the matter of the obligation related to the Defense Department be deleted from the provisions of the legislation. Would you care to expand upon your reasoning?

Mr. HAMPTON. We feel it is unnecessary because the 3-step plan for financing adequately covers all of the costs of the program. It would be, I think, a bookkeeping nightmare. We have 1,400,000-odd veterans in our system today, and as they begin retiring, it would require the Defense Department to compute each year the number and the amount of service that they have, and to pay that portion to the retirement fund. They would have to come to Congress to get a specific appropriation to do that.

We have adequate financing without this provision, and no one would save any money by doing this.

Mr. HANLEY. As I understand it, if the Department of Defense was required to abide by this provision of the legislation, initially it would account for perhaps \$100 million in the way of reimbursement to the fund, and this would subsequently expand annually. Would this be an accurate statement?

Mr. RUDDOCK. Yes, sir. Our present estimate is that the initial year would be about \$95 million, which is close to your estimated \$100 million. It would increase by \$10 million a year, assuming continuation of

the performance of military service at about the same rates we have seen it in our generation. It would eventually go up to an annual payment of about \$300 million. Then it would taper off. It would taper off because the Social Security Amendments of 1956 put active-duty military personnel under the social security system, and we cannot count as creditable service under the retirement system the service in the military if it is being used or could be used for payment of a social security benefit, either to the veteran or his family. So as these people reached age 65, we would recompute the annuity to delete credit for military service performed after 1956.

As you can see, this would eventually bring the annual payment back down from the \$300 million figure.

Mr. HANLEY. Then, in addressing ourselves to the problem of the unfunded retirement liability, though this would not result in an actual saving to the Government per se, it certainly would reflect better on the retirement fund itself. In other words, it would put the entire matter in a better perspective from the standpoint of business administration. Would this be an accurate statement?

Mr. RUDDOCK. It would produce a more precise recognition of the effect of military service on the financing picture. Perhaps I am agreeing with you when I say that. I am not sure of the extent of our agreement.

Mr. HANLEY. I think the responsibility of this subcommittee is to improve upon the image of the unfunded retirement liability, and this particular aspect has bothered me. Certainly the commission, and the retirement fund itself, have inherited a problem with another agency. So I think it all depends upon exactly what the subcommittee wants to do here. Do we want to sweep a matter of this nature under the rug? Or do we really want to have it conform with the concept of good business administration?

Another matter, regarding your suggestion that some of the liberal aspects of the legislation be deleted bothers me. In recognition of the fact that I do not believe that the employee really gets a fair shake in consideration of the restrictions imposed upon the investment of these moneys in this fund, where we are pretty much restricted to investing in Government securities at 3½ percent—well, it seems to me in recognition of this factor, that you are going to wind up, assuming that this proposal is enacted into law, enjoying a bit of a plus here; 14 percent as opposed to your current 13.86 percent actual cost. So these two factors say to me that there is justification for liberalizing the program to this extent. Perhaps not in the total degree as suggested by the legislation, but I think that each of the aspects of it which would liberalize it should be given a great deal of consideration because of these two factors.

Certainly if it was within the purview of the administrator of the fund to invest this money otherwise, the employee would be doing somewhat better. This is an observation that I make. Perhaps you would want to comment on it.

Mr. RUDDOCK. I think the employee currently is getting a pretty good break under the retirement system. We recently took a look at the status of retiring employees and got confirmation of a situation which we had observed before, and that is that, on the average, the contributions of the retiring employee, the part that he has paid in,

will pay less than 16 percent of the annuity which he may expect to receive during his lifetime.

This comes about because we have had a history of liberalizations. We have also had a history of pay increases. So the retirement benefit the individual ultimately receives far exceeds what would have been possible under the law at the time he started; or certainly what was contemplated by the salaries he received during part of his working career.

The employee is guaranteed that either he, or he and his survivor, will get back every penny he has put into the fund. He can't lose in the process.

Mr. SCOTT. Will the gentleman yield?

Mr. HANLEY. Yes.

Mr. SCOTT. Mr. Chairman, I appreciate the statement that was just made because we have heard from some of the employee organizations that perhaps the Government was not providing the leadership in this field that it should provide. We have had suggestions of a 60-40 contribution. As I understand the statement of the gentleman, it is to the effect that the employee, on the average, pays in 16 percent of what he takes out. Is that right?

Mr. RUDDOCK. That is a historical fact, sir, yes.

Mr. SCOTT. Thank you.

Mr. DANIELS. Excuse me. Will the gentleman yield?

Mr. HANLEY. I yield to the Chairman.

Mr. DANIELS. To carry that point a step further, does 16 percent include interest on the investment?

Mr. RUDDOCK. No, sir.

Mr. DANIELS. So it would be 16 percent plus what his contributions would have earned in interest?

Mr. RUDDOCK. Yes, sir.

Mr. HANLEY. The only other point that I would address myself to specifically is my strong feeling with respect to the time credit factor for unused sick leave. This, as you know, has been debated and deliberated for quite sometime here, and it seems to me that there is a great deal of merit associated with this particular aspect of the legislation.

I have no further questions. Thank you, Mr. Ruddock, and Chairman Hampton.

Mr. DANIELS. The gentleman from Maryland, Mr. Hogan. Do you have any questions?

Mr. HOGAN. Most of the points, Mr. Chairman, have been clarified by you and my colleagues.

But I did want to take issue with one statement which appears on page 8, where Mr. Hampton said that the so-called liberalizing provisions would not save the Government a single dollar. On the assumption that there may be one or two malignerers in the Federal service who take sick leave when they are not sick, don't you think that the credit for sick leave would serve as a deterrent for this unwarranted sick leave taking? And would not this in effect be a savings to the Government?

Mr. HAMPTON. At the present time, if a person does not take any sick leave, then you don't pay for whatever sick leave is unused. So by paying in the form of giving retirement credit, they are getting something for the sick leave that they have not used.

I think you might assume that if a person has an incentive to save his sick leave because at the end of the line he sees an opportunity to be paid for it, that there would be some savings. On the other hand, I have never felt that sick leave was abused to the point that some people have said that sick leave is abused. I would hope that when employees are sick they would take their sick leave.

So in a roundabout way of responding to your question, it is a judgmental factor. You could assume that if there is some incentive there, there would be a greater desire, and as such, the Government would have had the services of the individual, and that there would be a saving.

Mr. HANLEY. Will the gentleman yield?

Mr. HOGAN. Yes.

Mr. HANLEY. Since the subject was discussed last year, has the Commission developed any statistics with respect to the average sick leave accruals to the credit of retiring employees?

Mr. RUDDOCK. We have not made any new study on that, Mr. Hanley. The most recent information we have, which is now several years old, indicated that about 50 percent of all retiring employees do have unused sick leave. The average amount for each person who has unused sick leave is 88 days. As you can see, this would work out that on the average this provision would result in crediting the retiring employee with 44 days of additional time credit.

Mr. HANLEY. If the retirement credit payoff proposed by the bill were to be treated as a normal cost item as opposed to an agency payroll obligation, what percentage of the payroll would be involved in that instance?

Mr. RUDDOCK. The normal cost would be six one-hundredths of 1 percent. It would create, we estimate, an unfunded liability of \$329.5 million. This is because all of us have currently unused sick leave which immediately would have a value.

Mr. HANLEY. I thank the gentleman for yielding.

Mr. HOGAN. You are welcome.

Not to belabor the point, but I think the Government would also save money in recruitment and training costs if the retirement system were attractive enough to prevent the exodus from Government to private industry.

