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ANNUITY INCREASES FOR CERTAIN RETIREES AND REDUCED RATE OF EMPLOYEE DEDUCTIONS

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BEFORE THE

SUBCOMMITTEE ON RETIREMENT, INSURANCE,
AND HEALTH BENEFITS

OF THE

COMMITTEE ON

OFFICE AND CIVIL SERVICE

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 1262

A BILL TO PROVIDE INCREASES IN CERTAIN ANNUITIES
PAYABLE UNDER CHAPTER 83 OF TITLE 5, UNITED STATES
CODE, AND FOR OTHER PURPOSES

H.R. 8817

A BILL TO REDUCE THE PERCENTAGE RATES FOR EM-
PLOYEE DEDUCTIONS, AGENCY CONTRIBUTIONS, AND DE-
POSITS FOR CIVIL SERVICE RETIREMENT PURPOSES

APRIL 11, JUNE 28, 1973

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ANNUITY INCREASES FOR CERTAIN RETIREES

WEDNESDAY, APRIL 11, 1973

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON RETIREMENT AND EMPLOYEE BENEFITS,
Washington, D.C.

The subcommittee met at 9 a.m., Federal Ball Room, 415 New Jersey Avenue NW., Hon. Jerome R. Waldie (chairman of the subcommittee), presiding.

Mr. WALDIE. Will the meeting please come to order. We are still anticipating some more members and they will probably come in a little bit later, but the members we now have with us will have to leave soon because they have other commitments on the Hill and I know most of the people in this room, from my conversations with some of you last night, similarly have obligations that you want to fulfill on the Hill.

So we hope to conclude our proceedings of this committee hearing as quickly as possible, but prior to taking the testimony that will be given to the committee, I would like to introduce the members of the committee that are here and ask them each to say a word or two, or as many words as they would like.

On my left is Frank Brasco from New York, who has been a member of the Civil Service Committee ever since he has been in Congress and who has been a member of this subcommittee ever since I have been chairman of it, and who has been an awfully good member and a man that I am certain a great number of you in this room know; in fact, some of the New York delegates came up earlier asking for Frank and I said he would be here very shortly. So would the New York delegates raise your hands, by the way? Well, Frank, you ought to go out and shake some of those hands.

So I give you Frank Brasco. Frank?

Mr. BRASCO. Thank you, Jerry.

I am indeed pleased to join with you this morning.

As the chairman indicated, we are here this morning at the Quality Motel, not only to listen to you, but to show you by our presence here that we very much understand what your situation is and that we will do something about it. Jerry, Waldie has been most instrumental, as all of you know, in pushing for legislation in this area.

Let me say that as a member of this committee, the work that we do here in the area of retirement dovetails to a great degree with another committee that I serve on and that is the House Banking and Currency. Right now we are in the middle of something known as the Economic Stabilization Act. And if there is any doubt in anyone's mind about the plight that the average American is in today, I think

the necessity for that act dispels it in a hurry. People are hurting with respect to purchasing the basic services that they need to live: shelter, food, and, of course, the clothing that they put on their back.

When you take a look at some of the paychecks they are taking home, they cannot purchase those essential services and it is even more difficult for those who are retired to live in a system that shows little or no concern for the equity of those who have contributed so much to this country.

So, again, I am pleased to be here and I can assure you that I will work with the subcommittee chairman and the other members of the committee to rectify this most critical situation.

Thank you, and God bless.

Mr. WALDIE. The ranking minority member of our committee, Larry Hogan, has been also on the Civil Service Committee ever since he has been in Congress and he has been a member of this subcommittee during that entire time.

Larry, I suppose, in terms of the members on this committee, probably represents more Federal employees than any member of the committee, because he represents a congressional district in Maryland within which an awful lot of the Federal employees that work in Washington, and around the vicinity of Washington, reside.

I know of no member that has been more understanding, more sympathetic, and more aggressive in his pursuit of causes that are of interest to and benefit to Federal employees and retired Federal employees than Larry, and I want to present Larry Hogan, Republican from Maryland, and ranking minority member.

Mr. HOGAN. Thank you very, very much, Jerry, and it is always a pleasure to meet with members of the National Association of Retired Federal Employees. Your organization is tremendously effective in representing the retired civil service workers, and those of us on the subcommittee and the full committee appreciate your efforts, your time, and your dedication to the goals which we share in trying to improve the lot of the retired Federal workers.

It is so easy to forget those who have served who are not now in the active job market, but on this subcommittee, we have a very, very strong working bipartisan effort to try to correct the inequities which we feel still face retired Federal workers.

I reviewed your legislative program for this year, and while I share the goals enunciated there, I was not happy to see some of the things in there because they are the same things that were in there last year. That means that we failed in our goals to enact that legislation which you sought and which we sought for you last year.

Hopefully, this time we will achieve more success in your behalf. From a personal point of view, it is a pleasure to see so many of my friends and campaign workers.

I am delighted to be with you.

Mr. WALDIE. Frank Brasco commented, campaign workers because you are unhatched. [Laughter.]

