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RAILROAD RETIREMENT 15 PERCENT

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BENEFIT INCREASE

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HEARINGS BEFORE THE SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

ON

H.R. 15733

A BILL TO AMEND THE RAILROAD RETIREMENT ACT OF
1937 TO PROVIDE A 15 PER CENTUM INCREASE IN ANNU-
ITIES AND TO CHANGE THE METHOD OF COMPUTING
INTEREST ON INVESTMENTS OF THE RAILROAD RETIRE-
MENT ACCOUNTS

(AND SIMILAR BILLS)

FEBRUARY 24 AND 25, 1970

Serial No. 91-41

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RAILROAD RETIREMENT 15 PERCENT BENEFIT INCREASE

TUESDAY, FEBRUARY 24, 1970

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

The subcommittee met at 10 a.m., pursuant to notice, in room 2123, Rayburn House Office Building, Hon. Samuel N. Friedel (chairman of the subcommittee) presiding.

Mr. FRIEDEL. The subcommittee will please be in order.

The hearings today are on H.R. 15733¹ and other similar bills to amend the Railroad Retirement Act by providing in general for a 15-percent increase in railroad retirement benefits, concurrently with an increase in the overall interest rate paid on special obligations by the Railroad Retirement Board.

This bill is agreed on by all standard railway labor organizations and representatives of the carriers, and provides in general that all beneficiaries of the railroad retirement system will receive a 15-percent increase, subject to a minimum of \$10 in the case of annuitants and \$5 in the case of survivors; and a maximum of \$50 monthly in the case of annuitants, and \$25 in the case of survivors.

At this point in the record there will be included the text of the bills and the departmental reports thereon.

(H.R. 15733 (Staggers, West Virginia), H.R. 15772 (Biaggi, New York), H.R. 15784 (McKneally, New York), H.R. 15808 (Beall, Maryland), H.R. 15826 (Mikva, Illinois), H.R. 15855 (Kyros, Maine), H.R. 15858 (Podell, New York), H.R. 15867 (Addabbo, New York), H.R. 15869 (Annunzio, Illinois), H.R. 15881 (Eilberg and Coughlin, Pennsylvania), H.R. 15893 (Price, Illinois), H.R. 15901 (Yatron, Pennsylvania), H.R. 15941 (Dulski, New York), H.R. 15944 (Fulton, Tennessee), H.R. 15990 (Fallon, Maryland), H.R. 15991 (Flood, Pennsylvania), H.R. 15996 (Murphy, Illinois), H.R. 15997 (Olsen, Montana), H.R. 16003 (Button, New York), H.R. 16006 (Farbstein, New York), H.R. 16008 (Garmatz, Maryland), H.R. 16016 (Murphy, New York), H.R. 16066 (Burke, Massachusetts), H.R. 16073 (Derwinski, Illinois), H.R. 16075 (Hastings, New York), H.R. 16076 (Hathaway, Maine), H.R. 16081 (Kee, West Virginia), H.R. 16090 (Sikes, Florida), and H.R. 16102 (Melcher, Montana) are all similar to the following text:)

[H.R. 15733, 91st Cong., 2d sess., introduced by Mr. Staggers on February 5, 1970]

A BILL To amend the Railroad Retirement Act of 1937 to provide a 15 per centum increase in annuities and to change the method of computing interest on investments of the railroad retirement accounts

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3(a) of the Railroad Retirement Act of 1937 is amended by inserting at the end thereof the following paragraph:

"(3) The annuity computed under paragraphs (1) and (2) of this subsection and that part of subsection (e) of this section which precedes the first proviso

¹ H.R. 15312, introduced by Mr. Staggers on December 17, 1969, was subsequently superseded by H.R. 15733.

shall be increased by 15 per centum but not by more than \$50. If the individual entitled to such annuity is also entitled to a benefit for the same month under title II of the Social Security Act, there shall be offset against the increase herein provided for any amount by which such individual's social security benefit was increased by the Social Security Amendments of 1969, but in no case shall such offset operate to reduce the increase below \$10."

SEC. 2. (a) Section 2(e) of the Railroad Retirement Act of 1937 is amended by inserting "without regard to section 3(a)(3) of this Act" after "of such individual's annuity" and by inserting "as in effect before 1970" after "or pension" and by inserting at the end thereof the following paragraph:

"The spouse's annuity computed under other provisions of this section shall be increased by 15 per centum but not by more than \$25. If the individual entitled to such annuity is also entitled to a benefit for the same month under title II of the Social Security Act, there shall be offset against the increase herein provided for any amount by which such individual's social security benefit was increased by the Social Security Amendments of 1969, but in no case shall such offset operate to reduce the increase below \$5. The two preceding sentences shall not operate to increase the annuity to an amount in excess of the maximum amount of a spouse's annuity as provided in the first sentence of this subsection."

(b) Section 2(i) of the Railroad Retirement Act of 1937 is amended by inserting "without regard to the last paragraph of such subsection (e)" after "subsections (e) and (h) of this section".

SEC. 3. Section 5 of the Railroad Retirement Act of 1937 is amended by inserting at the end thereof the following subsection:

"(n) The annuity computed under other provisions of this section shall be increased by 15 per centum but not by more than \$25. If the individual entitled to such annuity is also entitled to a benefit for the same month under title II of the Social Security Act, there shall be offset against the increase herein provided for any amount by which such individual's social security benefit was increased by the Social Security Amendments of 1969, but in no case shall such offset operate to reduce the increase below \$5."

SEC. 4. (a) The provisions of this Act shall be effective with respect to annuities accruing for months after December 1969 and with respect to pensions due in calendar months after January 1970. For the purposes of this Act, (i) any increase in an individual's social security benefit based on recomputations other than for the correction of errors after the first adjustment, or derived from legislation enacted after the Social Security Amendments of 1969, shall be disregarded, and (ii) the increases, offsets and reductions provided for herein, shall apply before any reduction in an annuity on account of age.

(b) All pensions under section 6 of the Railroad Retirement Act of 1937, and all annuities under the Railroad Retirement Act of 1935, shall be increased by 15 per centum. Joint and survivor annuities shall be computed under section 3(a) of the Railroad Retirement Act and reduced by the percentage determined in accordance with the election of such annuity. All survivor annuities deriving from joint and survivor annuities under the Railroad Retirement Act of 1937 in cases where the employee died before the month following the month in which the increases in annuities provided by section 1 of this Act are effective shall be increased by the same amount they would have been increased by this Act if the employee from whose joint and survivor annuity the survivor annuity is derived had been alive during all of the month in which the increases in annuities provided by section 1 of this Act are effective. All widows' and widowers' insurance annuities which began to accrue before the month following the month in which increases in annuities provided by section 1 of this Act are effective and which, in accordance with the proviso in section 5(a) or section 5(b) of the Railroad Retirement Act of 1937, are payable in the amount of the spouse's annuity to which the widow or widower was entitled shall be increased by the amount by which the spouse's annuity would have been increased by this Act had the individual from whom the annuity is derived been alive during all of the month in which the increases in annuities provided by section 1 of this Act are effective: *Provided, however*, That in cases where the individual entitled to such a pension or annuity (other than an individual who has made a joint and survivor election) is entitled also to a benefit under title II of the Social Security Act, the additional amount payable by reason of this subsection shall be reduced by the difference between the amount the individual is entitled to in such a benefit and the amount to which such individual would have been entitled had the Social Security Amendments of 1969 not been enacted: *And provided further*, That (i) the offset required by this subsection shall not operate to reduce the increase herein provided in an

annuity under the Railroad Retirement Act of 1935 or a pension to an amount less than \$10, and (ii) the offset required by this section shall not operate to reduce the increase herein provided in such a survivor annuity derived from a joint and survivor annuity and such a widow's or widower's annuity in an amount formerly received as a spouse's annuity to an amount less than \$5.

(c) For the purposes of this Act, the amount of a social security benefit computed under the Social Security Amendments of 1967 shall be deemed to be an amount equal to 87 per centum of such benefit computed under the Social Security Amendments of 1969, and the amount by which an individual's social security benefit was increased by reason of the Social Security Amendments of 1969 shall be deemed to be 13 per centum of such individual's social security benefit as computed under the Social Security Amendments of 1969.

SEC. 5. The fifth sentence of subsection (c) of section 15 of the Railroad Retirement Act of 1937 is amended by striking out the word "average" and substituting the word "highest" and by striking out the word "all" and substituting the word "any".

SEC. 6. The said subsection (c) is further amended by inserting after the fifth sentence thereof the following: "The Secretary of the Treasury shall not at any time after April 1, 1970, retain as investments for any portion of the accounts any of such special obligations bearing an interest rate less than the then current rate determined in accordance with the fifth sentence of this subsection. The special obligations issued to replace the obligations retired by the application of the preceding sentence shall have maturities fixed at not less than three years from the date of issue of such special obligations."

SEC. 7. The said subsection (c) is further amended by striking out from the present sixth sentence thereof the phrase "preceding sentence" and inserting in lieu thereof "fifth sentence of this subsection", and by changing the word "may" to "shall" the first time it appears in the present seventh sentence of said subsection.

[H.R. 15279, 91st Cong., 1st Sess., introduced by Mr. Friedel on December 16, 1969]

A BILL To amend the Railroad Retirement Act of 1937 to provide a 15 per centum across-the-board increase in annuities and pensions thereunder (with a minimum retirement annuity of \$80 a month)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the Railroad Retirement Act of 1937 is amended by adding after section 21 the following new section:

"FIFTEEN PER CENTUM BENEFIT INCREASE; MINIMUM AMOUNT OF ANNUITY OR PENSION

"SEC. 22. (a) Each annuity, pension, and lump-sum payment payable under this Act, other than an annuity the amount of which is determined under the first proviso in section 3(e), is hereby increased by an amount equal to 15 per centum of its amount as otherwise determined (disregarding such first proviso) under the preceding provisions of this Act.

"(b) If the monthly amount of any retirement annuity or pension (within the meaning of section 5(1)(2)), or any employee's basic amount (within the meaning of section 5(1)(10)), as determined under the preceding provisions of this Act (including subsection (a) of this section but disregarding the proviso in section 3(e)), is less than \$80, such monthly amount or basic amount shall be increased to \$80."

(b) Section 3(h) of such Act is repealed.

(c) Section 3(i) of such Act is amended by striking out "and under section 5" and inserting in lieu thereof "under section 5, or under section 22".

(d) Section 5(h) of such Act is amended—

- (1) by striking out "is more than \$38.84 and";
- (2) by striking out "\$207.15" and inserting in lieu thereof "\$238.22";
- (3) by striking out "or to \$38.84, whichever is greater"; and
- (4) by striking out the second sentence.

SEC. 2. The amendments made by the first section of this Act shall apply with respect to annuities accruing for and after the month with respect to which the increase in benefits under title II of the Social Security Act provided for by the Social Security Amendments of 1969 becomes effective, with respect to lump-sum payments on account of deaths occurring in or after such month, and with respect to pensions due in calendar months following such month.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 19, 1970.

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

DEAR MR. CHAIRMAN: This is in response to your request of February 10, 1970 for the views of the Bureau of the Budget on H.R. 15733, a bill "To amend the Railroad Retirement Act of 1937 to provide a 15 per centum increase in annuities and to change the method of computing interest on investments of the railroad retirement accounts."

Sections 1 through 4 of H.R. 15733 would provide an increase in individual benefit amounts in the same manner as proposed in the earlier bill, H.R. 15312. Sections 5-7 of the bill would provide a method of computing interest on railroad retirement fund investments that is the same as that proposed in the earlier bill, H.R. 10217.

In our report on H.R. 10217, the Bureau of the Budget strongly recommended against the proposal because it would run counter to long-standing efforts of the Treasury and the Congress to obtain uniformity in the statutory provisions relating to interest on trust fund investments. In our report on H.R. 15312, we informed your Committee that the proposal would not be in accord with the President's program unless adequate tax revenues were provided for financing the additional costs.

We further noted that we believe a thorough, objective, and independent review of the railroad retirement system is needed to seek a long-range solution to the serious financing problems facing the system.

Accordingly, for the reasons set forth in our reports on H.R. 10217 and H.R. 15312, enactment of H.R. 15733 in its present form would not be in accord with the program of the President.

Sincerely,

ROBERT P. MAYO, *Director.*

UNITED STATES OF AMERICA,
RAILROAD RETIREMENT BOARD,
Chicago, Ill., February 19, 1970.

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

DEAR MR. CHAIRMAN: This is the report of the Railroad Retirement Board on H.R. 15733, which you introduced on February 5, 1970.

The bill would increase by 15 per centum the annuities and pensions payable under the Railroad Retirement Act; however, the increase in employee annuities could not exceed \$50, and the increase on annuities for spouses and for survivors could not exceed \$25. This limit on the increases on employee annuities could have no effect until about 1973 and no significant effect until much later because the \$50 limitation could have an effect only on annuities in excess of \$333.40, and such an amount will not be possible under present law this year, or in the next year, even on an absolute maximum basis. The \$25 maximum increase would never have any effect on spouses' annuities, and its effect on survivor annuities would be long delayed and rather infrequent. Annuities which are payable under the special security guaranty or under the spouse maximum provisions of the Act would not be increased by the bill, but those annuities have already been raised by the increases provided in social security benefits through the Social Security Amendments of 1969 (generally by 15 per centum).

In cases where an individual receives a social security benefit, the increase in his annuity would be reduced by the amount of the raise in his social security benefit effected by the Social Security Amendments of 1969. However, the offset could not operate to lower the increase in an employee annuity to an amount below \$10, or to an amount below \$5 in spouse and survivor annuities.

The increases would be effective for annuities beginning with those payable for the month of January 1970 and for pensions payable after January of 1970.

The bill also proposes to change the method of providing interest on investments

in the Railroad Retirement Accounts. Section 15(c) of the Railroad Retirement Act now provides that special obligations issued to the Railroad Retirement Accounts "shall bear interest at a rate equal to the *average* market yield, computed as of the end of the calendar month next preceding the date of such issue, borne by *all* marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of three years from the end of such calendar month, except that where such rate is not a multiple of one-eighth of 1 per centum, the rate of interest on such obligations shall be the multiple of one-eighth of 1 per centum nearest such rate". (*Italic supplied.*) The bill would strike the words "average" and "all" from the quoted portion of this subsection and insert in lieu thereof "highest" and "any", respectively. The effect of the substitution would be that, if, for example, the average yield of obligations was say 7- $\frac{7}{8}$ per centum but the highest yield for any issue was 8- $\frac{3}{8}$ per centum, then the rate for the special obligations would be equal to the highest yield of 8- $\frac{3}{8}$ per centum instead of the average yield of 7- $\frac{7}{8}$ per centum.

The bill would also provide that the Secretary of the Treasury shall not at any time after April 1, 1970, retain as investments for any portion of the Accounts, any of these special obligations in the Accounts, bearing an interest rate less than the current rate determined in accordance with the provision quoted above as it would be amended by this bill. The effect of this would be that, if the rate so determined as of the end of March 1970, is higher than the rate borne by any given special obligations in the Accounts, such obligations would be redeemed, and the proceeds invested in new obligations bearing the higher interest rate as so determined. Each month thereafter the Secretary of the Treasury would be required to make a new determination and, if the interest rate determined in that month is higher than the rate borne by any given special obligations in the Accounts, such obligations would be redeemed and the proceeds invested in obligations bearing the interest rate as so determined. The bill further provides that special obligations so issued would have maturities fixed at not less than three years from the date of issue. If the interest rate determined by the Secretary of the Treasury as of the end of any month is less than the rate borne by any special obligations, such obligations would not be affected but would continue to be held by the Accounts until a higher rate is determined by the Secretary of the Treasury or until the maturity date of such obligations is reached.

The bill would further require the Secretary of the Treasury to sell marketable obligations held by the Accounts if such action would be in the interest of the Accounts. At present, his authority to do so is only permissive or discretionary.

There are now special obligations in the Accounts bearing an interest rate as low as 4 per centum and the average rate borne by such obligations was 4.9 per centum as of the end of December 1969. An interest rate determined as of that time under the provisions of Section 15(c) as they would be amended by the bill would have been 8 $\frac{3}{8}$ per centum. If the rate applicable immediately after enactment is that much or more, it is apparent that the interest income to the Accounts would be substantially increased.

EFFECTS ON FINANCIAL CONDITION OF THE SYSTEM

The enactment of the bill would increase benefit payments for calendar year 1970 by about \$141 million and the interest income for the last three quarters of the year by some \$80 million. On a long-term basis, the cost effects would be equivalent to additional outgo of \$86 million per year and additional interest income of \$26 million per year. Thus, the enactment of the bill in its entirety would result in an actuarial deficiency of about \$67 million or 1.49 per cent of a taxable payroll of \$4.5 billion per year. As compared with the situation that existed immediately before the enactment of the last social security amendments, the actuarial deficiency of the railroad retirement system after enactment of the bill, H.R. 15733, would be \$9 million a year larger. It should be noted, however, that other legislation now pending before Congress (namely H.R. 13300) would strongly influence the rates of retirement experienced under the regular railroad retirement program and thereby increase its cost by \$12 million per year or more depending on the final form of this legislation.

The cost analysis was made in three stages. First, there was the question of how the latest social security amendments (Public Law 91-172) have affected the

financial condition of the railroad retirement system. It was determined that this legislation could be expected to produce for the system a net gain of \$51 million per year thus reducing the actuarial deficiency to \$7 million per year. The second stage involved the determination of the additional benefit costs that would be generated by the enactment of H.R. 15733. The third and last stage involved an estimate of the additional interest income which would materialize as a result of the new investment policy provided by the bill. The current estimate for this is \$26 million per year on a level basis. The principal components of the cost figures referred to above are shown in table 1.

TABLE 1.—Long-range cost effects of the 1969 social security amendments (Public Law 91-172) on the railroad retirement system and cost estimate for H.R. 15733 (equivalent level amounts)

Item	Amount per year
Actuarial deficiency before Public Law 91-172, the Social Security Amendments of 1969.....	\$58, 000, 000
Effects of social security amendments:	
Additional income from financial interchange.....	103, 000, 000
Additional benefit payments.....	-52, 000, 000
Net gain.....	51, 000, 000
Actuarial deficiency after 1969 social security amendments.....	7, 000, 000
Cost effects of H.R. 15733:	
15-percent increase before adjustments.....	132, 000, 000
Adjustment for \$50 and \$25 maximums.....	-10, 000, 000
Adjustment for additional dual benefit offsets.....	-36, 000, 000
Additional interest earnings.....	-26, 000, 000
Net additional cost.....	60, 000, 000
Actuarial deficiency after H.R. 15733 ¹	67, 000, 000

¹Figure might be increased by an amount between \$12,000,000 and \$18,000,000 if H.R. 13300 is enacted.

IMMEDIATE EFFECTS ON BENEFITS

The bill would provide benefit increases for 72 per cent of the railroad retirement beneficiaries. The remaining 28 per cent would not be affected by the bill because they will have received their increases by virtue of the automatic effects of the 1969 social security amendments. This legislation had the effect of increasing, generally by 15 per cent, all railroad retirement annuities which are computed under the social security minimum guaranty of the Railroad Retirement Act. The social security amendments also had the effect of immediately increasing the maximum for railroad spouses' annuities from \$115.50 to \$138.00 per month.

As a result of Public Law 91-172 and the bill, benefit payments under the railroad retirement program would increase by about \$196 million in the first year. All present beneficiaries not eligible for social security benefits would receive a full 15 per cent increase in their railroad retirement annuities since the \$50 and \$25 maximum increases provided by the bill cannot have any effect in the next several years. In later years, these maximums, particularly the \$50 limit on the increase in an employee's annuity, would become increasingly effective. However, because of the long-delayed effects, the over-all cost reduction resulting from the imposition of these maximums would not be large.

More detailed information on the immediate effects of the bill in the benefit area is given in table 2. Because of the proximity between the bill and the Social Security Amendments of 1969, the table includes information on the first year's effects of the latter legislation on benefits paid under the Railroad Retirement Act.