I just wanted to take issue with the statement that these provisions would not save a single dollar for the Government.

Am I correct in understanding your observation that the retiree only pays 16 percent of the benefits that he receives upon retirement? That he will only have paid 16 percent of those costs?

Mr. RUDDOCK. That is the way it has worked out at this point, sir.

Mr. HOGAN. Isn't that deceptive, however, in that the value of the dollar is being eroded at between 4 and 5 percent every year? If you could pay me today, after 30 years of service, the value of the dollars I put into the system 30 years ago, I would be happy indeed. I think this is not a valid point in that inflation is robbing the retiree of substantial benefits.

Mr. RUDDOCK. Let me not belabor the point. The plan proposed for going into the future is one in which the employee and the agency would share on a 50-50 basis the normal cost. That is the cost of retirement benefits with respect to future service. It is also contemplated

that Government would pick up the total tab for any newly created unfunded liability and would fully finance the existing unfunded liability, so that even going into the future, we are not talking about employees paying as much into this retirement system as Government will pay.

Mr. HOGAN. I think this is a commendable trend which we ought to try to accelerate. But I do think we ought to be ever mindful of the fact that the dollar is eroding, and when we talk about dollars, we have to talk about dollars at a particular point in time when we talk about their value.

I was delighted to learn the Commission was not opposed in principle to these so-called liberalizing provisions in the bill before us, because I think that we have to try to make Government service as attractive as we can.

I want to make an observation that I intend to vote for an amendment to delete the provision which would give the Civil Service Commission the authority to raise the rates without congressional preview. I don't mean this as any lack of confidence on the part of the Commission officials, but rather I think this would be another erosion of congressional authority, which I oppose.

Thank you very much for your excellent testimony.

Mr. HENDERSON. The gentleman from New York, Mr. Brasco.

Mr. BRASCO. I might preface my remarks by saying that this has nothing to do with you gentlemen, but I think that sometimes I get the feeling that I become more and more confused at these hearings. Maybe it is peculiar only to me, or maybe it is because we as a whole, as Members, say things that are sort of inconsistent. I think that is probably why the American people have the most difficulty at this stage of our history in understanding us and placing their complete confidence in us.

Even this morning I heard a Member say something about the pay raise all Members of Congress received. I don't know what it has to do with this, but in response to that I would say that anyone who is a Member who feels that the raise offends his sensibilities or does not deserve it, then he should return the \$12,000-odd or quit the job if he feels he is being overpaid. I think that is probably our approach to all these problems, and that is why we have all kinds of hangups.

With respect to this bill, it would seem to me that we first have to make a determination as to whether or not, in talking about the liberalization part of the bill, the employees are entitled to it. It is that simple. If they are, then we have to put our heads together and see how we can work things out. Mr. Hanley's suggestion was excellent in terms of the investment of the pension funds or retirement funds.

I am wondering if someone can tell me what kind of investments are made with this money?

Mr. RUDDOCK. There are principally two kinds made by the Secretary of the Treasury. He may either buy interest-bearing securities of the United States in the open market, or he may make special issues to the retirement fund.

If he makes special issues to the retirement fund, they must by law be at the average yield rate of then outstanding long-term obligations.

But all of the money is invested in interest-bearing securities of the United States.

Mr. BRASCO. No private investment is involved?

Mr. RUDDOCK. No.

Mr. DULSKI. Would the gentleman yield at that point?

Mr. BRASCO. Yes, sir.

Mr. DULSKI. When those bonds are issued, are those some of the bonds that are tax-free so that they do not have to report the interest on those bonds?

Mr. RUDDOCK. The securities, sir, are held by the retirement fund, and there are no taxes imposed on the retirement fund.

Mr. BRASCO. Getting back to that, would there be any objection on your part if the Government were to invest some of the funds in the private market so it could get top interest rates, which might help this fund appreciably?

Mr. HAMPTON. I think in all probability we would create some real conflicts of interest. Say we took a couple billion dollars and went out and bought General Motors stock, it would then be a question of the Government contracting with General Motors, and that type of thing. I think it would have a big impact on any kind of market.

Mr. BRASCO. We go right back to our kind of hangups. We are going back to the conflict of interest and nobody seems to want to trust the next guy, and the poor guys suffer. I do not think that is always an adequate answer to a most pressing problem.

In any event, getting back to some of the things that the Commission would like to see deleted, I assume from the response to Mr. Scott's question on No. 5, the surviving spouse situation—did I understand you to say, sir, that you would not object to that?

Mr. HAMPTON. I think we have supported it.

Mr. BRASCO. Rather than having people over 65 living in illicit relationships—

Mr. HAMPTON. There is a bill to do this, and we have supported it.

The point we are trying to make is that our primary priority is in terms of refinancing. When we open legislation on refinancing to liberalizations we get issues coming in from all people recommending this, that, or the other—what we are trying to say is that we think the primary purpose is refinancing in this particular piece of legislation. And we do not want to detract from that by liberalization. We have no idea what the Congress or this committee may report out on liberalizations. There may be other things that would be added.

The thing is, these proposed liberalizations do add \$3.7 billion to the unfunded liability. I think what you said earlier in terms of taking a look at whether or not these benefits are really needed—in some cases we do not feel that there has been demonstrated an urgent need for some of these benefits. The one that gives me the most trouble is this question of gross earnings rather than basic pay.

Mr. BRASCO. Of course, we should determine whether or not we need these things. But how do we go about it?

But No. 1, it seems to me, even taking the example of your customs people that you say are sort of peculiar in terms of the fact that they get a lot of overtime over and above people in other branches of Government service, but it occurs to me if they did not get overtime that maybe we would have to hire more people to do the work that they are doing and incur additional cost; and you also might have to carry the new people in this very program. So don't you see that as being a

benefit in dollars and cents to the Government when you give overtime?

And, of course, I always assume that people act wisely and honestly, and that the overtime is needed to complete the work.

Mr. HAMPTON. Well, it is needed. Otherwise you know they would not be working the overtime.

Mr. BRASCO. I would hope so.

Mr. HAMPTON. I am not absolutely sure what other retirement plans have in them, but in most cases retirement is based on base pay. Now, when they work overtime, they are paid premium pay for working overtime, and I think that that is adequate compensation. The large majority of Federal employees are not on any overtime. I think this very much makes a differential in the treatment of people.

Mr. DANIELS. Will the gentleman yield?

Mr. BRASCO. Yes.

Mr. DANIELS. I think the point you are trying to make is that you are not objecting to overtime if the employing agencies see fit to give overtime to their employees. The point you are trying to bring out is that this results more or less in discrimination to those employees who do not get overtime by virtue of the fact that if this overtime is added to the base pay, it gives them a greater retirement benefit over all other employees who do not get overtime.

How much would this item No. 1—the inclusion of compensation for overtime, differential, and premium pay, and so forth—add to the unfunded liability?

Mr. HAMPTON. \$2.5 billion, approximately.

Mr. BRASCO. But this is basically my question. It seems to me that somewhere someone ought to have statistics with respect to the question that I asked initially; namely, how much is the Government saving by giving overtime rather than by having the work left undone or having to hire possibly a portion of a new work force, to put them to work and possibly integrate them into this program?

Mr. HAMPTON. I do not think there is any answer to the question of how many more positions would be necessary to accomplish the same workload. Most people who are in an overtime situation are there because of a variable in the workload. There are a few groups of employees—and I used the customs because they have a fairly steady and predictable amount of overtime.

Mr. BRASCO. Would you assume that notwithstanding the fact that there is a variance in the workload during the course of the year, that if the Government had to go out and hire people on any basis to do that workload, that it would cost the Government more money?