That is another objective, by the way, that many of us have been pursuing, is to permit all Federal employees to engage in political activities as every other American citizen can do. We will be pursuing that one, also.

Just a comment or two before I introduce the witnesses. This is a rather unique hearing. As you who have been to Washington before on these affairs know, we generally hold our committee sessions on the Hill in either the House or the Senate buildings. But because of the fact that the only room available in the House of Representatives large enough to hold the contingency that always appears at the committee meeting when your association is in town, that room is not available, so we asked special permission to have this committee hearing off the Hill and in this hotel and I think as a measure of the respect with which your association and your representatives are held on the Hill and within the Civil Service Committee in the leadership of the House, that permission was granted by both the chairman of our committee, Chairman Dulski, and by the Speaker of the House, Carl Albert.

So it really is unique that we are holding the committee hearing and it is attest, I think, again, to the respect with which your organization is held by the leadership on the Hill in the House of Representatives and by this committee.

With those opening remarks, let me introduce the first witness today, a friend of mine, a good friend, Arthur Sparks, the president of the National Association of Retired Federal Employees, and will ask Art, after you have completed your presentation, Art, if you would, in turn, introduce the witnesses in which you desire their testimony to be presented.

You may proceed.

STATEMENT OF ARTHUR L. SPARKS, PRESIDENT OF THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES; ACCOMPANIED BY JAMES COX, PRESIDENT OF NARFE CHAPTER 3, LOS ANGELES, CALIF.; MISS MINNIE GOULD, NARFE CHAPTER 80, ALBUQUERQUE, N. MEX.; EDGAR REDMON, ILLINOIS FEDERATION OF NARFE CHAPTERS; THOMAS WARD, PRESIDENT, NARFE CHAPTER 23, MANHATTAN, N.Y.; JAMES JOHNSON, PRESIDENT, NARFE CHAPTER 751, TUSKEGEE INSTITUTE, ALA.

Mr. SPARKS. It is a pleasure, Mr. Chairman. Thank you.

Mr. Chairman and distinguished members of this subcommittee, may I first express to you gentlemen, in case some of you have to leave, the appreciation of our organization and of your coming here this morning and providing us this opportunity where we can all sit in on this hearing. We are grateful to you for your action. We appreciate your courtesies in coming over.

Mr. Chairman, I am Arthur L. Sparks, president of the National Association of Retired Federal Employees. Our organization now totals membership of 171,783 members. We are proud of our growth in this organization. I am proud to have with me here at the platform today, on my right, Mr. James Cox from California; Miss Minnie Gould from chapter 80 in New Mexico; Mr. Redmon from the Illinois Federation of Chapters; Mr. Thomas Ward from the chapter 23 in New York; and Mr. James Johnson, from the chapter at the Tuskegee Institute in Alabama.

As you can see, many hundreds of our interested members who are vitally interested in the legislation we are to discuss today, are also here.

The entire NARFE membership is indebted to you, Mr. Chairman, for the introduction of H.R. 1262 on the opening day of the 93d Congress. We are appreciative of the courtesies extended to our organization by all members of this very important subcommittee.

We realize, Mr. Chairman, that H.R. 1262 is not going to bring our earlier retirees up to the same level they would be if they had retired after October 20, 1969, with the salary levels and computation benefits used after that date, but it will alleviate some of the strain in which these retirees now find themselves.

The average annuitant on a fixed, limited income has had to bear the brunt of ever-increasing rents, consumer prices, and services without the benefit of any substantial annuity increase. The cost-of-living increases provided by law since December 1, 1965, have been helpful, but a 4- or 5-percent increase on a base annuity of \$100 or \$200 a month, does not bring about enough increase to realistically aid in meeting such cost-of-living increases as a \$25 rent increase, or soaring food prices.

An annuity that at one time might have allowed a retiree to maintain a decent standard of living has been eaten away to the point that he now finds himself in dire financial need, unable to afford even the basic necessities of life. Wage increases that have aided active employees in coping with the inflation have not been reflected in the pensions and annuities of retirees, and resulting price increases have simply pushed the elderly closer to or further below a poverty level existence. To put it bluntly, Mr. Chairman, these retirees are scared! They worry from month to month how they will make ends meet.

We have quoted statistics on income levels before this subcommittee in the past, and such figures can still be made available, but in the interest of time and in order to let our other witnesses speak, I shall forgo reviewing these statistics again this morning.

Many programs have been initiated to benefit the elderly. Only a very small portion of the vast sums appropriated for this purpose, however, have reached the people who need the help. Under H.R. 1262 every dollar voted for these elderly retirees will go directly to those who need it, without a great portion being siphoned off to "study groups," staffs, and operating overhead.

This bill carries an effective date of July 1, 1973. There will be hundreds of retirees who qualify today, but will not be here 2 months from now to receive provided benefits. The death rate in this group is extremely high due to age, and for this reason, as well as others, we urge immediate action on this bill.