TABLE 2.—1ST-YEAR EFFECTS OF PUBLIC LAW 91-172 (THE SOCIAL SECURITY AMENDMENTS OF 1969)
AND H.R. 15733

Item	Total	Retired employees	Wives	Aged widows	Other survivors
Number receiving increase for January 1970 (thousands) ¹	973	441	211	273	48
By virtue of Public Law 91-172.....	275	32	² 28	170	45
By virtue of H.R. 15733.....	717	409	² 202	103	3
Average amount of increase: ³					
By virtue of Public Law 91-172.....		\$25	\$8	\$16	\$15
By virtue of H.R. 15733.....		22	9	7	8
Additional benefit payments for 1970, accrual basis (millions): ⁴	\$196	120	25	43	8
By virtue of Public Law 91-172.....	55	10	3	34	8
By virtue of H.R. 15733.....	141	110	22	9	(⁵)
Additional income from financial interchange under Public Law 91-172 (millions):					
Amount accrued for 1970.....	135				
Receipts in 1971.....	58				

¹ Exclusive of about 15,000 annuities withheld or pending.² Figures include about 19,000 wives who would receive increases under both sets of amendments. The total is without this duplication.³ For individuals receiving an increase. Amounts rounded to nearest dollar.⁴ Figures include allowances for new accessions during the year as well as for cases withheld or pending.⁵ Less than \$500,000.

EFFECTS OF NEW INVESTMENT POLICY

The cost analysis of the investment policy provisions of the bill involved an estimate of the additional interest income that would come from the following two sources:

1. The immediate conversion of all special obligations now held by the Railroad Retirement Account to new securities bearing an interest rate much higher than the current average rate, and

2. Future automatic reconversions whenever a given special security will not yield a rate as high as that specified by the bill.

The benefits to be derived from the immediate conversion of existing securities would be quite considerable. However, the effect of the provisions relating to new investments and automatic reconversion of existing investments would be relatively small unless interest rates continue to increase for a long time to come. Accordingly, the long-range estimate is based largely on the effect of the first conversion.

As of December 31, 1969, the average rate of interest earned on all special obligations held by the Railroad Retirement Account (approximately \$3,235 million) was 4.915 per cent and the rate could be expected to increase very appreciably in the next few years under present investment policies. Assuming conversion under the bill to 8¼ per cent securities in April 1970, the accrued additional interest for the remainder of 1970 (say, 9 months) would be about \$80 million. However, as stated before, the additional interest due to the bill cannot be expected to continue at this rate for more than a few years. After that, the effect of the new policy would in all likelihood be limited to the benefit of the difference between the highest and the average yield on qualified U.S. securities; under usual circumstances, this difference is of the order of ¼ percentage point.

For purposes of arriving at a level figure for the additional interest income, it was necessary first to spread the substantial short-range gains over the indefinite future. The amount so determined was then moderately increased to allow for the effect of the bill on future new investments and reconversions of existing investments. On this basis, an equivalent level amount of \$26 million per year was obtained. This means that the unfunded cost of the bill in its entirety would be \$60 million per year (\$86 million less \$26 million) or 1.33 per cent of a taxable payroll of \$4.5 billion.

VIEWS OF THE BOARD

Statement of Howard W. Habermeyer, Chairman

With regard to the provisions in the bill for increasing annuities, I am fully aware of the need for such increases. However, as Chairman, I cannot disregard my responsibility as the public member of the Railroad Retirement Board to endeavor to preserve the railroad retirement system in a sound financial condition. The actuarial deficiency of \$67 million per year, which would exist if the bill is enacted, would be well above an amount which could be considered in the range of actuarial tolerance for the railroad retirement system. I must, therefore, withhold my support of those provisions in the bill.

Concerning the other provisions of the bill, it is obvious that their enactment would be to the advantage of the railroad retirement system. However, I feel that economic and fiscal policies of the Government beyond railroad retirement matters are involved in these provisions of the bill, and I, therefore, defer to the Department of the Treasury and other agencies more directly concerned.

Statement of Mr. Healy

I am in accord with the aims of H.R. 15733 to assist retired railroad employees in their battle against rising living costs, as was done for other retired workers under the 1969 social security amendments, and to increase the income of the railroad retirement system through reasonable means.

The Board's Chief Actuary estimates the long-term cost of the benefit increases provided by the bill at \$86 million per year. Thus, in the absence of additional sources of revenue, the actuarial deficiency would be \$93 million per year, or \$35 million per year more than it was just before the last social security amendments.

The bill would, however, also change the method of allowing interest on the investments of the Railroad Retirement Account. I realize that this proposal would create a special situation for the Railroad Retirement Account but I consider its objectives both reasonable and justified. The enactment of this part of the bill would produce a level gain of \$26 million per year, thus reducing the estimated actuarial deficiency to \$67 million per year.

While a deficiency of that size is disturbing, it is only moderately greater than the \$58 million per year deficiency the system had immediately before the enactment of the last social security amendments. However, in view of the need for some adjustments in railroad retirement benefits, I would favor the enactment of the bill in its entirety. I wish to add, however, that my support of the bill is contingent upon the simultaneous enactment of both the benefit increases and the changes in the investment policy for the Railroad Retirement Account. Unless the additional income which would result from the new investment policy materializes, the enactment of the benefit increases in their present form would create an intolerable financial situation for the railroad retirement system. Under such conditions, the railroad retirement fund could be exhausted in the relatively short span of 20 to 25 years. I would, therefore, be obliged to oppose the benefit increases and propose some other form of adjustment which would keep costs within reason.

I sincerely believe that if no additional income can be provided for the system, the increases in railroad retirement benefits should be in amounts approximately equal to what the beneficiaries could have obtained under the Social Security Amendments of 1969 on the basis of the creditable railroad service. One way of achieving such a result is to lower the \$50 and \$25 maximum increases provided by the bill to \$30 and \$15, respectively. I would also be in favor of any other arrangement which would result in an actuarial condition not materially different from that which existed immediately before the enactment of the Social Security Amendments of 1969.

Statement of Mr. Speirs

I favor the prompt enactment of H.R. 15733 because, in my view, the need for an increase in annuities is so strong due to the unparalleled increase in cost of living as to outweigh by far the concern as to the estimated deficit of a moderate size. It may be, of course, that in the future the actuarial deficit will be shown to have been lower than the present estimate indicates. Moreover, consideration can and should be given in the near future to measures that may then be required to assure the financial soundness of the railroad retirement system.

VIEWS OF THE BUREAU OF THE BUDGET

There is attached a copy of a letter dated February 19, 1970, from the Honorable Robert P. Mayo, expressing the views of the Bureau of the Budget on this bill.

Sincerely,

HOWARD W. HABERMEYER, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 19, 1970.

Hon. HOWARD W. HABERMEYER,
Chairman, Railroad Retirement Board,
Chicago, Ill.

DEAR MR. HABERMEYER: This is in response to your requests of February 6 and February 12, 1970 for advice on proposed reports on H.R. 15312, a bill "To amend the Railroad Retirement Act of 1937 to provide a 15 per centum increase in annuities," and on H.R. 15733, a bill "To amend the Railroad Retirement Act of 1937 to provide a 15 per centum increase in annuities and to change the method of computing interest on investments of the railroad retirement accounts."

Both H.R. 15312 and H.R. 15733 would provide a 15-percent increase in benefits under the Railroad Retirement Act with certain dollar limitations. H.R. 15733, however, would also incorporate the language contained in H.R. 10217, which would require the Secretary of the Treasury to pay higher interest rates on railroad retirement funds invested in U.S. securities. The Railroad Retirement Board, the Treasury Department, and the Bureau of the Budget have already reported to the Committee on H.R. 10217. Both Treasury and the Budget Bureau strongly recommended against the bill on various grounds, including the fact that it would run counter to long-standing efforts of the Treasury and the Congress to obtain uniformity in the statutory provisions relating to trust fund investments.

In its proposed reports on these bills, the Board has divided views. The Chairman has withheld support of the proposed benefit increases because the resulting actuarial deficiency would be above an amount which could be considered within the system's actuarial tolerance. The other members of the Board support some or all of the proposed benefit increase. In addition, Mr. Healey supports changing the interest rate required to be paid on railroad retirement funds as a means of at least partially financing the proposed benefit increases. The Chairman defers to the Treasury on the interest rate proposal.

We note that neither H.R. 15312 nor H.R. 15733 would provide the revenues contained in the President's fiscal year 1971 budget to finance the benefit increases. We do not believe that requiring the Secretary of the Treasury to pay higher interest rates on railroad retirement funds is appropriate in itself or as a mechanism for financing the proposed benefit increases. Moreover, the resulting revenue would not be adequate to cover the costs of the benefit increases and, thus, the railroad retirement fund would still retain a significant actuarial deficiency.

We recognize that the declining railroad labor force and the already high railroad retirement taxes severely restrict the ability of the railroad retirement system to accommodate cost-of-living adjustments and other benefit liberalizations. For this reason we reaffirm our belief that a thorough, objective, and independent review of the entire system of railroad retirement benefits and financing should be undertaken as soon as possible. Pending such a study, we strongly oppose any further increase in costs to the system which are not covered by additional revenue.

Accordingly, while there is no objection to the submission of your reports on H.R. 15312 and H.R. 15733 to the Congress, enactment of those bills, because they do not provide for the necessary revenues and because of the undesirable interest rate feature of H.R. 15733, would not be in accord with the program of the President.

A copy of this letter should accompany your reports on H.R. 15312 and H.R. 15733.

Sincerely,

ROBERT P. MAYO, *Director.*

TREASURY DEPARTMENT,
OFFICE OF THE GENERAL COUNSEL,
Washington, D.C., February 25, 1970.

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

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 15733, "To amend the Railroad Retirement Act of 1937 to provide a 15 per centum increase in annuities and to change the method of computing interest on investments of the railroad retirement accounts."

The only provisions of the bill of primary interest to this Department are sections 5, 6 and 7, which would change the method of computing interest on investments of the railroad retirement accounts. Comments on those sections are set forth below.

Under existing law, moneys in the railroad retirement accounts may be invested in marketable obligations of, or guaranteed by, the United States or in special Treasury issues. Special Treasury issues bear interest at a rate equal to the average market yield computed as of the end of the calendar month next preceding the date of the issue borne by all marketable interest bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of 3 years, rounded to the nearest one-eighth of 1 percent. The maturities of special obligations are fixed with due regard for the needs of the accounts.

Sections 5, 6 and 7 of the bill would (1) require that special issues bear interest at a rate equal to the highest market yield borne by any marketable obligation of the United States not due or callable until after the expiration of 3 years, (2) require after June 30, 1969 that all special issues held by the accounts be reinvested each month if the then current rate is higher than the rate borne by such special issues, (3) provide a minimum maturity of 3 years for such special issues, and (4) require the Secretary of the Treasury to sell obligations held by the accounts if it is in the interest of the accounts to do so.

The provisions of current law vesting in the Secretary of the Treasury the responsibility for the investment of the various Government trust funds recognize his responsibilities as the chief financial officer of the United States, and his responsibilities for the orderly management of the public debt. The magnitude of these funds make it imperative that their investment be coordinated by the Secretary of the Treasury with his responsibilities for the management of the public debt and the cash position of the Treasury.

Prior to 1960, the interest rate on special obligations to the trust funds was determined on various bases; e.g., issues to the railroad retirement account were fixed at 3 percent by statute, and for the Civil Service Retirement Fund and the Federal Old-Age and Survivors Insurance Trust Fund the rate was based upon an *average* (coupon) interest-rate formula fixed by statute. In 1959 and 1960, by recommendations to the Congress and by working with the Advisory Council on Social Security Financing, the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund, and the Railroad Retirement Board, the Treasury Department sought to attain uniform investment of the trust funds. This led to the recommendation and later adoption by the Congress of the average market-yield interest-rate formula for determining the interest rate on special issues to the major trust funds, and gave the trust funds the benefit of interest rates on special issues greater than the rates then fixed by statute. These rates are computed at the close of each month and are applicable to special issues during the succeeding month. Thus, the interest rate on special issues is responsive to current changes in market yields on Government securities. It would not be realistic to base the interest rate on the highest yield of any single marketable obligation of the United States because the yield on a single security reflects the particular market conditions applicable to that security which may cause it to be out of line with yields on other securities. An average rate is more equitable and indicative of the true condition of the market.

The Advisory Council on Social Security Financing also recommended that before the new market-yield formula was placed in effect the maturity distribution of special issues held by the trust funds be adjusted so as to effect a gradual and orderly transition over a period of years. This was in recognition of the long-term nature of the funds and is recognized in the statutes by the language "Such obligations issued for purchase by the Accounts shall have maturities fixed with due regard for the needs of the Accounts." A spread of from one to fifteen years was adopted and resulted in an average maturity of about 7½ years. Thus, the transition to the market-yield formula for all of the trust funds, except the Railroad Retirement account, was initiated by rearranging the maturities of their total holdings so as to provide special obligations of approximately equal amounts with maturities of from one to fifteen years at the interest rate(s) then prevailing. Then, at the end of each fiscal year, the amount of special issues maturing are refunded with new special issues at the current interest rate in such a manner as to maintain as nearly as possible approximate equal maturities of from one to fifteen years. This maturity pattern has been altered to give the funds the benefit of an interest rate in excess of the 4¼% interest rate ceiling on Treasury bonds by issuing special obligations at the higher current market-yield rate with ma-

turities of up to seven years. The current market-yield rate applicable to the railroad retirement accounts has been greater than the 4¼% ceiling every June since 1966 and the practice described has reduced the average maturity of special obligations held by the accounts. Current receipts are invested in special obligations maturing on June 30 of each year and current benefit payments are covered by redeeming special obligations of earliest maturity and bearing the lowest rate of interest. The proposed legislation would completely disregard the long-term nature of the funds by removing any maturity pattern except the 3-year maturity which is solely to protect the accounts against declining interest rates.

Thus, the proposed changes in the investment of the railroad retirement accounts raise critical issues of overall Federal trust fund policy. The major trust funds, including the railroad retirement accounts, are now largely invested in special Treasury issues. The apparent intent of the Congress, as evidenced by specific legislative enactments in this area, has been that these funds be invested at rates which approximate current Treasury borrowing rates. The proposed amendments would run counter to long-standing efforts of the Treasury Department and the Congress to obtain uniformity in the statutory provisions relating to the investment of the various trust funds, and would provide a substantial and continuing subsidy without further Congressional action from the general fund of the Treasury to the beneficiaries of the railroad retirement accounts. The amendments would result in large and unpredictable amounts of subsidy determined largely by the happenstance of changing market conditions and erratic daily fluctuations in the market trading price of a single Treasury obligation. We know of no public or private investments managed on this basis.

In view of the foregoing, the Department is strongly opposed to sections 5, 6 and 7 of the bill.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

PAUL W. EGGERS, *General Counsel.*

Mr. FRIEDEL. We shall start off this morning by hearing some brief statements from our colleagues in the House.

First, our colleague from Virginia, Congressman Richard H. Poff. Proceed as you see fit, sir.

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

Mr. POFF. Mr. Chairman, I strongly support the pending legislation to increase railroad retirement annuities by 15 per centum.

The crushing pressures imposed upon the retired railroader by inflation makes prompt passage of this measure imperative. We have already acted on social security annuities. I believe it urgent to bring railroad retirement benefits into line as quickly as possible.

The spiraling cost of living is felt most keenly by our senior citizens living on a fixed income. They contributed generously to retirement plans during their productive years so that in their sunset years they could enjoy some measure of dignity and security. As retirees, they exercise no control over their economic destiny. They have not caused this inflation. They should not be asked to bear the brunt of its burden.

Surely it is our responsibility to see that the integrity of the system is maintained; to see that the intent of the framers of this retirement program is carried out; and finally to insure that the proper petitions of these senior citizens are heard.

If I may digress for a moment, it is my considered opinion that these older Americans should not have to live in constant dread of

what tomorrow may not bring. They should not have to come perennially to us, hat-in-hand and beg to be heard.

I think they have earned a better lot than this. I think we should provide for an automatic increase in railroad retirement benefits based on cost-of-living increases.

This committee has before it a bill H.R. 534 which I introduced January 3, 1969. My bill and those like it would amend the Railroad Retirement Act of 1937 to provide automatic cost-of-living increases in benefits. Such an amendment would eliminate the lag time between price increases and benefit increases. It would obviate the need for piecemeal legislation. If H.R. 534 were on the statute books today, there would be no need for these hearings. Retired railroaders would have already received the increase the committee is now considering.

I hope the committee will, with the least possible delay, approve this 15 percent increase and then will schedule hearings on H.R. 534 and related measures.

Thank you, Mr. Chairman.

Mr. FRIEDEL. Thank you, Mr. Poff.

Next we shall hear from the Honorable William J. Randall from Missouri. Welcome, sir.

STATEMENT OF HON. WM. J. RANDALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. RANDALL. Mr. Chairman and gentlemen of the committee, this statement is for the purpose of urging the committee and the Congress to speedily enact legislation to provide a 15-percent increase in benefits paid to pensioners and annuitants under the Railroad Retirement Act. Argument in support of my request is very simple and directly to the point: Such increases are necessary in the name of equity and justice for the recipients of these benefits. Evidence of my deep and sincere interest in this matter is found in my sponsorship of H.R. 15514, which is quite similar to the bill introduced by the chairman of this committee, which would provide for such increases.

On April 1 the first payments will be made of increased benefits provided by amendments made by the Congress late last year to the Social Security Act. That is just 5 weeks from today. It will just about take a miracle to complete legislative action on the bills now being considered by this committee in time for increased railroad retirement benefits to be paid concurrently with the new increases under the Social Security Act.

I realize that the increases in railroad retirement benefits provided by the chairman's bill and in the measure I introduced are retroactive to last January. But the recipients of these benefits are elderly, retired individuals, or workers whose physical disabilities keep them from their jobs. They are largely, if not entirely dependent upon these payments for subsistence. It is such people as these who have been especially hard hit by the ravages of inflation. It is among such people that there is least budgetary flexibility for making adjustments to rising prices and regulating their needs to accommodate delays by the Congress in providing increased pensions and annuities. It is of little comfort to such people to know that at some future date their stipends will be increased retroactively. Their needs are upon them now and

have become more pressing during the many months of rising prices since their pensions and annuities were last adjusted some 2 years ago.

Historically the pension and annuity programs of the Railroad Retirement Act represent pioneering effort in this field. According to my research it was in the railroad industry that the first formal pension plan in America was established 96 years ago, in 1874.

In 1934 the Railroad Retirement Act became the first retirement system for nongovernment employees to be administered by the Federal Government. Of course, there were questions of constitutionality raised against that act and the 1935 enactment to supersede it. But by 1937 the Railroad Retirement Act of that year, and its companion measure, the Carriers Taxing Act, were well on their way toward dispelling the hopelessness that faced workers in past generations when age, physical impairment or injury ended their productiveness.

At about the same time the Social Security Act came into existence and with the passage of the years both these retirement programs have been liberalized and improved upon so that now the benefits to be derived from them offer the opportunity for America's workers to sustain themselves in their senior years rather than becoming dependant upon relatives or the State for their subsistence. Indeed, the two programs are coordinated and made interchangeable in many important ways to the advantage of the American people. The Railroad Retirement Act's benefits are superior to those paid under the Social Security Act but the tax rate on employee and employer is also somewhat higher.

But it matters not that this act may have some superior qualities if benefits paid thereunder lag behind the needs of people dependent upon them for their livelihoods. It is my hope that, in this case, this gap will be held to the absolute minimum by the promptest possible action by the Congress to pass legislation to increase pensions and annuities paid under the Railroad Retirement Act.

Thank you, Mr. Chairman, for allowing me to present this statement this morning.

Mr. FRIEDEL. Thank you, Congressman Randall.

The Honorable Frank J. Horton of New York is our next witness.