Mr. HAMPTON. In terms of man-hours, it would probably cost them less because they could pay them at straight time. In overtime, they are paying more for the same amount of man-hours.

Mr. BRASCO. Except for the fact you are bringing in someone who may not know the job. These are all things that the employees are concerned about, and that is why they do make a big hullabaloo. You and I might agree that for one fellow that is doing overtime you might have to hire two employees that don't know the job as well as he does. I think it is unfair to them to say that there is no saving to the Government. I think it is unfair for us to say, when the Government asks the guy to work overtime because they cannot get the workload done during the regular time, that he should be penalized. He pays taxes on

that money and many times gives up Saturdays and Sundays, whatever the overtime period consists of. It seems to me logical that it should be part of his computation.

Mr. HAMPTON. I think the Government gets its work worth out of the money that it spends on overtime. I have no question about that.

The only problem I have is in using overtime as a part of base pay for retirement computation. So we have a difference of opinion.

Mr. RUDDOCK. If this provision were enacted, it would require withholding of the retirement deduction from all the money that is paid to an individual in overtime pay. This would be of benefit to him when he ultimately retires only to the extent that he has had overtime within the period which is used to calculate his high-five average salary or, as this bill proposes, the high three. There are many employees who get paid overtime during their working career, but it does tend to be while they are at the earlier stages of their career. And by the time they retire they are in positions where they are no longer being paid for overtime.

Mr. BRASCO. That would probably be an argument for it because if I understood you correctly, what you are basically saying is that it would not make a heck of a lot of difference.

Mr. RUDDOCK. I am saying, for these employees, it would require them to pay the deduction on their overtime without their receiving any benefit for it.

Mr. BRASCO. One last question with respect to the sick pay business. It would seem to me that if there is no incentive to come to work, then the Government doesn't really lose anything because it pays for only a portion of unused sick leave, but if there is an incentive and the Government has to pay something in, then they are saving on the sick leave. Would that be a fair analysis?

Mr. RUDDOCK. To the extent that this provision served as an incentive for employees to preserve the sick leave rather than use it.

Mr. BRASCO. I think the Government would be in a position of saving. If it is not an incentive, we lose nothing by enacting it, right?

Mr. RUDDOCK. There is no incentive at the present time other than the incentives of honesty and dedication to the job, and yet we have people retiring with over 2,000 hours of unused sick leave, so they are getting their incentive in some fashion other than retirement credit.

Mr. BRASCO. I appreciate that. But I think in the area of human judgment there is probably, during the course of a year, a time when a guy knows if he has a benefit to obtain and he loses it when he stays home—he will report to work. I think it would be of great benefit to the Government. I have no more questions.

Mr. DANIELS. I just want to clarify one thing for the record.

I believe, Mr. Ruddock, you testified that with respect to sick leave there would be an average saving per employee who retires of 88 days, but only 50 percent of the people who retire have such sick leave to their credit?

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. So, actually, it amounts to 44 days; and if he were given credit for this sick leave, the average person would be receiving a credit of approximately 2 months?

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. In extra service?

Mr. RUDDOCK. For purposes of computing the annuity. This would not count, as the bill is written, for title purposes. In other words, if the law says he has to have 30 years of service, he would have to have 30 years not counting his sick leave. But then his annuity would be computed on 30 years and 2 months.

Mr. DANIELS. This would not be too expensive an item then under those circumstances?

Mr. RUDDOCK. No, sir. We estimate the cost of this as running somewhere between \$22 million and \$25 million a year.

Mr. DANIELS. I have no further questions, but I do wish to point out that the chairman of the full committee has attended all of these hearings. He is very much interested in this piece of legislation. I believe the chairman may have some questions.

Mr. DULSKI. Thank you.

I, too, welcome our new Chairman of the Civil Service Commission. You recommend the deletion of the provisions that would require the Secretary of Defense and other agencies to transfer funds to the retirement fund to cover the cost of credit for military service and sick leave on the basis that these provisions add nothing to help the financial soundness of the fund and require a great deal of work. All you need is one little item.

So, I don't see where there is a great hardship. As long as you keep the payroll, all you have to do is find out what the amount was and just take the percentages that you have here. That is number one.

Number two is on page 9.

How can you maintain that an employee should only have his basic pay and not include the overtime? Uncle Sam comes along and says, "You pay income tax on everything you have." I would like to have your comments.

Mr. HAMPTON. Let me say that the overtime that would be used for computation, if this bill passed and you have the high-3 rather than the high-5, would be the overtime that was actually performed in that particular period.

There will be many people who, during the course of their Government career, will be earning overtime for which they will have to be paying in retirement deductions, and yet when they come to the end of their career, the last 3 years, they may not work any overtime, and they will get no credit for that overtime in the computation of their annuity. And in some cases you will have people who have paid this who will get no credit. In other cases, there might be a situation where in their last 3 years they have worked overtime and it would be used for computation. So I think there is an inequity.

Mr. DULSKI. Right at that point, Uncle Sam benefits then; doesn't he?

Mr. HAMPTON. Well, the employee loses something.

Mr. DULSKI. I am saying the Government benefits, doesn't it?

Mr. HAMPTON. The Government would benefit by having had the contribution of the overtime pay of some people.

Mr. DULSKI. Do you have any thoughts of a limitation on pay for retirement purposes like they do in social security? You have the basic pay and you have the overtime. When a man reaches a certain amount of money, would it not be advisable to cut off retirement deductions on amounts in excess of such an amount?

Here is Uncle Sam, the leader in the labor movement, who says, "No, we are not going to use the full amount that you are earning. We are just taking the base pay." How can you account for that?

Mr. HAMPTON. We have not given any thought to setting any income limitations where someone would receive this benefit against someone who should not. I just do not know enough about the practices on retirement in the private sector as far as gross earnings are concerned.

Mr. DULSKI. My last question Is any hardship created when all of a sudden Congress passes a law and adds new groups to the retirement system? Would that add a great hardship to the funding?

Mr. HAMPTON. I think the most recent example was the National Guard technicians. We may have some figures.

Mr. RUDDOCK. The unfunded liability created by extending coverage to the National Guard technicians was estimated at \$275 million. That was for 40,000 National Guard technicians.

Mr. DULSKI. That is the reason I say it is very nice to vote for legislation that takes in agencies, but I think the Congress has to be alerted to the fact that every time we take in an agency or a group of people that were outside the civil service, I think there should be some provision for this. I don't know which way we could act on it, but I think that bringing more people into the fund creates a greater funding problem. Is that not so?

Mr. RUDDOCK. Yes, sir. If H.R. 770 had been in effect before the law bringing the National Guard technicians in, this \$275 million unfunded liability would have been amortized in equal installments over a 30-year period. Under present law, there is no provision for amortizing that liability.

Mr. DULSKI. So it places a hardship on the fund?

Mr. RUDDOCK. Yes, sir.

Mr. BRASCO. With respect to the gross earnings, might it not be said that this would be an interesting piece of legislation in and of itself if this kind of computation—which the employees advocate—would make the employees happy and maybe Uncle Sam happy also? That sounds ideal to me. It seems to me that they may be a lot more intelligent than we possibly give them credit for. An employee may be losing, because the high 3 of this term of employment might not include the time he was getting overtime. However, this seems to be equitable, too, because the guy that doesn't get the overtime can always rely on the fact that, "Gee whiz, the guys getting the overtime are giving a little boost to our retirement fund. Even if they don't collect on it themselves, look how magnanimous they are." It sounds like a good piece of legislation to me.