STATEMENT OF HON. FRANK J. HORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. HORTON. Mr. Chairman and members of the committee, I am happy to have the opportunity to appear here today in support of H.R. 15733, a bill to increase railroad annuities by 15 percent.

As this committee so well knows, social security benefits were increased by 15 percent effective with the benefits payable for January. However, the first increased benefits will not be sent out until April. When social security benefits were increased, railroad annuitants were given hope that their annuities would also be increased by 15 percent. This has been the pattern in the past and there is no reason for anyone to think that the pattern will not be followed this year.

I am here today to urge you to report H.R. 15733 favorably and quickly and to pledge you my support when the bill comes before the House. As you know, I have sponsored legislation to increase railroad annuities with the cost of living. And I believe it is vital to increase annuities at this time.

There are, I think, two reasons why action on this measure should be expedited.

1. The social security program and the railroad annuity program are closely coordinated. A part of this coordination is a guarantee that people getting railroad annuities will be paid at least 110 percent of the social security benefits they would have been paid had the railroad employment been covered under social security. As a result, the increase in social security benefits means an increase in railroad annuities for some people, but not for all. Fairness requires that all should have the increase as soon as possible.

2. Inflation affects railroad annuitants just as it affects everyone else. Railroad annuities buy less and less every month, just as social security benefits buy less and less each month. Therefore, all the facts that argued for our enacting a 15-percent rise in social security benefits last December also argue for an equal rise in railroad annuities.

Mr. Chairman, thank you for having me here today and allowing me to express my views on this very important matter. I urge speedy action on H.R. 15733, and will be happy to do anything that I can to forward this legislation.

Mr. FRIEDEL. It has been nice to hear from you, Mr. Horton.

Our next witness is the Honorable James H. Quillen of Tennessee. Welcome, sir.

STATEMENT OF HON. JAMES H. QUILLEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. QUILLEN. Mr. Chairman, it is a pleasure for me to appear before this distinguished subcommittee on behalf of bill 15733, to provide a 15-percent increase in annuities for certain retired railroaders.

The bill would give increases to the 70 percent of railroad retirement beneficiaries whose benefits would not be increased automatically by reason of the Social Security Amendments of 1969.

In view of the fact that there are some retired railroaders who will not benefit from the increased social security payments, I feel it is only proper that their pension benefits be kept in line with the benefits received by social security recipients.

The increases provided by the bill would be 15 percent of what the beneficiary would get under the existing law, with the stipulation that there would be a partial offset for social security benefits.

This means that if the beneficiary is also receiving a social security benefit, the increase in the railroad retirement annuity would be reduced by the amount of the increase he or she just got from social security. There is, however, a provision that a retired employee should get at least a \$10 increase and beneficiaries in other categories, such as a wife or widow, should get at least a \$5 per month increase.

Mr. Chairman, I have joined my colleagues in sponsoring this bill because I feel it will rightly correct an inequity in Federal pension programs. For this reason, I would urge this subcommittee to report favorably on the measure.

Thank you, Mr. Chairman.

Mr. FRIEDEL. Mr. Quillen, thank you for your brief statement.

Now also from the State of Tennessee, the Honorable Richard Fulton. Proceed as you see fit, sir.

**STATEMENT OF HON. RICHARD FULTON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TENNESSEE**

Mr. FULTON. Mr. Chairman, I appreciate the opportunity to submit a statement in support of this legislation, H.R. 15733, and similar legislation which I am sponsoring.

This bill would increase annuities under the Railroad Retirement Act by 15-percent retroactive to January 1, 1970, and would also change the method of computing interest on the investments of the railroad retirement accounts to provide a more favorable return on the investments' dollar and offset a portion, if not all, of the retirement annuity increase under consideration.

There are three important features to this bill.

The first is the dire need for an increase in retirement annuities which have not been increased in over 2 years. The last increase came in February of 1968, and averaged some 7 percent. Since that time the cost of living has risen almost 12 percent, but railroad retirees have received no upward adjustment in compensation.

Second, effective January 1, 1970, the Congress provided for a 15 percent across-the-board increase in social security benefits. Traditionally, when we have increased social security benefits, we have also increased railroad retirement payments.

Finally, the provision of this legislation which would alter the method of computing interest in investment in the railroad retirement accounts would contribute to any offset caused by a benefit increase at this time. At this time, interest is, I understand, computed at an average rate which, currently, is about 4.78 percent. Under this legislation, the interest would be computed at the prevailing rate of interest. Today this rate would run about 8 percent.

Mr. Chairman, this change in interest rate computation is only equitable. These invested funds belong to those railroad workers and retirees and management who have contributed to the fund. There are no Federal moneys involved.

Mr. Chairman, I believe both a benefit increase and the proposed change in interest computation are overdue and respectfully recommend favorable consideration of this legislation by the committee.

Thank you, Mr. Chairman.

Mr. FRIEDEL. Thank you, Mr. Fulton.

Next we have the Honorable Gus Yatron from the State of Pennsylvania. Welcome, sir.

**STATEMENT OF HON. GUS YATRON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. YATRON. Mr. Chairman and members of the subcommittee, it is a privilege to have this opportunity to testify before the House Interstate and Foreign Commerce Committee in support of H.R. 15733, legislation designed to increase railroad retirement annuities by 15 percent.

I have introduced a bill identical to the legislation sponsored by the distinguished chairman of this committee, and I respectfully urge the members of the committee to act favorably upon this vitally needed increase in retirement benefits.

Under the provisions of the proposed 15-percent increase, the maximum increase is set at \$50. If an individual is entitled to and receives a benefit increase under the 1969 social security law, the social security increase would offset the railroad retirement increase, but in no case would the offset reduce the railroad retirement increase below \$10.

Other annuitants, including spouses, would also receive a 15-percent increase, not to exceed \$25. If these annuitants also receive social security benefits, there would be a similar offset. In no case, however, would the offset reduce survivors' annuities below \$5. These increases would become effective with annuities accruing during the month of January 1970, and would be payable in checks due on February 1, 1970.

To finance this increase in annuities, the bill would amend section 5 of the Railroad Retirement Act to require the Secretary of the Treasury to invest Railroad Retirement Board funds so that they earn the "highest" rather than the "average" yield as presently provided. As I understand it, this new method of computing interest would substantially underwrite the cost of the proposed increase.

Mr. Chairman, H.R. 15733 is sound legislation, both in terms of human needs and responsible financing. I believe that enactment of this plan will eliminate inequities and will permit our railroad retirees and their families to live in financial security and human dignity.

For the aforementioned reasons, Mr. Chairman, I urge your committee to approve this vitally important legislation.

Thank you very much.

Mr. FRIEDEL. Thank you, Mr. Yatron.

The Honorable Martin B. McKneally from the State of New York has a statement to present to us this morning. Proceed as you see fit, sir.

STATEMENT OF HON. MARTIN B. McKNEALLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. McKNEALLY. Mr. Chairman and members of the subcommittee, I appreciate your courtesy in affording me this opportunity to present testimony in support of H.R. 15784, a bill I introduced, which would increase Railroad Retirement Benefits by 15 percent.

The financial problems imposed upon our senior citizens who are retired on relatively low and moderate fixed incomes during a period of extreme inflation are insoluble by the annuitants. Their only hope for relief rests with the Congress, and I think everyone concerned agrees that the time to provide that relief is now. We have just provided for similar relief for people receiving social security benefits, and it seems to me that to deny a similar increase in benefits for those retired under railroad retirement would be unconscionable.

My bill is similar to others pending consideration at this time. It provides for a 15-percent increase in benefits with a \$50 a month maximum increase for retired employees and a \$25 a month maximum on spouses and other survivor annuities. I understand these maximums will have no effect at the current level of payments. It contains an offset provision for those also receiving social security benefits. The increase in railroad retirement benefits would be reduced by the amount of the recent increase in social security benefits. With one

minor exception, the increases would not be less than \$10 a month for retired employees or \$5 a month for survivor annuities. The only exception is in those cases where the 15-percent increase amounts to less than \$10 or \$5 a month and in those cases the normal 15-percent increase would apply.

My bill also provides for improving the income of the railroad retirement fund, in order to maintain its financial integrity, by changing the method of fixing the interest rates on the obligations in which the funds in the railroad retirement accounts are invested. Briefly, it would require that the funds be invested in obligations issued to the railroad retirement accounts which shall bear interest equal to the highest rate currently payable by marketable interest-bearing obligations of the United States.

In conclusion, I would like to point out that from the record of the hearings thus far there appear to be no substantial opposition to the proposal contained in my bill and certainly there appears to be unanimity in the need for the increase. I urge you, Mr. Chairman and members of the subcommittee, to take favorable and prompt action on this legislation. Thank you.

Mr. FRIEDEL. Thank you, Mr. McKneally.

Our next witnesses will be all three members of the Railroad Retirement Board, Mr. Habermeyer, Mr. Thomas Healy, and Mr. Neil Speirs.

Mr. Habermeyer, you may proceed.

STATEMENTS OF HON. HOWARD W. HABERMEYER, CHAIRMAN, RAILROAD RETIREMENT BOARD; THOMAS M. HEALY AND NEIL P. SPEIRS, MEMBERS OF THE BOARD; ACCOMPANIED BY JAMES L. COWAN, ASSISTANT CHIEF ACTUARY

Mr. HABERMEYER. Good morning, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Howard W. Habermeyer. I have been Chairman of the Railroad Retirement Board since 1956. I am here to testify on H.R. 15733.

The bill would, as you know, increase the amount of annuities under the Railroad Retirement Act by 15 percent with some exceptions. In cases where an annuitant also receives social security benefits, the increase in his annuity would be reduced by the amount of the raise he receives in his social security benefits as a result of the Social Security Amendments of 1969. However, despite this offset for social security increases, the annuities of employees would be raised by at least \$10 and annuities for others by at least \$5, unless 15 percent of the amount payable under present law would be less than these minimum amounts in which case the increase would be 15 percent. Also, the annuity increase would be limited to \$50 for employees and \$25 for others. This limit of \$50 in the increases on employee annuities would have no effect until about 1973 and no effect of significance until much later because the \$50 limitation would apply only to annuities in excess of \$333.40 under present law. Such an amount is not possible now even though service credits are the maximum. The \$25 maximum increase in auxiliary benefits would never have any effect on spouses' annuities and would have no effect on survivor annuities for a long time, and even then the limit would seldom apply.

The annuities which are payable under the so-called social security guaranty provision of the Railroad Retirement Act would not be affected by the bill. In general, this guaranty provision assures that an annuity will be at least 10 percent more than would be payable in benefits under the Social Security Act if the employee's railroad service had been social security employment. The annuities payable under this guaranty provision have already been increased—generally by 15 percent—because of the Social Security Amendments of 1969. Only about 8 percent of employee annuities are payable under this social security guaranty provision but about 68 percent of survivor annuities are paid under it.

The bill would also change the provisions of the Railroad Retirement Act with respect to the method of fixing the interest rates on the obligations in which the funds in the railroad retirement accounts are invested. The rates for both the railroad retirement account and the railroad retirement supplemental account would be similarly affected. The purpose is, of course, to increase interest rates in order to bring the rates on all the special obligations in line with the investment yields now prevalent on obligations of the U.S. Government. A large portion of the funds is now in obligations bearing an interest rate much lower than the rate applicable to funds now being invested. Section 15(c) of the Railroad Retirement Act now provides that special obligations issued to the railroad retirement accounts "shall bear interest at a rate equal to the average market yield, computed as of the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of 3 years from the end of such calendar month * * *". The bill would change the words "average" and "all" to "highest" and "any," respectively. The effect of the substitution would be that, if, for example, the average yield of obligations was say 7½ percent but the highest yield for any issue was 8½ percent, then the rate for the special obligation would be equal to the highest yield of 8½ percent instead of the average yield of 7½ percent.

The bill also provides that the Secretary of the Treasury shall not at any time after April 1, 1970, retain as investments for any portion of the accounts any of these special obligations bearing an interest rate less than the current rate determined in accordance with the provisions of section 15(c) of the act as it would be amended by this bill. The effect of this would be that, if the rate so determined as of the end of March 1970 is higher than the rate borne by any special obligations in the accounts, such obligations would be redeemed, and the proceeds invested in new special obligations bearing the interest rate as so determined. Each month thereafter the Secretary of the Treasury would be required to make a new determination and, if the interest rate determined in that month is higher than the rate borne by any special obligations in the accounts, such obligations would be redeemed and the proceeds invested in obligations bearing the interest rate as so determined. The bill further provides that special obligations so issued would have maturities fixed at not less than 3 years from the date of issue. If the interest rate determined by the Secretary of the Treasury as of the end of any month is less than the rate borne by any special obligations, such obligations

would not be affected but would continue to be held by the accounts until a higher rate is determined by the Secretary of the Treasury or until the maturity date of such obligations is reached.

The bill would further require the Secretary of the Treasury to sell marketable obligations held by the accounts if such action would be to the advantage of the accounts. At present, his authority to do so is only permissive or discretionary.

According to the actuarial estimates, that part of the bill which increases annuity amounts would add \$86 million a year on a level basis to the costs of the railroad retirement system. The deficit under present law is \$7 million a year or 0.16 percent of taxable payroll. The benefit increases would raise the deficit to \$93 million a year, or 2.07 percent of taxable payroll. However, the changes with respect to interest rates on funds in the railroad retirement account would increase the income on a level basis by approximately \$26 million per year. This is a difficult estimate to make since we have no adequate basis for forecasting future trends in interest rates. We have assumed in our calculations that the current rates will prevail for the next 7 years and then return to lower and more normal levels. If interest rates go higher than at present, the fund would benefit more than our estimate indicates, and if interest rates go lower, then the fund would benefit less. Using the results of our present estimate, the additional interest income would lower the deficit to \$67 million a year or 1.49 percent of taxable payroll.

In addition, I think it is fair to assume that H.R. 13300, which is now in conference, will pass the Congress in some form which would have the effect of adding to the aforementioned deficit an amount ranging between \$12 and \$18 million per year on a level basis depending on which version of the bill is adopted, and at that time the total deficit of the railroad retirement account would be in the range of from \$79 to \$85 million a year. This amount is far beyond an amount which would be considered within the range of actuarial tolerance for the system.

I realize, of course, the great need for an increase in annuity amounts. It is a matter of common knowledge that people who must depend largely on railroad retirement or social security benefits for their livelihood have suffered from the steady inroads of inflation that have taken place. However, as Chairman of the Railroad Retirement Board and the member who is particularly charged with the interest of the public, I cannot overlook my responsibility to preserve the railroad retirement system in a sound financial condition so that workers in the industry today may be able to look with confidence to the future receipt of the benefits for which they are now paying. Therefore unless additional revenues are provided which would preserve the soundness of the system, I would have to take a position in opposition to passage of this legislation. If the committee feels that the benefit increase must be provided, then I would suggest that the tax rate on each, employees and employers, be increased by one-half of one percentage point.

That part of the bill providing an increase in interest income to the fund relates to the financial and fiscal policies of Government beyond railroad retirement matters, and I, therefore, defer in this respect to the views of the Department of the Treasury and other agencies more

directly concerned with these policies. If for any reason this part is to be dropped and the remainder of the bill enacted, then I would urge that the tax rate be increased three-quarters of 1 percent on each side rather than one-half percent as suggested before.

Since my two colleagues on the Board have views different from mine, they are both prepared to make personal statements as to their views.

Thank you very much, Mr. Chairman.

Mr. FRIEDEL. Thank you, Mr. Habermeyer.

In your opening statement you say that annuities of employees would be raised by at least \$10 and annuities for others raised at least \$5. You mean each month?

Mr. HABERMEYER. Each month; yes, sir.

Mr. FRIEDEL. All right.

Mr. Devine.

Mr. DEVINE. Thank you, Mr. Chairman.

Mr. Habermeyer, I was not sure what your position was until we got to the last paragraph.

Do you feel that if we would increase the tax rate on employees of one-half percent, that would adequately fund the matter to a point where it would be actuarially sound?

Mr. HABERMEYER. Yes, I think so. Yes, sir.

Mr. DEVINE. Would you then be in support of the proposition?

Mr. HABERMEYER. Yes, I would.

Mr. DEVINE. Fine. Thank you very much.

That is all, Mr. Chairman.

Mr. FRIEDEL. Any questions, Mr. Adams?

Mr. ADAMS. No, Mr. Chairman.

Mr. FRIEDEL. Thank you very much.

Mr. Healy.

STATEMENT OF THOMAS M. HEALY

Mr. HEALY. Thank you, Mr. Chairman.

I have been a member of the Railroad Retirement Board representing railroad management, for almost 15 years.

I am in accord with the aims of H.R. 15733 to assist retired railroad employees in their battle against rising living costs, as was done for other retired workers under the 1969 social security amendments, and to increase the income of the Railroad Retirement System through reasonable means.

The board's chief actuary estimates the long-term cost of the benefit increases provided by the bill at \$86 million per year. Thus, in the absence of additional sources of revenue, the actuarial deficiency would be \$93 million per year, or \$35 million per year more than it was just before the last social security amendments.

The bill would, however, also change the method of allowing interest on the investments of the Railroad Retirement Account. I realize that this proposal involves other considerations but I do consider its objectives both reasonable and justified. The enactment of this part of the bill would produce a level gain of \$26 million per year, thus reducing the estimated actuarial deficiency to \$67 million per year.

Such a deficiency is only moderately greater than the \$58 million per year that existed immediately before the enactment of the last social security amendments. Consequently, I would favor the enactment of the bill in its entirety.

I wish to add, however, that unless the additional income which would result from the new investment policy materializes, the enactment of the benefit increases in their present form would create a serious financial situation for the railroad retirement system. Under such conditions, it has been stated, the railroad retirement fund could be exhausted in the relatively short span of 20 to 25 years. I would, therefore, be obliged to oppose the benefit increases and propose some other form of adjustment which would keep costs within reason.

I believe that if the additional income contemplated by the bill cannot be provided for the system, the increases in railroad retirement benefits should be in amounts approximately equal to what the beneficiaries could have obtained under the Social Security Amendments of 1969 on the basis of creditable railroad service. One way of achieving such a result is to lower the \$50 and \$25 maximum increase provided by the bill to around \$30 and \$15, respectively. I would also be in favor of any other agreement which would result in an actuarial condition not materially different from that which existed immediately before the enactment of the Social Security Amendments of 1969.

Thank you.

Mr. FRIEDEL. Thank you, Mr. Healy.

Mr. PICKLE, any questions?

Mr. PICKLE. No questions now, Mr. Chairman.

Mr. FRIEDEL. All right.

Mr. Devine?

Mr. DEVINE. Yes.

Mr. Healy, do you find your position different than Mr. Habermeyer's?

Mr. HEALY. Yes, sir, in certain respects.

Mr. DEVINE. I am a little confused. At the end of the fifth paragraph you say, "Consequently, I would favor the enactment of the bill in its entirety."

Mr. HEALY. That is right.

Mr. DEVINE. Mr. Habermeyer in his statement says that:

Unless additional revenues are provided which would preserve the soundness of the system, I would have to take a position in opposition to the passage of the legislation.

Then in the next paragraph you say:

I would, therefore, be obliged to oppose the benefit increases and propose some other form of adjustment.

Now you are for it and you are against it.

Mr. HEALY. No, sir, I am for the bill in its entirety but if in the judgment of the committee we can not get this interest increase, then I would favor some other means of granting to the railroad retired employees the same increases that were given under social security. There are other means. I suggest one where we reduce the maximum which would save some money.

Mr. DEVINE. It may be a distinction without a difference.

Mr. Habermeyer opposes the bill unless there is one-half of 1 percent increase and you are in favor of the bill but would suggest—

Mr. HEALY. He has recommended an increase in taxes. I am opposed to any increase in taxes for this reason: The social security amendments did not provide any increase in taxes on social security workers.

Mr. DEVINE. Can you be specific when you say that you propose some other form of adjustment?

Mr. HEALY. Yes, sir. Under my proposal we would reduce the maximum so that railroad employees would receive as much as social security increases. That would reduce the deficiency from \$93 to \$70 million, or save \$32 million right there.

Mr. DEVINE. That is an adjustment that you would recommend?

Mr. HEALY. That is what I recommend.

Mr. DEVINE. I just wanted the record to be clear.

Thank you.

Mr. FRIEDEL. Mr. Adams.

Mr. ADAMS. Yes, sir, Mr. Chairman.

Mr. Habermeyer testified that there would be about a 2 percent—has two figures here but there would be a deficit of \$67 million a year, or 1.49 percent of taxable payroll. That is using the maximums. Do you have any figure as to what your maximums would produce as a deficit or would they balance out?

Mr. HEALY. Mine?

Mr. ADAMS. Yes.

Mr. HEALY. Yes.

Mr. ADAMS. In other words, we have a deficit now of \$7 million or 0.16 percent of payroll, isn't that correct?

Mr. HEALY. No.

Mr. ADAMS. I am just using Mr. Habermeyer's figures.

Mr. COWEN. I have a figure, Mr. Adams. Mr. Healy's proposal produces a deficit of \$23 million less a year, or roughly one-half of 1 percent of payroll. We are using a payroll figure of \$4.5 million per year.

Mr. ADAMS. All I want to do is establish the correct figure.

Mr. Habermeyer on page 2 of his statement says, "The deficit under present law is \$7 a year or 0.16 percent of taxable payroll."

Is that correct, or is it 1.5?

Mr. COWEN. The \$7 million a year is 0.16 percent of the taxable payroll.

Mr. ADAMS. Now is that our present deficit?

Mr. COWEN. That is our present deficit.

Mr. ADAMS. All right. My question is—based on the bill as introduced—do you have a figure for your recommendation which would indicate the deficit if you pay a lower benefit? What would be the deficit figure for that, please?

Mr. COWEN. The \$7 million that I quoted previously was not the cost for the bill; that is the present deficit before enactment of H.R. 15733.

Mr. FRIEDEL. Please identify yourself for the record.

Mr. COWEN. I am James L. Cowen, the assistant chief actuary of the Railroad Retirement Board.

Mr. ADAMS. As I understand it, the bill as written would cause a \$67 million deficit, or 1.49 percent of payroll. Is that correct?

Mr. COWEN. That is correct.

Mr. ADAMS. All right. What would Mr. Healy's proposal produce as a percentage?

Mr. COWEN. That would produce an actuarial deficit of \$70 million a year or about 1.51 percent of payroll. It is roughly the same.

Mr. ADAMS. I thought his deficit would be less because we reduced the maximum benefit to be paid.

Mr. HABERMEYER. Mr. Chairman, maybe I can clean this up.

Mr. Healy's maximums would reduce the cost of the bill by approximately the \$23 million he testified to. So if you reduce the cost by \$23 million, you would reduce the actuarial deficit by about a half a percent. The net result would be the fund would be operating at a 1-percent deficit instead of 1.49 as I testified.

Mr. ADAMS. That is what I wanted to know. Thank you very much. Thank you, Mr. Chairman.

Mr. FRIEDEL. Mr. Springer.

Mr. SPRINGER. Mr. Chairman.

Mr. Healy raised a question there that you have not upped social security, but we have continually upped the minimums or the maximums on which you could have a tax repeatedly in the last few years to where we are up now to almost \$7,000.

Mr. HABERMEYER. Our tax rate at the present time is 9.55 percent of a \$650 a month payroll.

Mr. SPRINGER. That is 9.55 percent.

Mr. HABERMEYER. Yes.

Mr. SPRINGER. First \$650.

Mr. HABERMEYER. Yes.

Mr. SPRINGER. When was the last raise, Mr. Chairman?

Mr. HABERMEYER. The last raise in tax rates?

Mr. SPRINGER. Yes; what year?

Mr. HABERMEYER. That was in 1968. The tax rate was then 8.90 percent. On January 1, 1969, it became 9.55, and it is further scheduled by present law to eventually go up in 1987 to 10.65.

Mr. SPRINGER. Now let me ask you to get this all straight. Is this for the purpose of keeping it in balance?

Mr. HABERMEYER. Yes.

Mr. SPRINGER. May I ask the assistant actuary here: Is the purpose of these raises to keep it actuarially sound?

Mr. COWEN. It is to keep it as actuarially sound as possible. We review the actuarial conditions by actuarial valuations every 3 years to determine what tax rate would be required, and we publish this material. It is reported in the Board's annual report to the President and to the Congress.

Mr. SPRINGER. Now, there was a figure before this committee on several occasions when we have added additional benefits at a point which it was dangerous to go beyond percent of payroll.

Mr. HABERMEYER. Could I answer that? In years past when the tax rate and tax base were at considerably lower levels the actuaries were content to go along with the 1-percent deficit, but since we are getting into this high area of taxes, 9.55 as I say, they are getting more conservative and now they don't like to have the fund operate at more than one-half of 1 percent deficit.

Mr. SPRINGER. So the committee has the benefit—I am not sure why you want to drop the one-half of 1 percent. Can you justify that?

Mr. HABERMEYER. Actuarial assumptions are all based on educated guesses, and they could be off that much, and one-half of 1 percent is such that it could be corrected fairly easily without causing the whole fund to go into bankruptcy.

Mr. SPRINGER. May I ask you this, Mr. Chairman: Is this because of the declining payroll?

Mr. HABERMEYER. That is hurting us, there is no question about it.
 Mr. SPRINGER. Could you give me, say, a rough educated guess—you are the actuary—as to how many fewer people we have on payroll than we did a decade ago?

Mr. HABERMEYER. I am not the actuary but I can give you that figure.

Mr. SPRINGER. Just roughly.

Mr. HABERMEYER. I think in Mr. Speirs' statement he has a statement attached showing that railroad payrolls—wait a minute, here we are. All right, in 1937 we had an average of 1.278 million workers in the industry.

Mr. SPRINGER. That is a million and a quarter.

Mr. HABERMEYER. Yes. Then it continued to increase through World War II until in 1945 we had 1,680,000 workers. From there on it started its decline, until about 19—well, let's take 1955 when there was 1,250,000; by 1960 there were 909,000; by 1965 it had dropped to 775,000; by 1967, the last figure on this annual report, it was 713,000. I believe the most recent figure we have is around 665,000. So you can see what has happened to railroad employment.

Mr. SPRINGER. In other words, since World War II we are about a third of what we were at that time.

Mr. HABERMEYER. Yes.

Mr. SPRINGER. Now I am trying to get this actuary thing in a position so all of us on the committee can understand it.

What you are in effect saying is, because of the level of employment a few years ago you could risk 1 percent or maybe—I think you are now at 1.49?

Mr. HABERMEYER. 1.49 if this bill passes without consideration of H.R. 13300, which is in conference, and is going to add a little more to our deficit?

Mr. SPRINGER. So, if we pass H.R. 15733, plus H.R. 13300 in conference, then—

Mr. HABERMEYER. Than I say roughly 1¾ percent.

Mr. SPRINGER. 1.75.

Mr. HABERMEYER. About that, yes, sir; 1.75, 80, in that area.

Mr. SPRINGER. Let me switch back to Mr. Healy for just a second.

Mr. Healy, do you believe this kind of a risk is justified?

Mr. HEALY. Well, the Chairman is talking about H.R. 13300. I would like to make it very clear that H.R. 13300 covers a supplemental annuity program financed entirely by railroad employees, it has no direct relationship to H.R. 15733.

Now admittedly—

Mr. SPRINGER. Just a minute. Let me ask you this question. My understanding of this was the same as yours, that this was entirely paid for by the railroads and would have no effect on the retirement system.

Now, Mr. Chairman, are you agreed on that?

Mr. HABERMEYER. No, I don't.

Mr. SPRINGER. Why not?

Mr. HABERMEYER. The House bill you passed, H.R. 13300 has a provision of compulsory retirement which means that every man working in the industry 65 or over would immediately be disqualified from further service and thrown onto your rolls. To that extent he is going to be a burden on the regular Railroad Retirement Account.

In other words, he is not going to be paying taxes into the Account and he is going to be drawing a benefit out that he would not be getting—

Mr. SPRINGER. We supply the benefits for H.R. 13300 but you don't make up what he would have paid in if he had stayed on the rolls.

Mr. HABERMEYER. If he works until he dies, say he worked until 70 and then dies immediately, he would not be drawing those benefits.

Mr. SPRINGER. This is the first time I understood this. I was under the general impression that H.R. 13300 was entirely paid for. I want to be sure. I am glad you do.

Now how much do you say of a percentage point then—

Mr. HABERMEYER. If the Senate version of H.R. 13300 passes we estimate it will be a burden on the regular railroad retirement account in the amount of \$12 million. If the House version passes, the additional cost would be in about the amount of \$18 million a year.

Mr. SPRINGER. What percentage point is that?

Mr. HABERMEYER. That is between a quarter and three-eighths.

Mr. SPRINGER. In other words, between a quarter and 30 percent added to it by H.R. 13300?

Mr. HABERMEYER. Yes, sir.

Mr. SPRINGER. Then this would add how much? H.R. 15733 would add how much?

Mr. HABERMEYER. The whole deficit then would be 1.49 plus 0.38, which would run it up to 1.8 something. I said 1.80, 1.75 to 1.80, in that area. Almost 2 percent.

Mr. SPRINGER. If we add these two bills?

Mr. HABERMEYER. Yes, sir.

Mr. SPRINGER. Let me ask any one of you three Board members: I have always been for any bill, as I have told everybody who has come before me, if it is actuarially sound and a guy working now expects to get his pension 20, 30, 40 years from now I will support it. I have said that repeatedly.

Is there any suggestion you could make whereby we might equalize this thing in some way, I mean to get additional revenue? I hate to see us get in a position where you tell us this is not actuarially sound and you are backed up by your actuary. It disturbs me a little bit.

Mr. HABERMEYER. I am in the same position. I feel we ought to do something for the beneficiaries on the rolls, especially those who have been on the rolls for some time and retired at very low annuities. The individual retiring today is in much better shape than one who retired 10 years ago.

I also know if this bill is enacted our actuaries say the fund would be exhausted in about 20 to 25 years. If I were a railroad man paying about \$60 a month into my pension system at age 30 and looking ahead and anticipating that the fund will be broke in 20 to 25 years, I would figure I was putting my money down a pretty bad rathole.

Mr. SPRINGER. Mr. Cowen, is this in essence what you believe, too?

Mr. COWEN. The 20- to 25-year figure that the chairman just quoted is what we estimate is the time that would be necessary to exhaust the fund if the interest part of H.R. 15733 were not included. The interest part of H.R. 15733 would extend that period somewhat.

Mr. SPRINGER. How much?

Mr. COWEN. We have not calculated that.

Mr. SPRINGER. Are you talking about a year, 5 years, 10 years?

Mr. COWEN. This is strictly a guess on my part. It would be probably between 5 and 15 years. This is a fairly broad range.

Mr. SPRINGER. That means a guy going to work for the railroad is not in too good shape then.

Is there any suggestion that any member of the Board might have how we could improve the situation so it would be more actuarially sound? All of us would like to support this bill. I realize the cost of living has risen in the last couple of years.

Mr. HABERMEYER. I would like to say this, that this is not going to be the last time we are going to face the problem of this nature. Social security benefits will be increased in the future and at that time there will be pressures to increase benefits under the Railroad Retirement System. I think we have reached a point where the taxes on the workers in the industry have reached such a level that we can't expect them to pay much more.

Mr. SPRINGER. With that I am agreed.

Mr. HABERMEYER. I would suggest that before putting this fund in this system in a hole where it would be much more difficult to ever get it straightened out that a special committee be established to make a study of the whole Railroad Retirement System and try to develop a new concept for railroad workers that would tie in more closely with the Social Security System so that every time social security benefits are raised it does not put pressure on us to raise our benefits. I think that could be done.

I would suggest that if it is done that it be done by a committee which would be acceptable to the parties concerned, both railroad labor and railroad management, and that it be done apart from the regular administration of the Railroad Retirement System; in other words, the Railroad Retirement Board would have no part in developing this.

Mr. SPRINGER. Mr. Chairman, let me ask you this: I have heard about people that want an increase that don't want to wait forever. Is it feasible to do this, we will say, in the remainder of this year, or 6 months or something like that?

I am not talking about a commission making a prolonged study.

Mr. HABERMEYER. I have had experience with study committees that never seem to get their work done. I think with the proper interest and the proper time spent by the members of the special committee and the people who are concerned, railroad labor and railroad management, that it could be done within this year; yes, sir.

Mr. SPRINGER. Do you think we would have to have a law passed establishing the commission, or do you think this committee could form such a commission?

Mr. HABERMEYER. I think it could be established many different ways. It could be established by a directive by the committee.

Mr. SPRINGER. Let me ask you this: Could this be done under a directive from the President?

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

Mr. SPRINGER. I am trying to get some shortcut where we get a report where you have it in the next 3 or 4 months, or before we adjourn.

Mr. HABERMEYER. I am relatively sure it could be done by a directive of the President; yes, sir.

Mr. SPRINGER. Would you be willing to go on record as writing a letter to the President if some of the rest of use would ask for such a directive?

Mr. HABERMEYER. Yes, sir.

Mr. SPRINGER. Thank you. I think you have made some constructive suggestions here on how to get this thing accomplished.

Thank you, Mr. Chairman.

Mr. FRIEDEL. Mr. Healy, what would you think if we amended the present bill from \$50 and \$25 to \$30 and \$15, respectively?

Mr. HEALY. I have some figures here Mr. Chairman. On the basis of the \$50 and \$25 maximum for employee and spouse the actuarial deficiency would be \$93 million. If we have a \$25 maximum for employees and \$10 for spouse the deficit would be \$57 million, which would reduce the \$93 million by \$36 million.

Mr. FRIEDEL. You propose \$30 and \$15?

Mr. HEALY. I propose somewhere in the neighborhood of \$30 and \$15.

Mr. FRIEDEL. What would that actually amount to in dollars and cents?

Mr. HEALY. Sir?

Mr. FRIEDEL. What would we save by reducing it from \$50 and \$25 to \$30 and \$15?

Mr. HEALY. \$23 million.

Mr. FRIEDEL. \$23 million. All right. That is all.

Mr. Pickle.

Mr. PICKLE. I just wanted to ask a question of the Board along the lines of Mr. Springer's questioning which was coincidental with the conversation Mr. Adams and I have been having up here.

What would be your general feeling on whether we should combine railroad retirement with the social security system and eliminate this separate system for railroad retirees?

Mr. HABERMEYER. I think that is one avenue you would have to explore very carefully. I think it would be rather difficult to put the two systems together without some consideration given to the railroad worker who has paid so much more in taxes than his counterpart in other industries under social security.

I would think that the result would be that the railroad worker would be basically covered by social security and then for the additional taxes that he has paid, he will get that in a supplemental system on top of that, not necessarily following the same benefit payments. In other words, we may go back to the old theory that this railroad retirement system started with and that was that it was basically a staff pension program for the employees, not necessarily taking into consideration other beneficiaries such as wives, widows and children. They could be covered by the benefit payments by the basic coverage of social security. I am just throwing this out. This is a possibility.

Mr. PICKLE. This possibly is worth looking into with certain adjustments.

Mr. HABERMEYER. If you don't do it now, it is going to have to be done sometime. As I said to Mr. Springer, we are not going to be shedding this problem by the action we take now.

Mr. ADAMS. Will the gentleman yield?

The problem that I mentioned to Mr. Pickle, and that is troubling some of us, is that you have a constantly eroding payroll base which is apparently going to continue and if we continue on doing away with all the rest of the passenger trains, for example, this base will continue to erode. This would mean a smaller and smaller payroll base.

I want the actuary to tell me if I am wrong on this? As your base becomes smaller your program goes into greater and greater jeopardy, it is almost like balancing a pyramid on its point and if you make the point of the pyramid sharper and sharper, it becomes less stable.

Now I would hope that as Mr. Springer mentioned, and I know some of us would join in this, that we do have some kind of an analysis or study because I am afraid that the railroad employees otherwise are going to end up with this very small base before even 25 years have passed it will be in trouble because we are going to have to have increases in cost of living for the railroad retirees if the cost of living in the country continues to rise as it has been.

Mr. HABERMEYER. You are absolutely right. A man paying about \$60 a month for a pension ought to have assurance and confidence that he is going to get something for those payments.

Mr. FRIEDEL. Thank you.

We will now hear Mr. Neil P. Speirs, member of the Railroad Retirement Board.

STATEMENT OF NEIL P. SPEIRS

Mr. SPEIRS. Mr. Chairman, members of the subcommittee, my name is Neil P. Speirs. I am the labor member of the Railroad Retirement Board. I appear here in support of the bill H.R. 15733. The bill would increase annuities by 15 per centum, but the increase would not exceed \$50 for employee annuities or \$25 for spouses and survivor annuities.

If the annuitant is also entitled to a social security benefit, the increase provided for in this bill would be reduced by the amount of the increase he received in his social security benefit. In no case, however, would this offset reduce the increase provided for in this bill below \$10 for the employee annuity or below \$5 for the spouse's or survivor annuity.

The bill also provides for a change in the method of computing interest on investments of the railroad retirement accounts. It is estimated that this provision will improve the financial condition of the railroad retirement account by about \$26 million a year on a level basis.

I favor the bill both for the provisions to increase annuities as well as for the provision to increase the interest earned by the funds in the accounts. As you well know, the Social Security Act was recently amended to provide an across-the-board increase in benefits by 15 percent. This was a much needed increase to enable the beneficiaries under the Social Security Act to cope with the current inflation. Beneficiaries under the Railroad Retirement Act are, of course, in the same predicament. I do not see how we can possibly differentiate between the two groups by providing an increase in benefits to one and denying it to the other.

According to the Board's estimates, enactment of this bill would leave a deficit in the railroad retirement system of about \$67 million a year on a level basis. This is only \$9 million more than the \$58 million per year deficit the system had immediately before the last social security amendments. I submit that this is not a sufficient reason for saying to old annuitants under the Railroad Retirement Act, to widows, old parents, and to orphans of railroad employees that they will have to keep on tightening their belts; that it is too bad they can't pay their grocery bills or otherwise meet the inflationary cost of living; that we are more concerned with the estimates before us than we are with their welfare.

I do not wish to imply, Mr. Chairman, that I am not concerned with the financial status of the railroad retirement account. I am. I offer for the record a table prepared for me by the Board's Chief Actuary, which shows that we have had deficits in the railroad retirement account on many occasions in the past and, in each instance, the deficit was reduced to a tolerable level.

Mr. Chairman, I am going to speak about this table which I have furnished with my testimony.

(The table referred to follows:)

TABLE 1.—ACTUARIAL EFFECTS ON THE RAILROAD RETIREMENT PROGRAM OF MAJOR AMENDMENTS TO THE RAILROAD RETIREMENT AND SOCIAL SECURITY ACTS AS ESTIMATED AT THE TIME THE AMENDMENTS WERE ENACTED

Year ¹	Law amended	Public law number	Earnings base ²	Interest rate assumed (percent)	Taxable payroll (billions)	Average employment ³ (thousands)	Addition to costs ⁴ (percent)	Actuarial deficiency		Balance in account on July 1 (millions)
								Percent of payroll	Annual amount (millions)	
1946	RRA	79-572	\$300	3.000	\$3.50	1,350	3.50	0.24	\$8	\$661
1948	RRA	80-744	300	3.000	4.30	1,350	2.42	1.19	51	1,383
1951	RRA	82-234	300	3.000	4.90	1,300	1.83	1.93	95	2,420
1954	RRA	83-398	300	3.000	5.00	1,250	.15	1.05	52	3,354
1954	RRA	83-746	350	3.000	5.45	1,250	.99	.79	43	3,354
1954	SSA	-----	350	3.000	5.45	1,250	(*)	.93	51	3,354
1955	SSA	84-383	350	3.000	5.45	1,250	.47	1.40	77	3,482
1956	RRA	84-1013	350	3.000	5.30	1,150	1.57	3.20	169	3,605
1956	SSA	-----	350	3.000	5.30	1,150	-.33	2.95	156	3,605
1958	SSA	-----	350	3.000	5.10	1,150	.73	4.18	213	3,736
1958	RRA	85-927	350	3.000	5.10	1,150	None	4.18	213	3,736
1959	RRA	86-28	400	3.000	5.60	1,150	2.61	.61	34	3,836
1961	RRA	87-285	400	3.000	4.30	850	.04	1.79	77	3,963
1963	RRA	88-133	450	3.430	4.70	800	.85	.34	16	4,011
1965	SSA	-----	450	3.625	4.30	800	.65	1.11	48	4,204
1965	RRA	89-212	550	3.625	4.78	710	1.25	.62	30	4,204
1966	RRA	89-699/70	550	3.625	4.78	710	.76	.92	44	4,316
1967	SSA	-----	650	3.750	5.01	710	-.94	-.08	-4	4,531
1968	RRA	90-257	650	3.750	5.01	710	1.24	1.16	58	4,548
1969	SSA	-----	650	* 3.750	4.50	585	-1.16	.16	7	4,608

¹ Year public law enacted.