Mr. DULSKI. Counsel just alerted me to something. It seems to me that the argument that "this is a financing bill and, therefore, should include no benefits" does not hold water.

There is ample precedent to the contrary. Perhaps the best precedent is the 1956 Retirement Act.

That act established, for the first time, the employee-Government "matching contribution" policy—at 6½ percent. It also materially improved employee benefits.

Certainly, the combination of financing and benefits in that act has worked in the interests of both the Government and its employees.

So when you speak of the financing bill, I think the 1956 Retirement Act has shown that there is interest of both the Government and the employees.

Mr. RUDDOCK. Clearly the amendment to which you refer is the biggest single improvement in financing that has occurred in 49 years.

Mr. DULSKI. Mr. Hampton, I fully realize the budgetary considerations underlying the Commission's testimony. But, to get down to real practicalities, is not the small package of benefits a fair price to pay for the very great financial improvements in this bill?

The House is now in session so I will conclude with that statement.

Mr. DANIELS. Are there any further questions, gentlemen?

Chairman Hampton, if you had not mentioned the fact that this was your first public appearance as Chairman before a congressional committee, no one would have known it. I want to compliment you on your testimony here this morning. You handled yourself like a real expert.

Mr. HAMPTON. Thank you very much.

Mr. DANIELS. I wish to commend Mr. Ruddock who, as usual, has done a very fine and outstanding job.

Speaking on behalf of the full committee, I want to thank both of you gentlemen for coming here and giving us your views on this very important legislation.

Mr. SCOTT. Mr. Chairman, may I quarrel with the chairman's statement that you handled yourself like a real expert, and say that you are a real expert.

Mr. DANIELS. Let the record be corrected, please.

This concludes the hearing on this bill, H.R. 770. The subcommittee will meet in executive session as quickly as I can call a meeting which meets with the convenience of all of the members.

Thank you very much.

(Whereupon, at 12:05 p.m., the subcommittee was adjourned.)

(As previously ordered by the chairman, Mr. Daniels, the following statements are now made a part of the record.)

STATEMENT OF SPARK M. MATSUNAGA, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF HAWAII

Mr. Chairman and members of the subcommittee, I thank you for this opportunity to testify briefly in support of H.R. 770, a bill which would strengthen the financial condition of the civil service retirement system.

H.R. 5831, a bill that I introduced, is identical with H.R. 770, which was introduced by the distinguished chairman and several members of this subcommittee.

As a former member of this subcommittee, I am keenly aware of the fact that the financing of the civil service retirement system has been a continuing problem for many years. For too long a period, the reports of the actuary have been pessimistic. In 1958, for example, the unfunded liability of the program was about \$18.1 billion, and over the ensuing years it has risen so that by next July it is expected to be about \$56.8 billion. The dire prediction has therefore been made that if no changes are made in the law, the civil service retirement trust fund will have a zero balance in about 18 years. It was in this climate that this Subcommittee considered and reported out the predecessor bill, H.R. 17682.

On October 1, 1968, the House passed H.R. 17682. That bill was the result of careful and extended study by this subcommittee in conjunction with the Civil Service Commission, the Bureau of the Budget, and the General Accounting Office. I regret that the other body did not have an opportunity to consider the bill. It was identical to H.R. 770 and presented a rational approach to financing the civil service retirement program. In addition, it would have made several worthwhile improvements in the benefits provided.

If the Senate had had an adequate amount of time to consider H.R. 17682 last year, I am convinced that the measure would have received its favorable consideration. Therefore, I urge that your subcommittee take speedy action on H.R. 770 in order that the Senate will have adequate time to act on the measure in

this session. There is every reason to believe that the legislation will again receive the support of your full committee and of the House.

The financial reforms that the bill would make are urgently needed. In the current fiscal year the unfunded liabilities of the program will rise by about \$1.9 billion due to the interest that accrues. If enactment is put off for another year, there will be a similar increase in fiscal year 1971. Now is the time to put a stop to this growth.

Mr. Chairman and members of the subcommittee, last year when the identical legislation was being considered, the previous administration opposed the benefit improvement features of the bill. In the current budget-conscious year, there is some basis to believe that the present administration may adopt a like view. Indeed, several of our colleagues have already introduced legislation which would preserve the financing features of H.R. 770 while dropping the benefit improvements. I strongly urge that the subcommittee report out H.R. 770 without any weakening amendments.

The benefit improvements, encompassing such things as the inclusion of all remuneration for services in the benefit computation, the reduction in the average pay computation period from 5 to 3 years, the credit for unused sick leave, the 1-percent increase in the cost-of-living adjustment, and the reinstatement of a remarried widow's annuity without regard to the time her husband died or retired, are all needed modernizations that go along with our effort to strengthen the financing provisions.

Mr. Chairman and members of the subcommittee, I believe that there is no need for my discussing these points to any great length. The need is present and clear. The action of your subcommittee and of the full committee last year on H.R. 17682 set forth the problems and the solutions clearly. The House in the 90th Congress demonstrated its understanding of these problems and recognized the worth of the proposed solutions. I am sure that the House in the 91st Congress will again follow the same course with respect to this legislation.

I urge your early favorable action on H.R. 770.

Thank you.

STATEMENT OF HON. HOWARD W. POLLOCK, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF ALASKA

Mr. Chairman, I appreciate the opportunity to testify before this committee today in support of my bill H.R. 7903 which would grant periods of accumulated and unused sick leave as a credit to a civil service employee in determining his total service for computation of time for retirement. I have introduced this bill because it is important that we recognize and in some way show our appreciation for those truly dedicated civil service employees who give their fullest measurement of service to the United States.

Under the present law the employee who conscientiously works day in and day out and does not dissipate his sick leave throughout his career gets no credit for dedication and prodigious application to job responsibilities. Thus, it must be a tremendous temptation for an employee to use his sick leave indiscriminately because he feels that if he doesn't he will lose it and receive nothing for his many years of faithful and conscientious service. My bill will honor this creditable employee by granting retirement credit on a 1-day for 1-day basis for those days he doesn't use. This is an indirect dollar award, and yet it recognizes dedicated service.

An employee who works for the Government for 30 years and doesn't take 1 day of sick leave will not have accumulated a full year of sick leave time, but he will have accumulated enough time so that this bill will have a meaningful impact on his retirement.

I urge this committee to issue favorable report on H.R. 7903 and in this way recognize those unheralded persons who dedicate a productive lifetime of Government service and without whom the Government of the United States would operate even less efficiently.

STATEMENT OF HERBERT F. ALFREY, PRESIDENT, NATIONAL RURAL LETTER CARRIERS'
ASSOCIATION

Mr. Chairman and members of the subcommittee, my name is Herbert F. Alfrey. I am president of the National Rural Letter Carriers' Association, an organization representing approximately 62,000 regular, retired, and substitute rural letter carriers.

We deeply appreciate your introduction of H.R. 770, which again in this Congress proposes a legislative recommendation for improving the funding of the civil service retirement system; also constructively attacks the problem of the rapidly rising unfunded liability of the civil service retirement system.

The retirement system is a most important fringe benefit for those persons who are employed by the U.S. Government. It is the source of income which will provide financial security in later years for those 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.

We are aware of the fact that the retirement fund is backed by the full resources of the U.S. Government; however, the rapidly growing unfunded liability is of such serious nature that an improved funding formula must be enacted in the immediate future to prevent a disastrous situation from occurring. The present unfunded liability of almost \$58 billion is growing at an alarming rate of more than \$3 billion per year. The actuarial studies of the fund indicate that the payments out of the fund will exceed income by 1975—a short 6 years in the future. An even more alarming statistical fact is that unless an improved funding formula is developed, the complete financial resources will be expended by 1987. Although there may be disagreement on the methods of correcting this situation, there is agreement that some corrective action must be taken at the earliest possible date.

This association has recognized the gravity of this problem. We appeared before this committee last year and endorsed H.R. 10912, which contained provisions for a new funding formula. It was unfortunate that this legislation was not enacted into law because each year of delay merely compounds the financial plight of our retirement fund. 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 the Government contribution from 6½ to 7 percent.

Private industry, however, has moved far ahead of the U.S. Government in the retirement field. Many retirement plans of private industry are completely funded by the employer. In the majority of retirement plans of private industry, which require a contribution from both the employee and the employer, the employer is contributing a greater share than the employee. If the U.S. Government is to accept the role of a model employer, there is ample justification for the funding formula to be changed. The fact that a matching contribution formula was enacted in 1957 does not in any way justify the continuing of such a matching formula when statistics clearly disclose that major employers in the private sector are moving ahead in this field.

Although the immediate demands of improving the financial status of the fund may, because of its emergency, prevent constructive action in revising the funding formula at this time, we do strongly urge the committee to consider a change which would assess a higher cost to the Government. Last year, we recommended a formula that would assess 25 percent of the cost to the employee and 75 percent of the cost to the Government. We still believe this formula is justified. Such a change would greatly enhance the position of the Federal Government in comparing retirement funding formulas between the Government and private industry.

The proposal in the legislation to prospectively meet the interest on the unfunded liability by gradually increasing appropriations into the fund certainly meets with our approval. This is an important step in the right direction.

We cannot, however, give our endorsement to that provision of H.R. 770 which would authorize the Civil Service Commission to determine when adjustments in the percentage of employee deductions is "necessary to meet fully the normal costs of the benefits then in effect." Although the legislation provides that the recommendation of the Commission would become effective within 90 days, unless either House of Congress acted to veto the proposed adjustment, we strongly feel that any adjustments in the contributions assessed to the employee should be made only after positive action by the Congress. We trust that the committee does not approve this section of the bill.

National conventions of this association have repeatedly passed resolutions seeking liberalizations of our retirement system. We appreciate the fact that H.R. 770 does contain certain important improvements. We wholeheartedly endorse the provisions of the bill which would base the annuity on a "high 3" rather than a "high 5" year average salary and grant retirement credit for unused sick leave in computing annuities.

We also strongly endorse provisions of the bill which would grant an additional 1 percent to each cost-of-living annuity increase and which would provide for the continuation of survivorship annuities in those cases where the spouse has attained age 60 or more and remarried after July 18, 1966. We feel that for complete equity this provision of the Retirement Act should be effected retroactively to provide this benefit to all eligible survivor annuitants. We do, however, support the amendment as provided in H.R. 770. This amendment would provide equity in this benefit area by permitting all surviving spouses who remarried on or after July 18, 1966, to qualify for this benefit. Under present law, it is available only to those widows whose husbands were in active service as of July 18, 1966, and who subsequently died in service and/or retired and died. As a step in the right direction we do endorse and recommend enactment of this amendment.

In addition, Mr. Chairman, we feel that many other liberalizations should be considered. Our national convention has mandated our support for certain other improvements as follows:

1. A new retirement formula based on 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. Exempt retirement annuities from Federal and State income tax.

Mr. Chairman, members of the committee, we realize that this is an ambitious legislative program. We feel, however, that the liberalizations noted, in addition to those already provided in the bill before you, embody the major improvements that are most greatly desired and for which employees are willing to pay. If the employee contribution is raised to 7 percent as proposed in H.R. 770 and if the formula were revised to assess a greater percentage cost to the Government, we believe these desirable improvements we are recommending could be adopted without adding to the unfunded liability. Certainly it would require actuarial study to determine the additional costs but we believe it worthy of serious deliberation and consideration. Speaking for the members of the National Rural Letter Carriers' Association, we recognize that greater benefits entail greater costs. We are willing to pay additional higher costs proposed in this bill to secure improvements in the Retirement Act.

Mr. Chairman, we urge prompt action to improve the funding formula and provide for the desirable liberalizations which are a part of the bill under consideration and, in addition, we trust the additional improvements we have recommended may be incorporated.

We appreciate this opportunity to present the recommendations of this association on this important legislation.

STATEMENT OF VINCENT E. JAY, LEGISLATIVE DIRECTOR, THE FEDERAL PROFESSIONAL ASSOCIATION

Mr. Chairman and members of the subcommittee, the Federal Professional Association appreciates the opportunity to submit a statement in support of H.R. 770, a bill of several amendments designed to improve the civil service retirement system.

This association, founded in 1962, is the only Government-wide organization devoted exclusively to the problems and welfare of federally employed executives, scientists, and other professionals in all disciplines and in all departments and agencies.

The mission of this association reflects the continuously widening and deepening responsibilities of professionals in the Federal service, as well as the widening work relationships with their professional colleagues in the State and municipal governments throughout the Nation. There is a continuing shortage of top competence in the Federal career service, because such talent has more attractive options open to it elsewhere. We must make our retirement system equally attractive.

This growing importance of Federal professionals is not only because more such employees will be required, but also because the Federal service has a continuous need for a fair share of the highest competence available among all the Nation's most capable professionals. This fair share must be sufficient at all times to man the responsibilities of the Federal Government both at home and abroad. Hence, because of this continuing Government need for such talent, adequate re-

retirement provisions for this critically important sector of the Federal service is a prime objective of this association.

This association views with approval the amendments provided in H.R. 770 as a matter of public policy. The assurance that the civil service retirement system is financially sound and adequate to the needs of professionals is of special importance to this association.

Though this association urges the immediate enactment of H.R. 770, we desire to be on record advocating the periodic need for a thorough reexamination of retirement legislation now in the statutes to determine its relevance to current times and trends.

Generally, for professional employees, this reexamination should include these considerations:

1. To insure that persons serving in responsible managerial and professional positions will, on retirement, be awarded annuities commensurate with the character of services rendered prior to retirement, and the length of such service, and commensurate with retirement benefits provided by private enterprise.

2. To bring about adjustments in the annuities of persons previously retired from responsible managerial and professional positions, to bring them up to levels commensurate with the character of services rendered by them prior to retirement, and the length of such service, and with increased costs of living.

3. To assure for surviving spouses of deceased employees and retirees, including those now on the annuity rolls and those who will become eligible for annuities in the future, a level of retirement income to enable them to live at as dignified a standard as was established during the period of active service.

Specifically, we favor and urge early consideration of—

1. Retirement eligibility with 25 years of service at age 50.
2. Full credit for State service paid out of Federal funds with the employee's share paid by the employee.

STATEMENT OF JOHN A. MCCART, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO

Mr. Chairman and members of the subcommittee, we are happy, indeed, that you and your colleagues on the subcommittee have indicated your interest in improving the civil service retirement program by arranging the present series of hearings on H.R. 770.

The Government Employees' Council, and its 35 affiliated AFL-CIO unions, desire to express their general support of the pending legislation. As you know, unions associated with the council represent more than 1 million classified, postal, and wage board employees in Federal service.

The fact that more than 50 bills dealing with retirement have been referred to the subcommittee demonstrates the intense interest of Members of the House in this subject.

Attached to this statement is an excerpt from the Government Employees' Council program for 1969. The subcommittee may consider some of the objectives long range, while others can be accomplished immediately.