² Monthly limit on taxable and creditable compensation.

³ Average employment implied by the payroll assumption.

⁴ Percent of taxable payroll. For RRA amendments, these are increases in benefit costs; for SSA amendments, these are changes in level costs.

⁵ Not available.

⁶ See second paragraph of letter dated March 6, 1970, from Chairman Habermeyer to Chairman Staggers, p. 35, this hearing.

Source: Office of Actuary and Research, U.S. Railroad Retirement Board, Feb. 9, 1970.

Mr. SPEIRS. Note that in 1955 there was a deficit in the account of \$77 million, or 1.4 percent of payroll. The balance in the account at that time was \$3,482 million. In 1956 Congress enacted Public Law 1013, 84th Congress, providing an increase in benefits by 10 percent. Then, as now, the system was underfinanced, but the need for an in-

crease in benefits was as urgent. The railway labor unions committed themselves to recommend legislation in the next session of Congress which would place the railroad retirement system in a reasonably sound financial condition. The Congress provided the 10-percent increase in benefits even though the deficit was increased from \$77 million to \$169 million—almost \$100 million a year—but the balance in the account was increased to \$3,605 million.

Note also that in 1958 the deficit had reached \$213 million a year, or 4.18 percent of payroll, but by 1959 the deficit was reduced to 0.61 percent of payroll, or \$34 million a year. See particularly the column marked "Actuarial deficiency." The deficit in the railroad retirement account varied from \$8 million or 0.24 percent of payroll, in 1946, to as high as \$113 million, or 4.18 percent of payroll in 1958, to \$58 million, or 1.16 percent of payroll in 1968 and, following the last social security amendments, to \$7 million, or 0.16 percent of payroll.

I now call your attention to the last column. In spite of the "ups" and "downs" of the deficit figures, the balance in the railroad retirement account has continued to grow from \$661 million in 1946 to \$4,608 million in 1969. The balance on the account continued to grow even in the years which showed a deficit. In any event, the experiences of the account in the last 23 years indicate that enactment of this bill would not threaten the railroad retirement account as much as did the 1956, or other amendments to the act. I emphasize that in 1966 the Congress was concerned with the need to increase benefits even though there was then a deficit in the railroad retirement account. I also emphasize that such deficit was made by subsequent legislation. I hope, Mr. Chairman, and members of the subcommittee, that this Congress will do no less for the annuitants under the Railroad Retirement Act than was done by the Congress in 1956, or than was done by this Congress for beneficiaries under the Social Security Act.

As I stated in the Board's report on this bill, the future may show the actuarial deficit to be lower than the present estimates indicate. Consideration can, and should be, given in the near future to measures that may then be required to insure the financial soundness of the railroad retirement system. In the meantime, however, let us provide a much needed increase in benefits without delay.

That is the end of my statement, Mr. Chairman.

Mr. FRIEDEL. Thank you, Mr. Speirs.

Mr. Pickle, any questions?

Mr. PICKLE. No.

Mr. FRIEDEL. Mr. Cunningham.

Mr. CUNNINGHAM. No.

Mr. FRIEDEL. Mr. Adams.

Mr. ADAMS. Just one.

I take it that your position is we should go ahead and take a chance. You believe we can pay the benefits and not immediately jeopardize the fund; is that right, Mr. Speirs?

I am just trying to get the difference in positions of the members of the Board.

Mr. SPEIRS. My position is that we should grant an increase in annuities to the annuitants and then take a serious look at the effects of those increases on the fund and if in our judgment it is then necessary to make an adjustment to place the fund in a sound fiscal position, we do it at that time.

Mr. ADAMS. Then we would come out with a bill that would basically grant the increase that has been recommended here, and would also include the investment or interest section to pick up whatever money could be picked up that way?

Mr. SPEIRS. Yes.

Mr. ADAMS. Then we could also have a study with a specific date to report back to us at which point the committee would then have to act on proposals to improve the position of the fund and determine what we were going to do with it. Is that your proposal?

Mr. SPEIRS. Yes. I would subscribe to that proposal.

Mr. ADAMS. I would ask any of the other members, but I ask you first since you are testifying, what time period should we require for this study and recommendation to be brought back to the committee?

Mr. SPEIRS. Well, in my opinion, the increase in annuities for the first year would not be of enough significance to disturb unduly the financial condition of the system.

Mr. ADAMS. Do you think we have a year?

Mr. SPEIRS. A year to determine the effects of this legislation positively.

Mr. ADAMS. So you would be talking about a 6-month return by the study commission and that would then give 6 months for the Congress to operate on this. In other words, we would have 6 months to pass whatever we had to pass if the fund were in trouble. Is that your thought? I don't want to put words in your mouth. I am trying to get a time span.

Mr. SPEIRS. I think it would take 1 year to get the full effect of the legislation.

Mr. ADAMS. I see. You let it run a year and then——

Mr. SPEIRS. I do not believe that that period of time would be dangerous to the fund. Then if it were determined at the end of the year that something must be done to correct the actuarial deficit of the fund, the study could be made.

Mr. ADAMS. What I am concerned about, it takes Congress about 6 months at the minimum to move anything through unless there is some kind of a crisis. If we did this you would say let it run a year, study it at the end of the year and then 6 months later there would be recommendations and then it would be 6 months before Congress could move. So you would be talking about 2 years before we passed a bill. Is that your view?

Mr. SPEIRS. I don't think that that is too long. I want to correct——

Mr. ADAMS. Keep your thought in mind, Mr. Speirs. I just would like to check with the other gentlemen on the Board if they have a contrary position and refer to your actuary if you would like, because we rely on your expertise in this field.

Mr. HABERMAYER. I have a contrary position for this reason. I know by granting the increases now you would take off the pressure on the parties concerned. It would take much longer to get a recommendation, I am sure, if this bill is passed than it would be if it was not passed. Secondly, you would be putting the special committee or the study group in a much more difficult position trying to unravel a system that would be badly in debt. Once you add benefits I don't think you can ever take them away, so that you would be just complicating the study that would have to be made.

Mr. ADAMS. Do you have a contrary position or a different position?

Mr. HEALY. I agree with Mr. Speirs. We would have 1 year to look it over, see how it works out; then, if necessary, appoint a commission to report 6 months later. I would like to add something here, too.

Mr. ADAMS. You feel that that time period is reasonable?

Mr. HEALY. Yes, sir, I do. I would like to emphasize that this is a fund that is financed by railroad management and railroad labor. I think it should be determined by railroad management and railroad labor, who is going to do this job, and what the scope will embrace. I think they should have primary consideration.

Mr. HABERMEYER. That would be along the lines I would be thinking, too.

Mr. ADAMS. Mr. Speirs, you had a thought.

Mr. SPEIRS. I have listened to the discussion here relative to the employment in the railroad industry and certainly it is of concern. But for the purpose of this actuarial evaluation we have used an assumed future taxable payroll of \$4.5 billion a year.

Now in 1966 the railroad taxable payroll was \$4.72 billion. In 1967 the taxable payroll was \$4.61 billion. In 1968, the taxable payroll was \$4.99 billion. For the first three-quarters of this year the taxable payroll has held at a level of 1968 taxable payroll. I believe that we are talking about the taxable payroll as much as we are talking about the number of employees, and I believe that the estimates are conservative. I make this statement on the basis that an assumed \$4.5 billion taxable payroll is less than the actual taxable payroll had been since 1964.

Mr. ADAMS. Those figures you are giving us then was what actually occurred in those years because it is different than your table. In other words, you have a taxable payroll listed in your attached table. You had \$5.01 billion in 1968 and that dropped to \$4.5 billion for 1969.

Mr. SPEIRS. In 1968, an assumed future taxable payroll of \$5.01 billion was used in making the actuarial estimates. In 1969 a change was made in the assumption reducing the figure to \$4.5 billion.

Mr. ADAMS. Those figures were different than the ones you just gave us.

Mr. SPEIRS. The figures for 1966 through a part of 1969 which I just read to you were prepared by our actuarial department as of December 1969 and represent the actual taxable payroll. The figures in the table attached to my statement represent the payroll assumptions used in the various years in making the actuarial estimates.

Mr. ADAMS. In other words, your chart is assumption.

Mr. SPEIRS. Yes.

Mr. ADAMS. Or your figures are assumption.

Mr. SPEIRS. The figures I just gave for 1966 through part of 1969 are the actual taxable payrolls for those years.

Mr. FRIEDEL. Can we have those figures submitted for the record?

Mr. COWEN. The figures that are in the table attached to Mr. Speirs' statement are those which were assumed for purpose of the long-range actuarial estimate. The figures which Mr. Speirs has just given you orally were the actual experience for the particular years.

Mr. ADAMS. Could you give those to me quickly again, starting with 1966?

Mr. SPEIRS. Yes; 1966, \$4.72 billion; 1967, \$4.61 billion; 1968, \$4.99 billion.

I have this for three quarters in 1969. The first quarter is \$1.22 billion—no, wait—let me correct that.

The first quarter is \$1.20 billion; the second quarter is \$1.24 billion, the third quarter is \$1.28 billion.

Mr. ADAMS. The thing that is bothering me about this is that all of those actual figures are less than your assumed figures.

Mr. SPEIRS. They are more than the assumed payroll used for the purpose of arriving at the deficiency this bill would produce. The figure that was used was \$4.5 billion. The figures I have given you are all in excess of \$4.5 billion which would naturally yield a higher tax return than would the \$4.5 billion. So for that reason I say that this actuarial estimate is conservative.

Mr. HABERMEYER. Could I make one statement? In the actual figures that Mr. Speirs has just given you, the reason the taxable payroll became higher in 1967 and 1968 is because our tax rate then increased and in 1968 the tax base became higher so the employees paid a lot more individually in 1968 than in 1966. We still have fewer employees.

Mr. ADAMS. The only thing I was worried about was that it showed that your actual figures on which you could base your actual payroll figures were less than your actual figures which showed that your actuarial figures were not conservative. That was the only thing I was questioning. It may be for 1969 that it is going to improve but you are actually below for 1966, 1967, and 1968 figures that were projected.

Mr. HABERMEYER. That is right.

Mr. ADAMS. Thank you.

Mr. FRIEDEL. Mr. Kuykendall.

Mr. KUYKENDALL. We have a difference of opinion here, I believe, in the committee on a very basic thing. I believe the gentleman on this side says let's raise it and then see if we can pay it. Of course I don't know what business you were in before you got on that Board, but I would like to see you get by telling that to any board of directors in any business you were in. You know you could not have gotten by with that. You know you could not and there is no argument about that.

I would like to ask—

Mr. SPEIRS. May I answer that?

Mr. KUYKENDALL. Have you ever seen us or anybody in this Congress lower a pension?

Mr. SPEIRS. Lower a pension?

Mr. KUYKENDALL. Yes.

Mr. SPEIRS. No, I have not.

Mr. KUYKENDALL. You are willing, is this correct, to gamble on a rate of raise knowing full well you cannot adjust downward for 1 year? Are you willing to do that?

Mr. SPEIRS. Yes, for this reason: I don't consider it a gamble because for 35 years the parties have always met their financial obligations under the Railroad Retirement System and there is no reason to believe that they will not do it in the future.

Mr. KUYKENDALL. Let me ask you this: Why does not somebody sit at that table or talk about the poor guy that is 40 years old working today? Let me ask you a question: If a man retired today after having

paid all of these years, that is the single life, let's say, not joint survivor but single life annuity for life beginning at age 65 today if he retires? Would somebody give me that figure?

Mr. SPEIRS. I will give it to you. It would be \$171.

Mr. KUYKENDALL. Is this correct, \$171?

Mr. SPEIRS. That would be the average annuity \$174 now being paid.

Mr. KUYKENDALL. \$174?

Mr. SPEIRS. Right.

Mr. KUYKENDALL. All right

Mr. FRIEDEL. That is a month?

Mr. SPEIRS. Yes.

Mr. KUYKENDALL. That is not joint and survivor.

Mr. SPEIRS. That is the employee annuitant.

Mr. KUYKENDALL. He was closest, I am sure, but that is one life.

All right. Now is he paying \$60 a month or is he and the employer all combined making \$60 a month?

Mr. SPEIRS. They are each paying about \$60 a month.

Mr. KUYKENDALL. Each paying \$60 a month.

Mr. SPEIRS. Yes.

Mr. KUYKENDALL. Would any of you gentleman like to guess—and I am sitting here looking at the rate book of a national insurance company, if you want to see it right there. Would either of you gentlemen like to guess how much income that would be from any reputable insurance company at \$65 per month for life? I want to show you how much the poor working guy out there on that railroad today is getting taken for. How much do you think he pays? Do you want to guess? Would any of you like to guess?

I have got the figure right here. Answer that question, or would you like to guess?

Mr. HABERMAYER. We don't have to guess, Congressman.

Mr. KUYKENDALL. What do you think it is? It is \$720 a month, gentlemen.

Mr. HABERMAYER. For the record we will furnish you a statement with respect to——

Mr. KUYKENDALL. You don't have to, I have the book. I know what it costs.

Mr. HEALY. Would that cover the——

Mr. KUYKENDALL. That covers the amount of money the guy puts in and gets out. I wish somebody would stand up and take up for that guy that is working on the railroad today that is 40 years old and quit making statements that we are going to add to his cost if we have to.

Thank you, Mr. Chairman.

Mr. HEALY. As the Chairman said, we have had some comparisons like that, and we will be glad to submit them.

Mr. HABERMAYER. Mr. Chairman, I would like to furnish a paper on that for the committee.

Mr. FRIEDEL. You may.

Thank you, gentlemen.

(The following letter, with attachments, were received for the record:)

RAILROAD RETIREMENT BOARD,
Chicago, Ill., March 6, 1970.

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

DEAR MR. CHAIRMAN: At the hearings on H.R. 15733 held on February 23 and 24, 1970, before the Railroad Retirement Subcommittee of your Committee, Mr. Kuykendall requested that we submit a statement comparing the cost of railroad retirement benefits to the cost of comparable benefits from a private insurance company. The enclosed statement makes this comparison.

I would also like to call your attention to an error which was made in the table included in the testimony of the Board's labor member, Mr. Neil P. Speirs. The interest rate used for the estimates of the effects of the 1969 social security amendments (the last line of the table) should have been 4.75 percent rather than 3.75 percent. This correction could not be made in Mr. Speirs' testimony because Mr. Lester Schoene had used this figure in his testimony. We would appreciate it if this error could be noted somewhere in the record.

Sincerely yours,

HOWARD W. HABERMAYER, *Chairman.*

Enclosure

ILLUSTRATIVE COMPARISON BETWEEN RAILROAD RETIREMENT TAXES AND THE PREMIUMS WHICH A PRIVATE INSURANCE COMPANY WOULD CHARGE FOR BENEFITS EQUIVALENT TO THOSE PAYABLE UNDER THE RAILROAD RETIREMENT PROGRAM

The railroad retirement program provides retirement and survivor benefits to railroad employees and their families. The purpose of this note is to see if these employees could buy equivalent benefits on an individual basis from a private insurance company as cheaply as they are actually purchasing them from the railroad retirement system. The comparisons in the attached table have been made for active employees who are now aged 30, 40, and 50 and for a new employee who has just entered railroad service at age 22.

The comparisons have been made on two bases (a) the employee's taxes alone, and (b) the combination of employee and employer taxes. The ratios of private insurance premiums to railroad retirement taxes shown below indicate that it would cost the employees much more to buy equivalent benefits from a private insurance company than he is paying in railroad retirement taxes. The derivation of these ratios is shown in the attached table.

RATIO OF PRIVATE INSURANCE PREMIUM TO RAILROAD RETIREMENT TAXES

	Employee taxes	Combined taxes
Age of employee:		
22.....	2.08	1.04
30.....	2.52	1.09
40.....	3.44	1.32
50.....	5.78	2.08

We feel that the proper comparison in the table above is the one which relates to employee taxes alone. The reason is that the employer's share of the taxes is used for the good of the system as a whole and is not allocated to any particular employee. Much of the employer's taxes have been used to pay past benefits which were based on untaxed service before 1937 and for past increases to employees on the rolls who do not pay additional taxes for these increases.

Since no private insurance company sells a policy which incorporates all of the benefits provided under the railroad retirement program and since some of the benefits cannot be bought at all, it was necessary to make certain assumptions. In addition, adjustments had to be made to allow the employees credit for the taxes which they had paid in the past. Brief descriptions of the methodology and the assumptions used are given below.

1. In all cases, the employees were assumed to have entered railroad employment at the age of 22 and to have always earned the maximum amount creditable under the Railroad Retirement Act. This assumption was made because age 22 is the median age at which employees enter railroad service.

2. Past railroad retirement taxes were accumulated with interest to the end of 1969 at the interest rates actually earned by the railroad retirement account. These past taxes were then applied as a single premium to purchase a deferred annuity to begin at age 65. The rates used for this purpose are those for an individual annuity contract which provides a refund of contributions if the employee dies before age 65 but no guaranty as to the amount to be paid if the employee lives to that age. Premiums could not be obtained for a contract which did not have this refund of contribution provision. However, this overstatement is more than offset by the fact that no allowance has been made for the disability coverage which the railroad retirement program provides for the covered employees. In addition, there has been no allowance for the cost of survivor and disability protection for years before 1970.

3. The amount purchased by the single premium of item 2 was subtracted from the railroad retirement annuity to which the employee will be eligible at age 65. This provided the amount of the annuity which is still to be purchased. The annual premium to purchase this part of the annuity was then determined. This premium also provides for a refund of contributions for death before age 65. As above, this deficiency is also more than offset by the omission of the disability protection in the Railroad Retirement Act.

4. The life insurance equivalents of railroad retirement survivor benefits were computed on the assumption that the employee's wife is 5 years younger than he and that he has 2 children who were born when he was age 27 and 30, respectively. A more complete description of these life insurance equivalents is given in the attached actuarial note entitled "Life Insurance Equivalents of Railroad Retirement Survivor Benefits" (No. 2-69). The figures in the actuarial note were computed before the recent social security amendments and, for purposes of this study, were adjusted to allow for the increases provided by those amendments.

5. The private insurance premiums for a life insurance policy paid up at age 65 were used to determine what a private insurance company would charge for the life insurance equivalents of railroad retirement survivor benefits. It is recognized that the insurance premiums relate to a level benefit amount, whereas the railroad retirement survivor benefits vary depending on the age and family composition of the employee at the particular time. The life insurance equivalents used for these calculations are the level amounts which provide the same value as the varying amounts.

6. No insurance company to our knowledge issues a policy which has a benefit similar to railroad retirement spouse annuities. In order to include these benefits in the comparisons, a percentage relationship between the value of this benefit to that of the employee annuity was determined. The premium for the spouse annuity was taken as this percentage of the premium for the employee annuity.

7. The sum of the annual premiums spelled out above was then compared to the level annual railroad retirement taxes the employee will pay in the future. That part of the railroad retirement taxes allocable to medicare was excluded and an allowance was made for future scheduled increases in the tax rate under present law.

On the basis of the calculations described above, it is safe to say that railroad employees are getting more from the railroad retirement program than they could buy from a private insurance company for the same money.

Attachments.

ILLUSTRATIVE COMPARISON OF RAILROAD RETIREMENT TAXES WITH THE PREMIUMS A PRIVATE INSURANCE COMPANY WOULD CHARGE FOR EQUIVALENT BENEFITS

Item	Age on Dec. 31, 1969			
	22	30	40	50
I. Railroad retirement taxes (exclusive of those for medicare): ¹				
A. Employee taxes alone:				
1. Total taxes before 1970 with interest to Dec. 31, 1969 ²		\$4,544.00	\$8,786.00	\$12,234.00
2. Equivalent level annual amount of future taxes ³	\$754.00	754.00	753.00	750.00
B. Combined employee and employer taxes:				
1. Total taxes before 1970 with interest to Dec. 31, 1969 ²		9,088.00	17,572.00	24,468.00
2. Equivalent level annual amount of future taxes ³	1,508.00	1,508.00	1,506.00	1,500.00
II. Railroad retirement benefit amounts: ⁴				
A. Employee monthly annuity at age 65	608.95	588.95	531.45	463.85
B. Spouse monthly annuity	138.00	138.00	138.00	138.00
C. Life insurance equivalent of all railroad retirement survivor benefits ⁴	29,900.00	30,300.00	28,200.00	27,100.00
III. Annuity deferred to age 65 bought by a single premium equal to: ⁵				
A. Employee taxes in I.A. 1.		101.75	147.20	152.80
B. Combined taxes in I.B. 1.		204.63	295.24	306.22
IV. Private insurance future annual premium needed to purchase railroad retirement benefits in excess of those in III:				
A. Remaining employee annuity:				
1. Premium for (II.A-III.A)	1,071.00	1,225.00	1,570.00	2,480.00
2. Premium for (II.A-III.B)	1,071.00	968.00	969.00	1,262.00
B. Life insurance equivalent of railroad retirement survivor benefits	395.00	533.00	781.00	1,394.00
C. Allowance for spouses	102.00	146.00	237.00	462.00
D. Total premiums:				
1. Using (A.1+B.+C.)	1,568.00	1,904.00	2,588.00	4,336.00
2. Using (A.2+B.+C.)	1,568.00	1,647.00	1,987.00	3,118.00
V. Ratio of private insurance annual premium to railroad retirement equivalent level future taxes:				
A. Employee taxes only (IV. D. 1 ÷ I. A. 2)	2.08	2.53	3.44	5.78
B. Combined taxes (IV. D. 2 ÷ I. B. 2)	1.04	1.09	1.32	2.08

¹ Based on maximum taxable earnings.

² At the interest rates actually earned by the railroad retirement account.

³ Includes allowance for scheduled future increases in tax rates under law in effect on Dec. 31, 1969.

⁴ Wife 5 years younger than employee and 2 children born when employee was aged 27 and 30, respectively. See RRB Actuarial Note 2-69 and text.

⁵ Premiums are for nonparticipating contracts of one of the largest insurance companies in the country. They exclude premium taxes which are added in many states.

LIFE INSURANCE EQUIVALENTS OF RAILROAD RETIREMENT SURVIVOR BENEFITS

The Railroad Retirement Act (RRA) provides a variety of survivor benefits that can under certain conditions be equivalent to large amounts of life insurance.* Over the years, the life insurance amounts have greatly increased through changes in the benefit formulas and through the addition of new types of benefits. The purpose of this note is to give numerical examples of how large the RRA form of life insurance can be.

The equivalent amount of life insurance protection for a railroad employee at a given point of time is the present value of all future RRA survivor benefits that would be payable to the employee's family if he were to die at that time. The amount depends upon the number, relationship, and ages of his dependents and also upon his earnings record. The present value of the benefits is obviously less than the expected total of actual payments because, for purposes of determining a present value, future payments are discounted at interest to the date of the employee's death. The longer the waiting period before the benefit becomes payable, the greater is the discount, and therefore the greater is the reduction in the present value.

Attached Exhibit A contains a number of illustrative examples for different earnings records and different types of family. The lowest amounts of equivalent life insurance are for men who leave no survivors eligible immediately or potentially to monthly benefits. Conversely, the largest amounts are for cases where

*The same is true for the social security (SSA) program. The main difference is that railroad retirement guarantees a return of the employee's contributions (the residual payment), while social security has no such guarantee. Otherwise, the life insurance equivalent of SSA survivor benefits would be approximately 91 percent of that under the RRA.

the family consists of a wife and 3 or more young children. In cases of the latter type, the life insurance equivalent of the RRA survivor benefits can be as high as \$60,000 or more.

A different approach to this problem is presented in the attached chart which forms Exhibit B. There, the equivalent amounts of life insurance are traced progressively through a railroad employee's lifetime. The story begins when the man enters railroad service at age 22 and continues through his future lifetime. For purposes of this chart, it was assumed that the employee has entered service at the beginning of 1969 and that he will remain in the railroad industry until retirement at age 65 or death whichever will occur earlier. His earnings will be \$650 a month or more throughout his working lifetime. Other specifications for the chart are that the employee will marry a woman 5 years his junior in 1972 and that they will have two children born 2 and 5 years, respectively after their marriage.

The chart shows how the equivalent amount of life insurance varies according to the age of the employee. Except for the extreme portions of the graph on either side, the amount ranges from a low of \$20,000 to a high of nearly \$70,000. The chart gives information not only on the total amount of equivalent life insurance but also on the components which make up that total. Examples of the amounts shown in the chart are given in the table below. Except for the \$255 figure, all others have been rounded to the nearest multiple of \$100.

EQUIVALENT AMOUNT OF LIFE INSURANCE BY TYPE OF RRA SURVIVOR BENEFIT

	Total	Monthly benefits			Insurance lump sum	Residual payment
		Widowed mother	Children	Aged widow		
Age of employee:						
25	\$2,200				\$255	\$2,000
30	66,500	\$8,500	\$56,300	\$1,400	255	
40	51,600	8,000	37,400	6,200		
50	20,900		4,200	13,700		3,100
60	29,400			23,700	1,600	4,200
70	27,000			27,000		

NOTE.—Total may differ from sum of components because of rounding.

As can be seen from the chart, the life insurance protection provided by the railroad retirement program (as well as that provided by the social security program) is tailored to the needs of the family at various stages of the employee's life. The protection is especially large when there are minor children; it declines when the children are grown and the wife is still of an age where she can find work; and it rises again when the wife begins to approach old age. From that point on, the wife's actual benefit as a widow remains stationary but the present value of her benefits gets smaller and smaller as she grows older.

Because of the relatively few employee deaths at the young and early middle ages, the large benefits paid with respect to such deaths do not add much to the costs of the survivor benefits program. In fact, the variable amounts of insurance depicted on the chart are equivalent to a level amount of some \$26,000 during the employee's whole lifetime. The net level premium for this (payable until age 65 and computed according to the tables currently used by the Board) would be \$206 a year or 2.65 percent of his taxable payroll of \$7,800 per year. For an employee who never marries (situation different from that depicted by the chart), the equivalent level amount of life insurance—in the form of insurance lump sums and residual payments—would be only \$12,300 and the net level premium to age 65 would be \$97 per year or 1.25 percent of taxable payroll.

Insofar as the railroad retirement system is concerned, the costs of survivor benefits are determined on the basis of averages for large groups of employees. In some cases, the benefit payments are large, in others small, and in still others the Board pays no benefits at all because the survivor benefits come within the jurisdiction of the Social Security Administration. The cases covered in this note tell only a part of the cost story. The whole story involves many complex considerations and is told in the reports on the Board's actuarial valuations.

TECHNICAL REMARKS

1. In both exhibits, the benefit amounts (other than the insurance lump sum and the residual payment whenever applicable) have been computed according to the overall minimum formula of the RRA. This implies an assumption that none of the survivors will be eligible for SSA benefits in their own right.*

2. For purposes of Exhibit A, only the more common types of RRA survivor benefits were considered. Benefits based on disability or school attendance were disregarded as relatively small cost items. However, for purposes of Exhibit B (the chart), benefits to student children were included.

3. Except when a residual payment is involved, the RRA amounts shown in the exhibits are approximately 10 percent above those which would have been available under SSA in similar circumstances. The largest discrepancy is in cases where the employee leaves no survivors immediately or potentially eligible for benefits. In such cases, the total of social security benefits would have been only \$255, whereas under the RRA a residual payment of several thousand dollars may be payable.

4. The net annual premiums quoted in the text (\$206 a year for \$26,000 of life insurance paid up at age 65 and \$97 for \$12,300 of insurance) are much lower than the premiums currently charged by private insurers for such coverage. The main reason for the differences is that the private insurance premiums include allowances for commissions, administrative expenses, and profits—none of which is included in our figures. In addition, the private insurers generally use somewhat more conservative actuarial standards in the computation of premiums.

EXHIBIT A.—LIFE INSURANCE EQUIVALENTS OF RRA SURVIVOR BENEFITS FOR ILLUSTRATIVE CASES

[Employee dies completely insured early in 1969]

Family composition	Employee's monthly earnings ¹			
	\$300	\$400	\$500	\$650
1. No eligible dependents ²	\$7,300	\$8,500	\$8,900	\$9,100
2. Children only:				
1 child age 5.....	15,900	18,700	19,500	20,100
2 children aged 5, and 8.....	29,600	35,000	36,400	37,400
3 children aged 5, 8, and 11.....	36,100	45,600	48,000	50,000
3. Widow without eligible children and aged: ³				
30.....	4,600	5,600	6,000	6,200
40.....	8,000	9,400	9,800	10,100
50.....	12,500	14,600	15,200	15,600
60.....	18,300	21,600	22,400	23,100
65.....	15,700	18,600	19,300	19,900
70.....	13,200	15,600	16,200	16,700
4. Widow and one child:				
Ages 30 and 3.....	28,500	33,600	35,000	36,000
Ages 40 and 5.....	32,400	38,200	39,700	40,900
Ages 50 and 10.....	30,900	36,500	38,000	39,100
5. Widow and 2 children:				
Ages 30 and 3, and 6.....	39,200	49,000	51,500	53,000
Ages 40 and 5, and 8.....	40,900	51,400	54,200	56,400
Ages 50 and 10, and 13.....	36,600	45,600	48,000	49,800
6. Widow and 3 children:				
Ages 30 and 3, 6, and 8.....	42,300	53,700	56,700	59,100
Ages 40 and 5, 8, and 11.....	42,300	53,300	56,100	58,400
Ages 50 and 10, 13, and 15.....	37,100	46,200	48,500	50,400

¹ For purposes of the computations, only creditable earnings were included. The average monthly wages (within the meaning of the Social Security Act) corresponding to these gross earnings are \$300, \$388, \$411, and \$430, respectively.

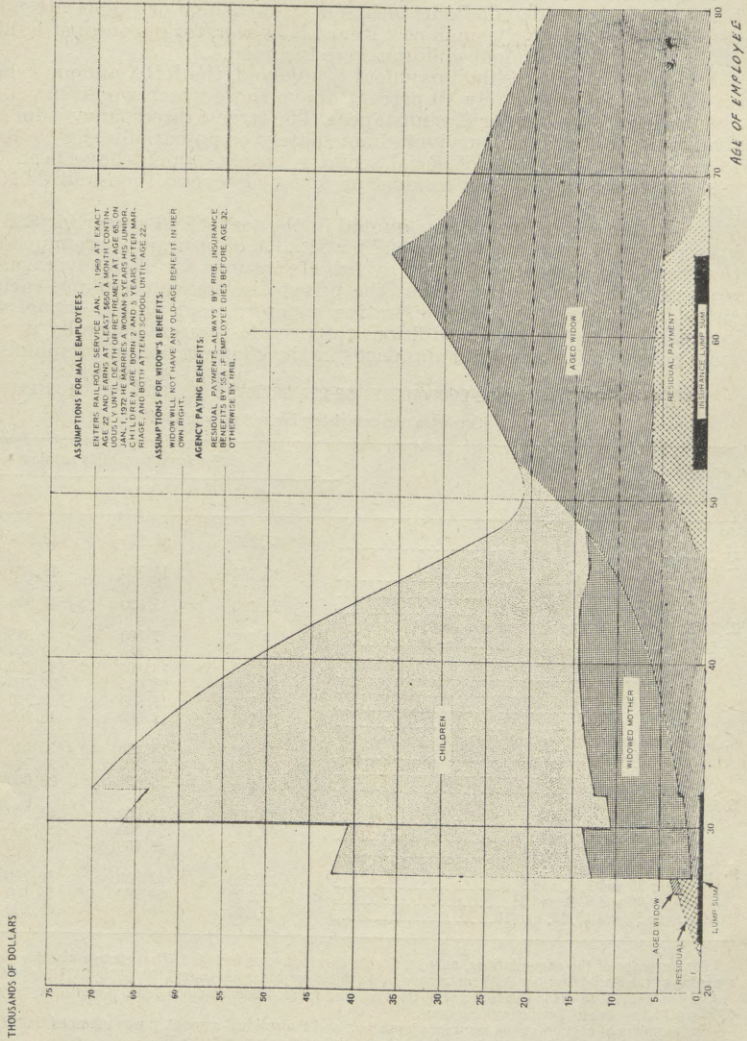
² Amounts equal to gross residual payments assuming railroad service since 1937. Under SSA, only a lump sum of \$255 would have been payable in these cases.

³ For purposes of computing the insurance lump sum and the residual amount, it was assumed that the employee was 5 years older than his wife and that he had entered railroad service at age 20.

Note.—All figures rounded to nearest multiple of \$100.

*A different assumption would have unduly complicated the computations as well as the presentation.

ILLUSTRATIVE AMOUNTS OF LIFE INSURANCE UNDER THE RAILROAD RETIREMENT ACT



Mr. FRIEDEL. Our next witness will be Mr. Lester P. Schoene, counsel for the Congress of Railway Unions.

STATEMENTS OF LESTER P. SCHOENE, COUNSEL, CONGRESS OF RAILWAY UNIONS, AND G. E. LEIGHTY, COORDINATOR

Mr. FRIEDEL. Do you have a prepared statement, Mr. Schoene?

Mr. SCHOENE. No, I do not, Mr. Chairman. I am sorry. Time did not permit me to submit a written statement.

My name is Lester P. Schoene. I am a member of the law firm of Bernstein, Alper, Schoene & Friedman, with offices in Washington, D.C., at 818 18th Street.

I appear as counsel for the Congress of Railway Unions which is an association composed of the United Transportation Union, the Brotherhood of Railway, Airline & Steamship Clerks, the Brotherhood of Maintenance of Way Employees, the Hotel & Restaurant Employees & Bartenders International Union, and the Seafarers International Union, together representing some 75 or 80 percent of all the organized railroad employees in the United States.

Appearing with me is Mr. G. E. Leighty, president-emeritus of the Transportation Communication Employees Union, for many years chairman of the Railway Labor Executives Association, and now coordinator of the Congress of Railway Unions and also representing Mr. C. L. Dennis, who is the chairman of the Railroad Retirement Committee of the Congress of Railway Unions.

In view of the opinions that I am going to express, I think it is perhaps appropriate that I should detail my experience in this area somewhat more meticulously than I customarily find appropriate.

I came to Washington in 1934 as an assistant general counsel of the first Railroad Retirement Board that was established by the Railroad Retirement Act of 1934, having previously been associated with the New York law firm of Root, Clark, Buckner & Ballantine.

When the first Railroad Retirement Act was declared unconstitutional in 1935 I transferred to other Government service but returned to the Railroad Retirement Board as General Counsel when the Railroad Retirement Board was reestablished in 1937.

I served in that capacity for 5 years, and then after an interlude of again some 2 years in other Government service, I entered the private practice of law in 1944, and since 1944 have constantly been advising railway labor organizations concerning the Railroad Retirement and Railroad Unemployment Insurance Acts.

I do not believe that there has ever been an amendment to either the Railroad Retirement Act or the Railroad Unemployment Insurance Act as to which I did not participate in its draftsmanship and also appear to testify before the congressional committees.

I express this detail because I am going to submit testimony which differs quite radically from the testimony you have heard so far, and I expect to support what I say.

I don't believe that there can be any serious doubt about the desirability, in fact the necessity of increasing the railroad retirement benefits as provided for in this bill H.R. 15733. During the past year you have increased the social security benefits by 15 percent. As a result of that action, 28 percent of the beneficiaries under the Railroad

Retirement Act automatically had their benefits increased by 110 percent of the increases you granted to social security.

This bill is designed to provide a 15-percent increase to the other 72 percent of the railroad's employees.

Now the increase that you granted to the social security beneficiaries was in the nature of a cost-of-living increase, that is, to offset the increase in the cost of living. The dollars that those people get had been eroded by the inflation that has occurred. The dollars that our people get are just as much eroded, they are eroded by exactly the same percentage that the dollars of the social security beneficiaries have been eroded.

Mr. PICKLE. Could we interrupt the gentleman for just a moment?

Mr. FRIEDEL. Mr. Pickle.

Mr. PICKLE. Both of us are wondering why upon the passage of the social security bill that this raise would pertain automatically only to 28 percent of railroad retirees but not for the 72-percent balance. Why is there a difference?

Mr. SCHOENE. I will be glad to explain that. We have a minimum provision in the Railroad Retirement Act that automatically provides that anyone will receive a benefit equal at least to 110 percent of what his benefit would have been if his employment had been under the social security system.

Now some 28 percent of our beneficiaries are paid under that minimum provision, so when the benefit under social security was increased by 15 percent that automatically resulted in an increase to our beneficiaries equivalent to the 110 percent of the 15-percent increase.

Mr. ADAMS. The remaining 72 percent then were sufficiently above the social security level that it never reached them; is that it?

Mr. SCHOENE. That is correct.

Mr. ADAMS. Thank you, Mr. Chairman.

Mr. SCHOENE. Thank you for the question. I am glad to clear that up.

Not only as a matter of justice and equity should these beneficiaries receive the increase that is provided by this bill but labor and management in the railroad industry are in accord in supporting this bill.

Now during the testimony of the members of the Board there was a certain amount of confusion generated and questions were addressed to various members of the Board, but I think when you analyze what was the actual position of two members of the Board, both the management member and the labor member recommended to you that you enact this bill. Only the Chairman raised some qualifications about it and in fact said he would be required to oppose the bill.

Now I am sure Mr. Habermeyer, whom I have known for many years, has the best interest of the railroad employees at heart. I must say to you, however, that I am afraid he has been a bit too naive about the conclusions that his actuaries have placed before him. He seems to have accepted those conclusions without any critical examination. I have made a critical examination of their own figures which I will present to you in the course of my testimony.

I believe it is fair to say that any opposition to this bill arises only out of fear that the financing may not be adequate to support it and keep the system on an actuarially sound basis. I think before I embark upon a discussion of that subject it is well for me to put before you as a

reminder what we mean by an actuarially sound basis, what we mean by deficits, what the effect of overfinancing and underfinancing may be.

I say this because it has been customary in the past to use the terms "actuarially sound" or "actuarially financed" in various senses. If an insurance company issues a policy that is actuarially sound, it is expected to generate during its lifetime a sufficient amount of money to pay out at the end of the period. An insurance company is expected to have on hand at all times sufficient assets so that if it should liquidate at that point it would be able to meet all of its obligations as they mature.

Now in that sense the Railroad Retirement Fund and the social security fund have never been actuarially sound. Neither of these funds could, if it had stopped operation, have paid out on all of its obligations. When we use the term "actuarially sound" with reference to these funds, all we mean is that the cost has been leveled out to a point where it is expected that if it operates forever the cost will remain stable but it can not stop operating and meet its obligations.