In summary, H.R. 770 makes these basic changes in the retirement program:

Normal cost of operating the retirement system would be financed by increasing employee and agency contributions from $6\frac{1}{2}$ to 7 percent each.

The present unfunded liability would be met by having the Treasury transfer to the retirement fund amounts obtained through direct appropriations equal to interest on the existing unfunded liability. Basically, it would be accomplished in 10-percent increments until 1980, after which the full equivalent of interest would be paid.

Future unfunded liabilities arising from salary and wage increases and addition of new groups to the retirement system would be financed by the Government amortizing such liabilities in 30-year periods.

In addition, the Government would defray the cost of increases to annuitants in the future by direct annual appropriations.

Revision of the present "high 5" average for computing pensions to a "high 3" formula.

Retirement credit for accumulated sick leave.

Retirement deductions on overtime and premium pay.

Authority for the Civil Service Commission to raise employee and agency contributions in the future under certain conditions.

Addition of 1 percent over the present cost-of-living formula in determining future percentage adjustments for retired Federal workers.

Equality of treatment for spouses of annuitants who retired or died before July 18, 1966, who remarry.

Payment by the Defense Department to the retirement fund of costs attributable to crediting periods of military service.

If you will turn now to the attached retirement program of the Government Employees' Council for 1969, you will find H.R. 770 meets four of our objectives—items (c), (f), (h), and (k). Thus, the pending bill represents a significant stride toward modernizing the civil service retirement system.

Closer examination of item (c) reveals, however, a difference between our recommendation and one provision of H.R. 770. I refer to the authority vested in the Civil Service Commission by the bill to increase the percentage rates of contribution by employees and agencies.

We believe it would be a serious error in judgment for Congress to relinquish the prerogative it has exercised since the inception of the system in 1920 to determine the rate of contributions.

There is ample precedent for this control by the Legislature. In both the social security and railroad retirement plans, amounts to be deposited in these funds by both employers and employees are prescribed by statute.

Periodic examination by the House and Senate Post Office and Civil Service Committees of the contribution structure is one way of maintaining an up-to-date review of the financial status of the civil service pension program.

One other matter causes us some concern. Item (g) in the council program advocates a revision in the present formula for computing annuities to 2 percent. To maintain the relationship between those employed in hazardous occupations and regular Federal workers, the formula for those assigned to hazardous work on a continuing basis should be changed to 2½ percent. H.R. 770 does not provide these benefits.

Even though the pending bill proposes that annuities be based on the highest 3-year average salary, rather than the present 5-year average, the results will not produce a decent standard of living during retirement. Cost-of-living increases at long intervals for retirees under the bill the committee is considering will keep annuitants barely abreast of the sharply rising cost of essentials. Thus, it is necessary to adjust the computation formula to insure those who retire in the future an income approaching the Nation's rising pattern of living.

With these two changes in H.R. 770, the council believes the measure can be evaluated as a major updating of the civil service retirement program.

Mr. Chairman and members of the subcommittee, we appreciate very sincerely the opportunity to explain our reactions to your effort to improve the retirement program. The GEC urges early action on the pending legislation.

GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO PROGRAM, 1969

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. The contribution rates of employees and agencies must continue to be fixed by Congress, rather than authorizing the Civil Service Commission to make such determinations. One method of remedying the imbalance would require the Federal Government to augment the fund by 2 percent of payroll for each additional 1 percent required of 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 employees pension. Eliminate the reduction in an employees 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 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.

(k) The Department of Defense should contribute to the retirement fund amounts covering military service of those who become civilian Federal employees.

STATEMENT OF HOWARD MCLENNAN, PRESIDENT, INTERNATIONAL ASSOCIATION OF FIREFIGHTERS

The International Association of Fire Fighters, AFL-CIO, also an affiliate of Government Employees' Council, strongly supports in the main the provision of H.R. 770.

While our 132,000 membership is made up of mostly municipal firefighters, we do have an appreciable number of the 12,000 civilian Federal firefighters in our ranks. We speak of them as the forgotten few employees in the Federal Government, and while it is true they have received major beneficial legislation, they lag far behind in hours and pay when compared with professional firefighters employed outside of the Federal Government.

We feel that the Federal firefighters support the major purpose of the bill, to improve the funding of the civil service retirement system, provided that beneficial provisions contained are safeguarded.

The firefighters strongly support and need the beneficial provision which provides that the average salary computation period for retirement be the high-3 instead of the present high-5. Advancement in Federal fire service is very slow, the chances for promotions are limited and often those that are attained come in the later years of service.

Due to the onerous duties of a firefighter, he is often forced to retire at an earlier time in service; therefore, this provision would slightly increase his annuity.

The other beneficial provision contained in H.R. 770 that we strongly support is retirement service credit for the calendar value of unused sick leave.

The records will show that although firefighting is one of the most hazardous occupations, sick leave of firefighters remains not in excess of those in less hazardous jobs.

The very nature of a 24-hour-day protective service seems to have the effect that the firefighter must show up on schedule and on time, if at all able, for in most cases he makes up a minimum of the manpower required to operate the firetrucks. Therefore, our firefighters not only favor this provision but they strongly feel that it is a very deserving benefit.

The beneficial provision in the bill for the inclusion of compensation for overtime, differential, premium pay, etc., for retirement computation purposes is already being enjoyed by the Federal firefighter due to legislative action by a previous session of the Congress; we therefore feel that this is justifiable.

As stated earlier, we strongly support the provisions of H.R. 770 in the main; however, we just as strongly oppose any present or amended provision which would shift from the Congress to the Civil Service Commission the power to make future adjustments—subject to congressional veto—in the deduction rates.

In conclusion we recommend that the Post Office and Civil Service Subcommittee on Retirement give due and careful consideration toward the Government's taking over a larger share of the cost of retirement, thereby following the trend of industry and private concerns in fully funding their retirement plans.

We respectfully urge that you consider and pass favorably on H.R. 770.

STATEMENT OF KENNETH T. LYONS, NATIONAL PRESIDENT, NATIONAL ASSOCIATION
OF GOVERNMENT EMPLOYEES

The National Association of Government Employees, which represents some 150,000 employees of the Federal Government, appreciates this opportunity to submit its views with regard to the provisions of H.R. 770. We have long held the opinion that retirement constitutes one of the most important benefits available to the Government to serve as an attraction to prospective workers and to retain the caliber of dedicated and competent employees that public service demands.

Unfortunately, the Government, far from capitalizing on this potential, has permitted its retirement system to stagnate in terms of comparability with practices in the private sector and of its own commitment to support the system on a responsible basis. We will not belabor this point; it is well known to every party familiar with the retirement fund's deficit, and the reasons for that deficit.

As stated by the report of the Cabinet Committee on Federal Staff Retirement Systems, "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 compounded interest loss."

Because of this acknowledged inaction on the part of the Government to maintain a balanced fund, we are faced today with a deficit of some \$53 billion, and the prospect that by 1990 the Fund will be completely broke. As this subcommittee's keen attention to this problem attests, the Civil Service Retirement Fund is not the bank at Monte Carlo, and it is to the benefit of all parties—the employees, the Government and the taxpayers—to see that it remains solvent.

The responsibility for maintaining this solvency, Mr. Chairman, rests solely and exclusively upon the Government. The employees have done their share; now it is time for their employer to live up to his commitment and take whatever steps are necessary to achieve a balanced fund. In short, we are unalterably opposed to any increase in the employee's percentage of contribution to the Fund. To the contrary, we believe a decrease in the employee's contribution is fully justified and long overdue.