Now what is the result of this? If you are underfinanced, it means that future generations are going to have to pay more than the present generation. If you are overfinanced the present generation is paying more than the future generations. In other words, the actuarial levelling of costs is designed for the purpose of assuring equality and equity as between present and future participants. It is not a matter of whether or not you are going to pay out or meet your obligations eventually.

Mr. PICKLE. Did you say, that it is both a matter of equity and balancing the sums and also a matter of keeping sound financially?

Mr. SCHOENE. No, I don't think so. Presumably when the Government makes a commitment that certain benefits are going to be paid, that obligations will be met. This is just a question of whether they are going to have to charge more to future generations or whether they are charging the present participants too much in the case of overfinancing. I don't see that there is any question about the obligations being met eventually.

Now the latter part of the bill that is before you provides some rather important new sources of revenue for the Railroad Retirement Account, the effect of which I believe has not been comprehended by this committee at all.

These provisions have been minimized by the Railroad Retirement Board and distorted all out of proportion to what they actually are.

I want to discuss the provisions of the bill that relate to the financing and for this purpose I want you to have two documents in front of you. First is the table attached to Mr. Speir's statement and I think you should also have before you the report of the Railroad Retirement Board on this bill.

If you will look at page 3 of the Board's report, the top of the page, you will see that as of the end of December in 1969 the average rate of interest on the investments of the Railroad Retirement Account was 4.9 percent. That is at the top of page 3 of the Board's report.

On that same date the highest rate applicable to long-term Government bonds, which is the rate that would be applicable to the investments of the special obligations of the Railroad Retirement Account

upon the enactment of this bill, the highest rate was $8\frac{3}{8}$ percent. That is a difference of almost 3.6 percent.

Now it further appears from the Board's report that the special obligations held by the Account at that time were \$3,235 million. The immediate effect of the enactment of this bill, assuming conditions as they were at the end of 1969, is the generation of additional interest income over and above what is now being earned by the investment of the Railroad Retirement Account.

Now if you will look further into the Board's report at page 5, we get their estimate in the table there, we get their estimate—and I am talking about the third group of items in the estimate—of the additional benefit payments for 1970 on an accrual basis. It is broken down to \$55 million by virtue of the social security amendments that you enacted last year. By virtue of this bill you would pay in the year 1970 \$141 million additional, or a total of \$196 million.

Then if you will glance down at the bottom group of figures, you will find that the additional income from the financial interchange with social security as a result of the social security amendments is \$135 million.

Now your additional income is \$116,460,000 from interest. Your additional income from the financial interchange is \$135 million. Adding those two together you get increased income to the Railroad Retirement Account of \$251,460,000. As a result of the combined social security amendments and this bill, you would have an additional outlay of \$196 million. This leaves a net gain in the first year of \$55,460,000.

Now the Railroad Retirement Board has been estimating that prior to the enactment of the social security amendments we had a deficit of \$58 million. Now bear in mind what I told you at the outset, that this does not mean that there is a current deficit of \$58 million. We have had a surplus in every year that this fund has been operating. We have not had a deficit in any ordinary sense. This only means that in order to run until the end of time by the actuary's estimate we should be getting \$58 million a year more.

Well, based on their projections as to what is going to happen in this fund next year you will have a net gain of \$55,460,000 from the enactment of this legislation in combination with the social security amendments, or within \$3 million of absorbing the theoretical deficit of \$58 million.

Mr. PICKLE. At this time we have no deficit?

Mr. SCHOENE. We have no deficit whatever. This is a figment of the imagination of the actuaries.

Now I have been talking only about what is going to happen the first year. Incidentally, Mr. Adams, in this connection I think you should be interested with respect to the questions you asked of the members of the Board whether it was safe to wait for a year or whether you could possibly wait 2 years. Based on their projections we are going to be \$55 million better off if we enact this bill at the end of the first year. However, I realize that we are not dealing in terms of today or tomorrow or the day after tomorrow, we are dealing in long-range terms.

Before embarking on the long-range effects, however, I do want to remind you that in what I have said so far I have dealt only with the interest rate on the special obligations issued to the railroad

retirement account alone; that is, approximately \$3.2 billion. Actually the assets of the railroad retirement account are almost exactly \$5 billion. The balance of the account is invested in marketable obligations of the Government.

Another provision of this bill requires the Secretary of the Treasury, whenever it is to the interest of the account to do so, to liquidate marketable obligations and to invest them in the special obligations. So you have got about \$1,800 million in marketable obligations which will gradually be placed at better interest rates under this bill in addition to the benefits of the investment of the special obligations that I have already discussed.

Now as to the long-range, the actuaries of the Board estimate the long-range effects of this bill to improve the interest income to the account by \$26 million per year. That is in contrast to the \$116 million for next year.

Now I had occasion about 10 days ago to discuss these estimates with Mr. Cowen, who is here this morning, and I asked him two questions. The first question I asked him was as to this \$26 million. I said, "What is your estimate as to the additional income that will be produced through this change in investments for the first 5 to 7 years? Would it be in excess of \$26 million?" He said "Oh, yes, it would be in excess of \$100 million."

I said, "All right, then after that you will estimate that the difference as against present law would decline. Is that because under the present law the interest income would increase or because you are projecting a decline in the interest under this new program?"

He said, "It is because under the present law the interest would increase."

Now this is quite understandable because the present law provides that the interest on the special obligations is to be at the average interest rate of long-term Government bonds. Now as we get into a period when hopefully interest rates will stabilize, the average will more nearly approach the maximum. So it is entirely expectable that under the present law the interest income will increase. In fact, we are told in the Board's report filed with this committee that the sharp increase in income cannot be expected to last for a long period of time unless the interest rates continue to rise. Of course that is true. But the real question in terms of financing is at what level will they stabilize, not whether they will stabilize or whether the difference between present law and the provisions of the bill tends to diminish.

Incidentally, this is at page 6 of the Board's report that they tell us that the effect of the provisions relating to new investments and automatic reconversions can continue only for a short time.

Now I would like to turn to the table that is appended to Mr. Speirs' statement, bearing in mind that Mr. Cowen has told me that his \$26 million per year estimate of the value of the interest provisions of this bill are predicated upon a decline of the difference between the interest to be expected under the present law and the interest to be expected under the bill and also bearing in mind that the average interest rate on investments in the account at the end of 1969 was 4.9 percent.

Now look at the table that is appended to Mr. Speirs statement and you will note there in the line labeled "1968" you had a deficit projected of \$58 million, which deficit was reduced to \$7 million by the

enactment of the social security amendments. But look under the column entitled "Interest Rate Assumed" and you will find that the interest rate assumed was 3.75 percent notwithstanding the fact that the average rate actually being enjoyed was 4.9 percent. That same interest rate assumption appears under 1969. I called attention to 1968 and 1969 because 1968 contains the projection of \$58 million deficit.

So although the \$26 million estimate that has been furnished to this committee is based upon a decline in the margin between what is provided for in this bill and the interest rate under the present law, it necessarily assumes a constant increase for some years in the interest rate under the present law. But by contrast in making their long-range projections the interest rate assumed is 3.75 percent, a lower rate than is being enjoyed by these investments at the present time by over 1 percent.

Also, I want you to look at the table that is appended to Mr. Speirs' statement and look at the payroll assumptions. These payroll assumptions have already succeeded in engendering considerable confusion because the average employment in thousands as shown on that table is the average employment implied by the payroll assumptions.

In other words, this has nothing to do with what actually happened by way of employment in these years. It is simply what assumptions were made. Similarly, the taxable payroll in the column just to the left of that one, as Mr. Cowen explained, is the assumed payroll and has nothing whatever to do with what was actually the experience of the railroad retirement account.

Now I think this is a very important factor, and I think that the committee should be thoroughly aware of it. We have heard a great deal about the decline in railroad employment.

During the time that I have been associated with this industry I have seen employment in the railroad industry decline from over a million and a half to approximately a half million. This looks like a very drastic thing to have happen to our industry and it is a severe thing from some points of view. But from the standpoint of the railroad retirement system it has not in fact had the severe impact that it might be believed to have had because we raise our money, we levy our taxes not on numbers of employees but on a taxable payroll, on dollars. The fact is that the general trend of the taxable payroll has been upward. As Mr. Speirs pointed out, much to the surprise of the committee, after all this talk about decline in employment, as Mr. Speirs pointed out, in 1968 the taxable payroll was almost \$5 billion. The figures are not in yet for the total of 1969 but the first three quarters indicate that it will be approximately that amount in 1969.

Now I recall appearing before this committee back in 1946 when Murray Latimer was criticized for being so bold as to project a payroll of \$3.5 billion. That is long since obsolete; it has grown now to where it is \$5 billion. Yet the Board's actuaries continue to predicate their projections on unrealistically low payrolls.

You will note that the 1969 figure in table 1 appended to Mr. Speirs' statement is \$4.5 billion. Now there is no reason in the world to predict a payroll of that sort. All experience indicates that the payroll will continue to grow. Now the excuse that the actuaries use for not predicting a higher payroll is that they say with declining employment a higher payroll could come only from wage increases,

and of course that is true. We know that there have been wage increases, we know there are going to be wage increases in the future, and any sensible actuary is going to have to make sensible assumptions and not fictitious assumptions.

Yet they tell us you can't take those into account because if you have increased wages the base for benefits is going to be increased, and that is true, but all experience indicates that approximately 50 percent of the increased base is realized in the form of increased financing and is not expended in additional benefits.

So I think that the evidence is clear that both in the short run and in the long run we have nothing to fear by the way of financing of the railroad retirement account from the enactment of this bill.

Now before I conclude I want to address myself to the report from the Bureau of the Budget which I notice is appended to the report of the Railroad Retirement Board. The Bureau of the Budget opposes enactment of this bill primarily on two grounds. They say that it runs counter to the longtime efforts of the Bureau and of the Congress to secure uniformity in the investment of Government trust funds. If there has been such an effort, which I don't purport to know, but if there has been such an effort, it does not apply to the railroad retirement account.

Back in 1937 when the railroad retirement system as it now exists was first set up, it was set up by management and labor meeting together at the suggestion of President Roosevelt and with the assistance of the Secretary of the Treasury and the Chairman of the Railroad Retirement Board. A deliberate decision was made that although this new system was to be self-sustaining in the main, a Government subsidy could be contributed in the form of an interest rate.

As a result of the decision then made, we have today in the railroad retirement legislation a provision that guarantees that the interest rate shall not be lower than 3 percent on the special obligations that are issued to the account. This, as I say, was a deliberate decision made for the purpose of providing that degree of Government subsidy.

Now this 3 percent means nothing the way interest rates are today. In 1937 it meant a great deal because at that time interest rates, as I recall generally, on Government bonds were under 2 percent. In other words, this was about a 50-percent subsidy on the rate of interest at that time and there has been no reconsideration of that policy. There has been no deliberate action by Congress or anybody else to reverse the policy that was agreed upon in 1937. So the Bureau of the Budget in its first objection is at least historically wrong.

Secondly, the Bureau of the Budget says that they are opposed to any increases in benefits unless there is first an objective and independent study of the whole railroad retirement system. Now those are nice words, aren't they, "objective and independent"? In academic circles they sound good but I don't know what they mean in this context. If objective means disinterested, which is what I think it ordinarily means, I think we would have every reason to reject the suggestion. This whole system was predicated on agreement initially by the parties in interest and every bit of progress that has been made has been not objective but motivated by people who were highly interested, who were not objective at all.

So I would immediately object to any kind of postponement in this legislation to permit an objective study.

Now the other word they use is "independent." Well, independent of what? The Bureau of the Budget indicates in its communication that it actually believed that the enactment of the Social Security Act increased the actuarial deficit of the railroad retirement account, whereas it actually improved it to the extent of \$135 million a year. So "independent" coming from the Bureau of the Budget and as applied to this subject matter seems to me to mean independence of any knowledge of the subject. So I would also reject any independent investigation of this subject.

I believe that the people who are interested on the part of management and on the part of labor have shown themselves to be perfectly capable of managing this system and I would suggest that they continue to manage it without intervention on the part of the Bureau of the Budget.

That concludes my statement.

Mr. FRIEDEL. Thank you.

Mr. Leighty, do you wish to add anything?

STATEMENT OF G. E. LEIGHTY

Mr. LEIGHTY. Yes, I have two or three things that I would like to add, and that is again to reemphasize the fictitiousness of this \$58 million alleged deficit.

During the entire period that this alleged deficit has existed the reserve fund of the Railroad Retirement Board has constantly increased. I became very much concerned and interested in the railroad retirement and railroad unemployment insurance funds in 1946 and have followed them closely ever since.

During most of that period of time I was president of our Legal Reserve Life Insurance Co. and that life insurance company had outstanding insurance of around \$10 million. During my term in office we increased our reserves some \$3 million, and consequently we had the best record of solvency of any life insurance company in the country. So I am not just talking off the top of my head. I know something about actuaries and I know something about insurance.

I say to you that to enact this bill as it is presently written and as it proposed is not taking a gamble in any way. We are absolutely certain that the fund will not be jeopardized in any way, that there will be an addition to the reserve fund in every year.

As has been pointed out, we have over \$5 billion in our reserve fund. Social security has around \$30 billion in their reserve fund and they cover 70 times the number of employees that are covered under railroad retirement. If they had the same proportion that we have, instead of having \$30 billion they would have to have \$350 billion, and that would be a fantastic amount.

Now I have disagreed with the actuaries on the Board since 1946, and the records of your committee will show that disagreement and show that in every instance they have been wrong and you will find that the projections that we have made have been right. Alibis, sure. There has been change in conditions. We are going to continue to see change in conditions.

Does anybody here think that either social security or railroad retirement is going to be the same 3 years from now as it is now? That is fantastic.

Then when you begin to talk about perpetuity, when you know the system is constantly changing and when you know that your figures have been constantly wrong, I don't understand the actuaries of the Board when they present such allegations.

I say to you that they are only allegations and we can prove them to be wrong any time that anyone has enough time to sit down and discuss them with us.

That is all I have to say at this point.

Mr. FRIEDEL. Thank you, Mr. Leighty.

Mr. Kuykendall.

Mr. KUYKENDALL. Mr. Leighty, so we can be comparing apples and apples we seem to have a very definite difference of opinion here. Would someone give me the size of your fund in 1960 as compared to 1970, for 10 years? Actual number of dollars in the fund.

Mr. LEIGHTY. The actual number of dollars in the fund over the 10-year period increased almost \$1 billion. I have it by years but I don't have the book before me.

Mr. KUYKENDALL. I bet he has it there. The year 1970 and the year 1960.

Mr. LEIGHTY. Of course the last figure we actually had is 1968. That is really what we have.

Mr. KUYKENDALL. I was hoping to get 10 years but that is all right.

Mr. LEIGHTY. Approximately \$1 billion during the period that we were constantly having an actuarial deficit. The Board also said that the number of beneficiaries have now reached their peak but it will be 4 or 5 years before the total amount paid will reach its peak, and of course that can be changed by future amendments.

Mr. KUYKENDALL. I believe your colleague there probably has the figure I am asking for.

Do you have it?

Mr. SCHOENE. No, sir; I don't.

Mr. KUYKENDALL. Since there have been different claims, and I think probably the claims are not as far apart as they seem, that actuarial deficit and actual fiscal deficit may be entirely two different things. Is that not correct, sir?

Mr. LEIGHTY. Let me point out to you that when Railroad Retirement—

Mr. KUYKENDALL. Let us get this one straight for the record. Is it not true that an actuarial deficit may be projected honestly and still have an asset that year, or a surplus that year? Is this not true?

Mr. LEIGHTY. That is true; yes.

Mr. KUYKENDALL. All right.

Mr. LEIGHTY. But when the fund is going to reach its peak within 3 or 4 years, you have got a different situation. We put as much as \$200 million a year in our reserve fund in the last 5 years.

Mr. KUYKENDALL. One of the things that distresses me here is my concern primarily about your employee. I look at what your employee, for instance with 10 years' service retirement. Now your long, long time employees, it does not show up quite as badly because social security does not give the bonus for extra service years that your plan gets; is that correct?

Mr. LEIGHTY. That is correct.

Mr. KUYKENDALL. But a guy with about 20 years, his income is not very good compared to what you get out of social security. The

only source of income that you have under the present law is the employer and employee; is that correct?

Mr. LEIGHTY. That is correct, plus the interest, plus the financial exchange with the Social Security System.

Mr. KUYKENDALL. Investment income. We understand that.

Mr. LEIGHTY. Well, the financial interchange with social security is a substantial amount.

Mr. KUYKENDALL. I have the idea it grew from \$4.2 to \$4.6 billion. That is in 5 years. That is \$400 million in 5 years. So you said about a billion in 10 years, approximately that.

I don't think this committee can totally ignore actuarial projections from this Board as you gentlemen choose to. I guess it is your business to be optimistic; we politicians have to be optimistic every election year so I guess it is your business to be optimistic.

My greatest concern is, and believe me, this is creeping into our mail from social security constituents, the people between 30 and 40 years of age that don't see retirement out there and they are wondering just how big is this bill going to get before we finally get to collecting some of it.

You know we used to project social security as being a good investment; well, it has long passed being a good investment. It is just a tax now for a future pension and that is all there is to it.

My only concern about this legislation, sir, is your member. I am not concerned about anything else except your member. If this thing is right, I am not terribly concerned about what the Bureau of the Budget says but your member is the man I am really concerned about, because he has to be the source of half of any deficit; is that correct?

Mr. LEIGHTY. That is correct, and we are just as interested in him as you or anybody could be, and we are going to see to it that the money is there to pay his annuity when it comes his turn to retire.

I can assure you that the projections we have made will do exactly that.

Now this fund was not started on an actuarial basis because we gave credit for prior service which amounted to several billion dollars and what we did at that time was to determine the amount of interest that would be raised from that fund if it had been in the kitty. We have arranged and handled it in that manner and we still have a prior-service liability but that has all been taken into consideration in the statements that have been made by Mr. Schoene and in the computations that I have made.

I might say, too, that I am chairman of our health and welfare committee. We deal with actuaries in the work of that committee which I have constantly disagreed with in every year and insisted upon better benefits which cost more, and in every year that fund has been in the black since its inception and every insurance company in the country wants to get in as a reinsurer.

Mr. KUYKENDALL. Your actuaries that you are speaking of in your organization that you work with, were they part of the group that worked on the supplemental annuity?

Mr. LEIGHTY. They were not; no. We relied upon the Board actuaries in the supplemental annuities.

Mr. KUYKENDALL. I just wondered if you were going to admit that.

Mr. LEIGHTY. That is correct, but I did work with a group of very competent actuaries when I was president of our life insurance company and I know quite a little about actuarial computations.

Mr. KUYKENDALL. Did you by any chance—and I would like to know because I was not on this committee at that time—did you warn this committee on the actuarial unsoundness of the supplemental annuities?

Mr. LEIGHTY. Did we what?

Mr. KUYKENDALL. Did you warn this committee about the actuarial lack of soundness of the supplemental annuities?

Mr. LEIGHTY. Well, I think we didn't have any actuarial survey made on supplemental annuities. The actuary of the Board told us what he anticipated the retirements would be because of the supplemental annuities. They were much greater than he had anticipated. He said that he based that on previous studies that they made and samples that they took, and I will say to you very frankly they were very erroneous. Part of that was due to mergers in the railroad industry which reduced employment and made it advisable for employees who would have to accept positions that they didn't like to take retirement rather than to accept those positions, and most of them were entitled to the supplemental annuity.

Now, another thing: Every time there is a wage increase while we have a ceiling of \$650, only 50 percent of the railroad employees approach that ceiling now, and every time there is a wage increase there is an additional amount that goes into the taxable payroll. That is why the taxable payroll has been increasing even though employment has been decreasing.

As Mr. Schoene pointed out, that is what we should consider, the taxable payroll. Even though it is at a point of \$5 billion, their estimate \$4.5 billion, totally overlooking the taxes on that \$500 million a year that amounts to \$100 million a year. Now if that were to also be taken into consideration in addition to what Mr. Schoene testified to, you can see why we don't consider it a gamble in any way.

Mr. KUYKENDALL. What percent did it draw in your last available period?

Mr. LEIGHTY. The last figures the Railroad Retirement Board furnished us was 4.90 percent, and they admit that their actuarial \$58 million deficit was based on an interest rate of 3.75 percent.

Mr. KUYKENDALL. What do you think you are getting right now, maybe six?

Mr. LEIGHTY. No; we are not getting six. I would say we are getting approximately five.

Mr. KUYKENDALL. You still own some old paper?

Mr. LEIGHTY. Yes; that is correct. We had it. We agreed with the Bureau of the Budget for a turnover of our funds, a certain percentage of them would be turned over every year. That turnover has been the real reason for the increase in the interest rates that we are now receiving.

Mr. KUYKENDALL. As your old paper is being retired is not most of that going into short paper now?

Mr. LEIGHTY. No; not into short—well, it all depends on what you mean by short paper.

Mr. KUYKENDALL. Less than 7 years.

Mr. LEIGHTY. Less than 7 years, I would say it is about a 50-50 proposition. Some of it goes into as much as 7 years. We have some 6½ percent, I believe it is, that does run for 7 years. On the other hand, we have some that only run for 3 years.

Mr. KUYKENDALL. Are you dealing in any short-term Treasury paper, getting 7.8 percent, and that kind of figure out of it?

Mr. LEIGHTY. What percentage?

Mr. KUYKENDALL. Treasury bills now you know are bringing in between 7½ and 8 percent.

Mr. LEIGHTY. No.

Mr. KUYKENDALL. You are not dealing on those short-term papers?

Mr. LEIGHTY. Another thing that is important in connection with this case, we have limited the things that we can invest in to Government securities and for that reason we have limited the interest rate which we can secure for the fund.

Now if we had a free hand or, say, Government guaranteed paper such as FHA loans, why, we could have improved our interest rate considerably and at one time we were considering asking Congress to amend the law to permit us to do so.

Mr. KUYKENDALL. You mean you cannot buy 9 and 12 months Treasury bills?

Mr. LEIGHTY. We could if the Treasury Department would buy them for us, but as the law now stands, the Treasury Department has almost exclusive jurisdiction as to how our funds are distributed.

Mr. KUYKENDALL. Are you saying it is illegal for you to have that type of income?

Mr. LEIGHTY. Now I would not say it is illegal but the Treasury Department just does not purchase them for us. The Treasury Department determines what we will purchase. The Board can make recommendations and the Treasury Department in some instances that I know of have ignored the suggestions of the Board.

Mr. KUYKENDALL. Do you know whether or not this is true with social security?

Mr. LEIGHTY. I could not say; no.

Mr. KUYKENDALL. You don't know whether it brings more than social security?

Mr. LEIGHTY. About the same.

Mr. KUYKENDALL. So the money the Government is paying out on interest on their real short paper less than a year is not being made available to either you or social security according to your understanding; is that correct?

Mr. LEIGHTY. That is correct.

Mr. KUYKENDALL. That is correct?

Mr. SCHOENE. Mr. Kuykendall, you asked about the current rate of interest. If you will look at page 3 of the Board's report to this committee, it shows that the average rate as late as December 1969 was 4.9 percent.

Mr. KUYKENDALL. 4.9 percent.

Mr. SCHOENE. That was the average rate that they were earning on the investment.

Mr. KUYKENDALL. One last question: Are you prohibited by law from buying participation certificates like Federal AmBank bonds, FHA bonds, FNMA bonds, GNMA bonds?

Mr. SCHOENE. We are limited to what is guaranteed as to both principal and interest by the Government of the United States. Now whether any of these that you enumerated fall into that category, I don't know.

Mr. KUYKENDALL. Thank you, Mr. Chairman.

Mr. FRIEDEL. Mr. Springer.

Mr. SPRINGER. Mr. Leighty, one question I would like to ask. The Chairman of the Railroad Retirement Board testified that if H.R. 13300 plus H.R. 15733 were put into effect that the deficit would be approximately 1.75. Do you and your actuaries agree with that figure?

Mr. LEIGHTY. We do not.

Mr. SPRINGER. What do you think it would be?

Mr. LEIGHTY. Well, Mr. Schoene was testifying what this interest rate would amount to. Instead of the \$26 million for the next 5 to 7 years it would amount to over \$100 million. Now the Board has said in estimating the \$58 million deficit, which they allege we now have on actuarial basis, was based on an interest rate of 3.75. Well, you know, and I know, that the interest rate is going to greatly exceed that amount. Their own account is now getting more than that. For a dozen different reasons, I enumerated them for myself not too long ago, and there are 16 individual items on which I take exception to the conclusions of the actuaries and the Chairman of the Board.

Mr. SPRINGER. I think they were basing it on an average of over a 5- or 7-year period.

Mr. LEIGHTY. No, they were basing it on perpetuity. When you ask them what perpetuity is, they cannot tell you. Does it amount to 200 years? Well, it could. Does it amount to 300 years? Well, it might.

Now why are we basing things on perpetuity? Why don't we base them on a reasonable figure?

Now there is \$5 billion in our fund. Even with their actuarial deficit of \$93 million a year they tell us that the fund would be broke in 20 or 25 years. Well, do a little arithmetic. That would require at least 50 years on that basis and then you would have to ignore the interest that that fund has earned during that period. That is why these figures that they submit are so fantastic and won't stand analysis.

Getting back to the Board of Directors. I certainly would not try to sell my board of directors anything that I didn't think was right, and I never have, and I would not try to sell this committee anything that I didn't think was right.

Mr. SPRINGER. Let me ask you this: What do your actuaries say with reference to the fund? Not what you say, but what do your actuaries say? It will be 1.75 or not?

Mr. LEIGHTY. Our actuaries tell us it would take months for them to make a complete study of it.

Mr. SPRINGER. I see.

Mr. LEIGHTY. They admit that there are very large numbers of items in connection with the studies that the Board's actuaries make that they seriously doubt, but to make a study and to come up with a reasonable figure would require several months of time. We have not felt that it would be to our advantage to try to get a study of that kind made because we too, have to look at the expenses that we incur.

Mr. SPRINGER. Thank you, Mr. Leighty.

That is all, Mr. Chairman.

Mr. FRIEDEL. The meeting will now stand adjourned. We will reconvene tomorrow at 10 a.m. We have three additional witnesses. We won't be able to use this committee room. We will probably meet in room 2218 but you better check it out with the committee staff.

(Whereupon, at 12:33 p.m. the subcommittee adjourned to reconvene at 10 a.m. Wednesday, February 25, 1970.)

RAILROAD RETIREMENT 15 PERCENT BENEFIT INCREASE

WEDNESDAY, FEBRUARY 25, 1970

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

The subcommittee met at 10 a.m., pursuant to notice, in room 2218, Rayburn House Office Building, Hon. Samuel N. Friedel (chairman of the subcommittee) presiding.

Mr. FRIEDEL. The subcommittee will now come to order. This is a continuation of hearings on H.R. 15733 and other identical bills.

Our first witness this morning will be Mr. Edward J. Hickey, Jr., general counsel for the Railway Labor Executives Association.

I understand you do not have a prepared statement.

Mr. HICKEY. No, I don't, Mr. Chairman. Like Mr. Schoene we have been attending meetings of our principals in Florida and time did not permit the preparation of a statement. I do have a short statement.

Mr. FRIEDEL. Do you have an idea how long you might take?

Mr. HICKEY. About 5 minutes.

Mr. FRIEDEL. You may proceed.

STATEMENT OF EDWARD J. HICKEY, JR., GENERAL COUNSEL, RAILWAY LABOR EXECUTIVES ASSOCIATION

Mr. HICKEY. Mr. Chairman, members of the subcommittee, my name is Edward J. Hickey, Jr. I am a partner in the firm of Mulholland, Hickey & Lyman. My address is 620 Tower Building, Washington, D.C. I am general counsel for the Railway Labor Executives Association on whose behalf I appear here this morning in support of H.R. 15733.

The Railway Labor Executives Association is presently composed of the chief executives of 14 international and national railway labor organizations and the Railway Employees Department of the American Federation of Labor, CIO. For the record I should like to identify these organizations. They consist of the American Railway Supervisors Association; the American Train Dispatchers Association; Brotherhood of Railroad Signalmen; Brotherhood of Railway Carmen of the United States and Canada; Brotherhood of Sleeping Car Porters; the International Association of Machinists and Aerospace Workers; the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers; the International Brotherhood of Electrical Workers; the International Brotherhood of Firemen and Oilers; the International Organization of Masters, Mates and Pilots of America; the National Marine Engineers Beneficial Associa-

tion; Railroad Yard Masters of America; the Railway Employees Department of the AFL-CIO; the Sheetmetal Workers International Association and the Brotherhood of Locomotive Engineers.

Now these organizations are speaking here for approximately 255,000 employees. The Railway Labor Executives Association has actively participated in the formulation of the bill which is before this committee in which, as was stated yesterday, all rail labor organizations are united in support.

On behalf of the employees represented by the Railway Labor Executives Association we earnestly urge the passage of H.R. 15733. No one denies that the increases proposed are badly needed today and it would be tragic if the railroad employees did not receive an increase in their annuities commensurate with the cost-of-living adjustments in social security benefits provided in the Social Security Amendments of 1969 by Public Law 91-172.

We are talking about something very vital affecting almost a million senior citizens who are the current beneficiaries of railroad retirement. They need this adjustment badly and they need it now at the worst possible time when inflation is ravaging their incomes.

Now Mr. Schoene yesterday appeared in support of this bill and gave testimony on behalf of other rail unions, and I would like to make one observation with respect to that testimony. He was not just an ordinary lawyer appearing on behalf of a client. It is perfectly obvious when you examine his credentials and look into the background and experience which he has had with the Railroad Retirement Board and ever since by participating actively in all of the measures which concern railroad retirement that he was speaking as an expert equal to or superior to anybody representing the Board. We believe that the testimony which he gave with respect to the alleged deficiency was compelling testimony.

Regardless of what may be said pro and con with respect to actuarial computations the fact remains, as Mr. Schoene pointed out, that even under admissions by the Board's actuaries the interest increase provisions of this bill will generate \$116 million plus in the first year and over a period of 7 years \$100 million a year. Now whatever complications you may get into with respect to making forecasts in perpetuity, the fact remains that this bill is financially sound at least for a reasonable period.

If the people who pay the bill for railroad retirement—that is, the carriers and their employees—are satisfied with the financial soundness of the proposal before you, as they are in this case, we do not think that this committee should allow actuarial computations of at least dubious validity to deter it from equating railroad employees with their counterparts under social security with respect to badly needed cost-of-living adjustments.

Thank you.

Mr. FRIEDEL. Thank you, Mr. Hickey.

Mr. Devine, do you have any questions?

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

Mr. FRIEDEL. Thank you very much.

Our next witness will be Mr. J. P. Hiltz, Jr., chairman of the National Railway Labor Conference.

Mr. Hiltz.

STATEMENT OF J. P. HILTZ, JR., CHAIRMAN, NATIONAL RAILWAY LABOR CONFERENCE; ACCOMPANIED BY BURTON N. BEHLING, VICE PRESIDENT, AMERICAN ASSOCIATION OF RAILROADS; AND HUGH GREER, DIRECTOR OF RESEARCH, NATIONAL RAILWAY LABOR CONFERENCE

Mr. HILTZ. Mr. Chairman and members of the subcommittee, I have with me today Mr. Burton N. Behling who is vice president of the American Association of Railroads, and Mr. Hugh Greer, the director of research for the National Railway Labor Conference.

My name is J. P. Hiltz, Jr., and I am chairman, National Railway Labor Conference, 1225 Connecticut Avenue, NW., Washington, D.C., which—along with the Eastern, Southeastern and Western Carriers' Conference Committees—handles labor matters for the railroad industry at the national level. I am speaking today for the railroad industry.

In the present inflationary environment the railroads recognize that some increase in the level of railroad retirement benefits is justified. Such increase should be reasonably commensurate with the cost-of-living adjustments in social security benefits provided by the Social Security Amendments of 1969 (Public Law 91-172). However, we are mindful, as I believe this committee and the Congress are as well, of our continuing responsibility on behalf of our employees past and present to safeguard the financial integrity of the Railroad Retirement System.

For reasons which I shall later explain, the railroad industry is supporting the enactment of H.R. 15733 provided its provisions, as a package, remain intact.

In its principal provision, this bill would increase annuities and pensions payable under the Railroad Retirement Act by 15 percent, or generally by the same percentage as social security benefits were recently increased. It may be noted that since railroad retirement benefits are already substantially greater than those under social security, the same percentage of increase provides substantially greater amounts in dollars of increase under railroad retirement. The bill also provides that the increase in employee annuities is not to exceed \$50 per month and that the increases for spouses and survivors are not to exceed \$25 per month. However, these maximum limits would have no immediate effect on the amount of increase in benefits nor would they have any effect for the next several years.

To help pay for the costs of the benefit increases, H.R. 15733 also proposes to change the method of providing interest on investments in the railroad retirement accounts, so as to increase substantially the yield to the fund. This would, of course, be a welcome financial support for the Railroad Retirement System and has merit in that a substantial part of the investment is now "locked in" at rates far below current interest levels.

The net effect of all the provisions in H.R. 15733 and those resulting automatically from the 1969 Social Security Amendments, according to data developed by the Railroad Retirement Board and as stated by Chairman Habermeyer of the Board would be to increase the actuarial deficiency of the railroad retirement system from \$58 million a year to \$67 million, or by \$9 million.

It must be especially emphasized that the indicated \$67 million deficiency takes into account additional interest income of \$26 million a year on a level basis anticipated to result from the new investment policy proposed by the bill. Without this additional interest income the actuarial deficiency would be raised to \$93 million a year, or \$35 million a year more than it was before the 1969 Social Security Amendments.

We believe that it would be imprudent and irresponsible to incur an actuarial deficiency of \$93 million a year, for this would mean that the railroad retirement fund would be drained dry in less than 25 years. Accordingly, our approval of H.R. 15733 must be conditioned upon its enactment as a total package, including the revised investment policy, for without the latter the fund would be placed in a totally unsound financial condition.

Without the additional interest income contemplated by the bill, it would be essential to materially modify the benefit increases proposed in H.R. 15733 in order to avoid tax increases, both on employees and employer, which we consider to be totally inappropriate at this time.

The suggestion may be made that if the additional interest income is not made available under H.R. 15733, that the benefits be provided in the same manner as they were provided when the Railroad Retirement Act was last amended in 1968. It will be remembered that, at that time, Congress enacted and the President approved, an amendment which increased monthly benefits under the Railroad Retirement Act by 110 percent of the dollar amounts that an individual would have received under the social security amendments had his railroad service been covered by that system. Although the railroads supported the 1968 amendments they cannot support a similar amendment at this time for the reason that such a change would, according to the chief actuary of the Railroad Retirement Board, increase the deficit by \$12 million a year to about \$70 million.

We do suggest that the matter of increasing benefits under railroad retirement can be handled equitably by providing for a 15 percent increase (the same as the increase in social security benefits) in all benefits with a maximum of \$27.50 for employee benefits and \$13.75 for the benefits of survivors and spouses. The \$27.50 figure is justified on the basis that it is 110 percent (the relationship established in the 1968 amendments) of \$25 which is the maximum increase in benefits available to an employee under the 1969 amendments to the Social Security Act. The \$13.75 is justified on the basis that it bears the same relationship (50 percent) to the maximum put on employee benefits as the \$25 bears to the \$50 in H.R. 15733.

It will be noted that under this proposal those who get relatively low annuities would be entitled to the full 15 percent increase provided under social security while those employees with the highest benefits would still obtain 110 percent of the maximum increase available to employees under social security payments. This proposal would treat survivors and spouses in a substantially similar manner. It is our opinion that this proposal would provide adequate increase in benefits under the railroad retirement program and would not unduly increase the deficit of the program inasmuch as we are advised that this schedule of benefits would result in a deficit somewhat less than the \$67 million which would be produced by H.R. 15733.

In summary, the railroads believe it is essential to take a balanced view of this proposed legislation. Reasonable increases in railroad annuity benefits attuned to cost-of-living adjustments recently made under social security are appropriate at this time. But it is likewise important to safeguard the railroad retirement system against a sharply higher and imprudent deficit level. That would be avoided if the new investment policy envisioned by the bill is enacted into law. Otherwise, it will be necessary to scale down the benefit increases along the lines I have indicated, for we do not believe it would be desirable at this time to increase the already heavy railroad retirement tax rates on employers and employees.

Mr. FRIEDEL. Thank you, Mr. Hiltz, for a very fine statement. You have pinned down all the points.

Mr. DEVINE. I have no questions.

Mr. FRIEDEL. Thank you very much.

Mr. HILTZ. Thank you very much, Mr. Chairman, and committee.

Mr. FRIEDEL. Our next witness will be Mr. Robert B. Byrnes, President of the National Railroad Pension Forum, Inc.

Mr. Byrnes, you may proceed.

STATEMENT OF ROBERT B. BYRNES, PRESIDENT, NATIONAL RAILROAD PENSION FORUM, INC.

Mr. BYRNES. Mr. Chairman and members of this subcommittee, my name is Robert B. Byrnes. I live at 1514 17th Street NW., Washington, D.C. I am retired from the Baltimore & Ohio Railroad Co., and am now serving as president of the National Railroad Pension Forum, Inc., which has its headquarters at 328 Pennsylvania Avenue SE., in this city. I am here today to represent the members of that group.

The Forum is a nonprofit, voluntary membership association comprising railroad, traffic bureau, Express Agency and Pullman Co. employees, working and retired, as well as widows and other survivors covered by provisions of the Railroad Retirement Act. The Forum was incorporated in 1947 in the State of Illinois. Its sole purpose is an effort to improve provisions of the Railroad Retirement Act.

Members of the National Railroad Pension Forum are in favor of passage of H.R. 15733. The wide publicity given the recently enacted social security pension boost has brought many letters to our office from railroad retirement annuitants who ask why the 15-percent increase recently enacted by Congress for social security pensioners does not include railroaders.

More than a million current beneficiaries of the railroad retirement system make up an important segment of America's elder citizens. Approval by this committee and passage by the Congress of H.R. 15733 will contribute significantly to the purchasing power of old residents in all areas of this country and will enable them to continue to buy the necessities of life during these times when the cost of living is always going up.

As this bill is written not every railroad retirement annuitant will be entitled to receive a full 15-percent pension increase. Men and women who benefit from social security old-age insurance will have their railroad retirement pension increase reduced because of the raise they received from social security. I suppose that this comes

about because of the financial interchange arrangement between the two retirement systems. If this bill is enacted into law and railroad retirement pension increases are granted, it is suggested that the Railroad Retirement Board will include an explanatory statement to all dual-benefit annuitants, so that reason for a lower-then-15 percent pension increase will be clearly understood.

Many railroad employees and certain widows are hopeful that this Congress will consider, later on in this session, other changes in the Railroad Retirement Act, some of which are contained in the 50-odd bills on railroad retirement that have been referred to this committee during the 91st Congress.

These changes include retirement for men with 30 years service at age 60 with full pension; elimination of the requirement that an employee on a railroad who currently has a nonrailroad job be compelled to retire from that job, as well as from the railroad, in order to be eligible for his railroad retirement pension. This is unfair because the individual and his employer have paid the stipulated taxes during the entire time of his railroad employment. Finally we would all like to obtain more generous pension income for railroad widows.

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

Mr. FRIEDEL. Thank you, Mr. Byrnes, for a brief-and-to-the-point statement.

Any questions, Mr. Devine?

Mr. DEVINE. No.

Mr. BYRNES. Thank you.

Mr. FRIEDEL. The meeting now stands adjourned.

(Whereupon, at 10:39 a.m., the subcommittee adjourned.)