The improved benefits called for in H.R. 770 also are overdue, and likely could have been realized at some earlier time had the deficit—and the expense of arresting it—not occupied so much attention. The NAGE reiterates its support of these improvements: Computation of annuities on the basis of an employee's highest "three consecutive years" of earnings, as opposed to the present "high-five" formula; basing of the "high-three" figure on gross earnings, including premium and differential payments; and credit for unused sick leave toward length of service for retirement purposes.

Additionally, we propose that Federal employees be permitted to retire on full annuities after 30 years of service, regardless of age.

In terms of financing these enlarged benefits, we recommend—as earlier indicated—that the Government assume a larger share of the total contribution to the retirement fund. We believe that the employee's share should be set at 33⅓ percent of total contribution, with the Government contributing 66⅔ percent. Thus, if it is determined that a total contribution of 15 percent of payroll is required to finance earned benefits, the employee should provide 5 percent, the Government 10 percent.

Such a formula should be considered as only a partial advance toward the ultimate goal of the Government assuming fully the cost of retirement benefits.

Finally, we wish to voice our strong objection to that feature of H.R. 770 which would empower the Civil Service Commission to adjust contribution percentages as "necessary to meet fully the normal costs of the benefits then in effect." We cannot in good faith endorse any proposal that would represent a further incursion by the executive branch upon the prerogatives of the Congress.

Thank you, Mr. Chairman, for this opportunity to comment upon this very important subject.

STATEMENT OF LESTER MOODY, SECRETARY-TREASURER, NATIONAL ASSOCIATION OF
POST OFFICE MAIL HANDLERS, WATCHMEN, MESSENGERS, AND GROUP LEADERS

Mr. Chairman and members of the committee, our national association is represented by its resident officers: Lester Moody, secretary-treasurer; Jesse Brownlee and Andrew W. Carniato, administrative aides, and William Day.

We wish to thank you and your subcommittee for your efforts in behalf of retired and future retiring postal and other governmental employees.

Our organization wholeheartedly supports H.R. 770, with the exception of delegating to the Civil Service Commission the authority of the rates of contribution by employees to the retirement fund without congressional authority or approval.

We wish to express our thanks to you for this opportunity.

STATEMENT OF RAYMOND VANDERHORST, PRESIDENT, NATIONAL ASSOCIATION OF
ASCS COUNTY OFFICE EMPLOYEES

Mr. Chairman and members of the subcommittee, the National Association of Agricultural Stabilization and Conservation Service Employees, better known as NASCOE, appreciates the opportunity to present this statement relative to H.R. 770 and related bills.

NASCOE is a voluntary organization of county office employees who carry out various Federal farm programs, assigned to them at the county level by the Congress and the Secretary of Agriculture. The headquarters for ASCS is in the U.S. Department of Agriculture Building, Washington, D.C. There are also State and county ASCS offices who administer only Federal programs.

While county ASCS employees technically are employed by the county ASC committees, the Congress in its wisdom, put us under the Civil Service Retirement Act, the Federal Employees Group Life Insurance Act, and the Federal Employees Health Benefits Act, effective July 10, 1960. For this we are eternally grateful.

NASCOE believes this bill H.R. 770 represents a significant step forward in modernizing the civil service retirement system.

In endorsing this bill, we support all the major provisions of title I including increasing employee and agency matching contributions from 6½ percent to 7 percent effective in January 1970. We would however like to see the authority vested in the bill, authorizing the Civil Service Commission to adjust the rate as necessary to meet the normal cost of benefits, changed so that this prerogative would remain with the Congress as it has since the inception of the system.

We also support all the major provisions of title II with special emphasis on modification of the average salary computation period from a high 5-year to a high 3-year period for annuity purposes. In addition to this, the granting of retirement service credit for the calendar value of unused sick leave is fully supported.

Mr. Chairman and members of the subcommittee, again let me say that we appreciate the opportunity to present this testimony and wish to commend you for your efforts to improve and strengthen the civil service retirement system.

STATEMENT OF ASHBY G. SMITH, PRESIDENT, NATIONAL ALLIANCE OF POSTAL AND
FEDERAL EMPLOYEES

Mr. Chairman and members of the subcommittee, I am Ashby G. Smith, president of the National Alliance of Postal and Federal Employees. We are located at 1644 11th Street, NW., Washington, D.C. We are an industrial union representing Federal employees in many Federal agencies with the bulk of our membership in the postal service. We welcome this opportunity to present our views on the important matters with which this committee has concerned itself.

It is tragic when thousands of citizens who spent their working years serving their Government are now consigned to an annuity that falls short of the figure set as poverty level for the Nation. It is unthinkable that the continuation of even

this pittance should be uncertain because of the financial instability of the retirement fund and it is quasi-criminal that this instability should exist because of the failure of the Federal Government to meet its obligations to the fund.

Therefore, we are grateful to the Chairman of this subcommittee and to the Congressmen who have joined him in sponsoring H.R. 770 which addresses itself to this situation.

It is the position of this union that, while we recognize that increased benefits under the retirement system must entail increased contributions to the retirement fund, we object to the employees who have always paid their assessed share into the fund, being assessed an additional one-half of 1 percent until such time as the Government has made a more substantial contribution on their back assessments. When this has occurred it should be possible to make a more accurate determination as to what would be a more equitable division of their input.

We support the reduction from 5 to 3 in the years on which the employees earnings should be computed as a basis for annuities. Total earnings during that period should form the basis.

As a step toward abolishing entirely the deduction from the annuity of a retiree who elects to provide an annuity for spouse, we recommend that if the spouse predeceases the annuitant, the full value of the annuity should be made available to the retiree.

We support the proposition that the remarriage of widow or widower, receiving annuity from the fund, should retain such annuity even after remarriage. We approve section 206 but, recommend that the time limitation contained therein be removed. The argument which Thomas Walters of NARCE presented to this committee on this point unanswerable.

It is the Alliance's view that any changes in the rates of contributions which the employees should make to the retirement fund should be the *sole* province of Congress, with the Civil Service Commission restricted to the role of providing Congress with the information it requests.

Section 205 is certainly necessary to cushion the impact of an inflationary economy on an already overburdened retiree. We suggest an addition of a provision that would give annuitants a comparable increase in their annuity whenever postal and Federal salaries are increased.

There is much in H.R. 707 that will provide relief from the horrors of the situation that we decried at the beginning of this statement. With the revisions which we have suggested, this bill could mark a significant start toward a retirement system that could attract and retain employees in the Federal service and could render humane justice to those whose years of Federal employment has come to an end.

Crediting unused sick leave to retirement should, in our opinion, provide an incentive for the prudent use of this leave by employees.

After considering the position of the Civil Service Commission on this bill, I can confidently assert that the Federal employees are in no mood to increase contribution to the retirement fund, if increased benefits are withheld from them.

751 SOUTH FLORIDA STREET,
ARLINGTON, VA., March 27, 1969.

Hon. DOMINICK V. DANIELS,
*Chairman, Subcommittee on Retirement, Insurance, and Health Benefits, House
Post Office and Civil Service Committee, Washington, D.C.*

DEAR CHAIRMAN DANIELS: The Chairman of the Civil Service Commission, Robert E. Hampton, and the Director of its Bureau of Retirement, Insurance, and Occupational Health, Andrew E. Ruddock, appeared before you on March 20 to present their views on H.R. 770. If I understood them correctly, they support title I, with the exception of one provision, and oppose title II of this bill. Title I proposes "to strengthen the financial condition" of the Civil Service Retirement System. Title II provides for certain "new or liberalized benefits."

Some members of your committee objected to the proposed consideration of these two titles in separate packages. I found support for them in the 45th Annual Report of the Board of Actuaries of the Civil Service Retirement System, dated 1967, but referring to the fiscal year ended June 30, 1965. This is the

latest actuarial report on the Civil Service Retirement System. Referring to certain benefits which are separated for budget purposes because they form a separate system of appropriations, the report notes: "However, treating the system as a single unit is sound for general actuarial purposes. * * *" (Page 2.)

One of your members raised the question of "actuarial soundness." Presumably this means the same as "financial soundness." Your summary says: "The major purpose of this legislation is to improve the financing and funding practices of the Civil Service Retirement System, so as to maintain confidence in the soundness of the retirement fund and to assure that the necessary money is available when needed to pay the annuities of Government's retirees and survivor annuitants in full and on time." To this date, the necessary money has been available when needed to pay the annuities of Government's retirees and survivor annuitants. It is difficult to see how any provision of this bill will make this money more available than it is now and will be for the indefinite future even if this bill is not enacted. Mr. Hampton stated that "Government has never yet failed to provide those funds soon enough to permit us to pay benefits as soon as they are due. Delay in paying is an extremely serious matter to thousands of these elderly people." When asked to give an example of such failure in the past he mentioned a comparatively insignificant example and failed to show that the delay had anything whatever to do with "funding and financing practices."

A more serious matter to thousands of these elderly people for whom Mr. Hampton expressed solicitude than the abstruse and extremely debatable "actuarial" question is the level and character of benefits. They already have "full confidence" that their Government will not renege in covering full costs of future changes." Mr. Hampton says he wants to "restore" this confidence. He implies that the actually prevailing confidence that the U.S. Government will keep its promises to creditors who are former employees is not "actuarially sound." In other areas of Government debt such low credit rating is not justified. He also implies that learned gentlemen talking actuarial language which nobody troubles to translate into everyday English should have the final say in what we can or cannot afford to do.

The only book I have been able to find which tells what "actuarial soundness" means happens to have been written by a member of the Board of Actuaries of the Civil Service Retirement System. According to Prof. Dorrance C. Bronson's "Concepts of Actuarial Soundness in Pension Plans" (1957), there is no agreement that the term, "actuarial soundness" (or related terms) means. (See ch. 2, "Concepts of Actuarial Soundness—Various Viewpoints."). We know that it has to do with the conditions of funds or reserves. But Congresswoman Martha Griffiths, Chairman of the Subcommittee on Fiscal Policy of the Joint Economic Committee stated: "I do not think there is a rule which states how you are to determine funding. We have been struggling to find out what funding is and if there were a Federal definition. There is not a funding rule that enables you to determine what is funding and what is not funding * * *." (Hearings before the Subcommittee on Fiscal Policy of the Joint Economic Committee, 89th Cong. second session, May 1966, pt. II, p. 427 "Private Pension Plans"). Social Security Commissioner Robert M. Ball testified that "What constitutes an 'actuarially sound' funding plan * * * is a matter of debate." (P. 385) Mr. Robert J. Myers, chief actuary of the Social Security Administration, stated: "There are all sorts of elements of uncertainty in any type of funding, just as there are in any type of actuarial cost estimates * * *." (P. 391.)

The statement that benefit liberalizations are "secondary in importance to the paramount issue of assuring that the retirement system be financed on a sound basis" fails to take into account the hypothetical character of actuarial estimates, which are at best just educated guesses about a future which no one can predict. The charts left with your committee by the Civil Service Commission, and the accompanying slogans in Madison Avenue style, with the title "Retirement Funding and Financing," state as virtual certainties what are in fact extremely uncertain. In addition, the charts (of which the last four are completely devoid of information, other than the difference between "in" and "out," and "up" and "down") are not dated. One would not suspect from looking at them that the last actuarial report by the Board of Actuaries of the Civil Service Retirement System, referred to the fiscal year ending June 30, 1965. The terms "normal cost," "unfunded liability," and other terms are left undefined, and to get at their meaning one must go back to actuarial reports which, as far as I know, were not included in testimony before your committee. It was

necessary for me to call up the chief actuary himself in order to learn that the term "unfunded liability" appearing on pages 4 and 5 of "Retirement Funding and Financing" is supposed to mean the same as the term "deficiency" on page 10 of the 45th Annual Report of the Board of Actuaries of the Civil Service Retirement System. This means that what appears as "fund balance" in the former is actually the same as what appears as the sum of "funds in hand," "future contributions by employees" and "future normal contributions by Government" in the latter. I could be wrong in this interpretation since I was given this information only orally.

The above criticism does not mean that we necessarily should grant all proposed benefit liberalizations. Clearly there is a need for economy and a system of priorities. But economic feasibility, rather than actuarial soundness, should be our guide. We must think more in terms of what happens to people than in terms of what happens to funds. My original interest in this question arose from an assignment I had while employed in the Social Security Administration as a result of which I had a letter printed in the record of the hearings of the Senate Finance Committee (on H.R. 6675, "Social Security," 89th Cong., first session, May 1965, p. 1123ff) which Senator Russel B. Long wrote me gave him "some of the inspiration" the say in the Senate, just before medicare was passed, that it could "be better judged by an economist than an actuary, better by a social worker than an accountant * * * (Congressional Record, July 9, 1965, p. 15582 and letter to me from Senator Long, dated July 16, 1965.)

My letter to you of July 15, 1968 (hearings before your subcommittee on H.R. 6351, "Health Benefits Program," 90th Cong. second session, p. 72-4) drew attention to the absence of sensitivity in the Civil Service Commission to the need for economic analysis. They listen to insurance people and actuaries exclusively, and to economists they give the cold shoulder. For example they have just announced the result of a "discouraging report made to the Civil Service Commission by a private actuarial consultant firm that it hired to investigate the premiums charged Government workers * * *". They announced that "there is no end in sight for the sharp increases in premiums levied on Government employees virtually every year for their health insurance coverage."

The Civil Service Commission contributes to the inflationary psychology against which the President and his Council of Economic Advisers have warned. As reported in "The Federal Spotlight" by Joseph Young in the Washington Star of March 4, 1969, they say: "The only relief that Government employees can look to is for Congress to raise the Government's contributions to the premiums' costs." But the Civil Service Commission has not yet begun what I called for in my letter to you last year; namely, thinking about better economy in the spending of funds and economic resources in this area.

I bring this matter up now in connection with consideration of H.R. 770 because it points to an urgent area of neglect while there is excessive concern for a future which may never come. In the Brookings Institution study "Social Security: Perspectives for Reform," by J. A. Pechman, M. J. Aaron, and M. K. Taussig (1968), the neglect of economic and social considerations because of excessive respect for "the insurance analogy," or what I have referred to as the "actuarial" approach, is discussed. They are talking of the social security trust funds, but the same applies to the civil service retirement fund. They say: "The financial soundness of the social security program depends only on the Government's effective power of taxation. The Government's ability to collect taxes sufficient to provide social security benefits in the future depends critically on the maintenance of a sound Federal system in a healthy, growing economy. The faster the rate of economic growth, other things equal, the lighter the burden of taxation that will be required to finance any given absolute level of future social security benefits." (Pp. 72-3.)

I recommend to the members of your subcommittee a study of chapter 4, "The Objectives of Social Security" of this book. Some of the points made apply as much to the financing of civil service benefits as to that of social security benefits. I also ask that this letter be put into the record of your hearings on H.R. 770, "Retirement Financing" in order to contribute to public discussion of this and related questions.

Yours sincerely,

SIDNEY KORETZ.