Mr. Chairman, may I say, this has been forcibly brought to our attention in the past few days. One of the gentlemen who was scheduled to testify here this morning was taken with a sudden heart attack on last Thursday and is unable to be here today, but we do have Mr. Redmon here, who will offer his testimony.

But that is happening every day in our organization.

President Nixon in one of his talks prior to the election stated that he would like to see every American able to hold his head up with pride. Mr. Chairman, our people whose annuities are so small that

they have to go to the welfare boards to ask for help cannot hold their heads up very high. They need help, and they are looking to the Members of Congress for this help.

Before I close, I would like to call your attention to our interest in H.R. 30. We have members who have suffered as much as 25 percent annuity reduction for years, yet they have no one who can benefit as survivor at their deaths. H.R. 30 would eliminate this inequity. I feel certain that if an insurance company maintains such a policy, they would be investigated and made to correct the matter. Our Federal Government should do no less.

We also hope this subcommittee and the full committee will soon take action on the health benefits bill, and we feel sure they will, which would help our employees and annuitants by lowering their percentage of health premium and give the pre-1960 retirees the option of better health coverage.

Mr. Chairman, and members of the committee, we thank you for this opportunity to appear before the subcommittee this morning on behalf of the federal retiree. I respectfully urge the committee to expedite their action as much as possible in order that the relief provided in H.R. 1262 can reach the federal retirees at an early date. We appreciate the members of this subcommittee hearing us today. [Applause.]

Mr. WALDIE. Thank you, Mr. Sparks.

Before we go on to questions or to the next witness, I would like to introduce another member of the committee that just arrived, a new member of Congress and also a new member of our committee. Though we have only been in session a few months now, he already has demonstrated his, I think, sensitivity to the problems with which you are concerned, and Skip Bafalis is from Florida.

How many are from Florida, by any chance? Well, Skip, there you go.

Skip, would you like to say a few words to this group before we continue with the testimony?

Mr. BAFALIS. Thank you, Mr. Chairman.

First of all, let me apologize for being late, but I am still learning my way around Washington traffic. I am glad to see so many of you here from Florida. I am new in the Congress and I have a great deal to learn and I am here, really, this morning to do just that, to listen and to learn. I hope that as we go along this morning, I will be able to achieve that objective.

I am really not sure what my function is on this committee at this time. Many of you have served for so many years in the Federal Government that you have much more experience than I do.

But I do hope that I can be helpful and I hope that we are able to solve your needs and at the same time be able to do the things that are so necessary for all Americans, giving them the standard of living that I think each of us would like each other to have.

Thank you, Mr. Chairman. That's all I have for the moment.

Mr. WALDIE. Thank you, Skip.

I don't want to tell you what your function on the committee should be, but one of your functions ought to be to support increased benefits.

Congressman Brasco has to leave now because he has another commitment on the Hill. Frank, we appreciate your coming down.

Mr. BRASCO. Thank you very much.

Mr. WALDIE. I would like to ask you, Art, just a question or two. I notice that you now have 170,000 members in NARFE. What has been the history? Is the organization increasing in membership? What is the trend there? Can you give us a feeling for this?

Mr. SPARKS. The first thing is that the membership is 171,784. That was the report last night.

Mr. WALDIE. But this was written yesterday afternoon, okay.

Mr. SPARKS. Ever since the convention in Fort Worth, Tex., we have increased over 1,200 a month and at our Buffalo convention in 1970 we had 134,000, and we are now at 171,000—almost 172,000. We are shooting for 500,000.

Mr. Tarr, sort of my adversary, is shooting for 200,000. I am shooting for 500,000.

But we are growing and people are becoming aware of us.

Mr. WALDIE. Mr. Hogan?

Mr. HOGAN. Just as a matter of curiosity, how do you get the names of retirees as they retire?

Mr. SPARKS. Thank you, Mr. Hogan, for the question.

If we could do that, we would have it made. We have tried every way in the world and we are hopeful today that we will have some information on our desk when we get back to the office where we can get the list from the Civil Service Commission.

Now they are arguing with us that it is against the law, but we can't find where it is against the law. We know there is no law that says they have to give it to us, but we feel that it is permissible. All we are asking for is the name and address. We are not asking for any personal thing out of their personnel files. So we contend it is not a violation of the Freedom of Information to give us that list. All we need is the names and addresses.

Every chain store, filling station, bank, all these other organizations, insurance companies, they have the names of these retirees, but the one organization that can help them, we can't get it.

Mr. HOGAN. Do you know how those other organizations—

Mr. SPARKS. They have to go to them to get their checks cashed. That is the way they get it.

I would say, Mr. Chairman, that I hope we have some pretty good friends around. The postman isn't violating any law to slip you that list, but that is the only way we can get it.

Mr. HOGAN. Thank you, Mr. Sparks.

Mr. BAFALIS. I don't have any questions at this time.

Mr. WALDIE. Thank you, Mr. Sparks.

Mr. SPARKS. Yes, sir.

Mr. WALDIE. If your present inquiry with the Civil Service Commission is unproductive and you are not able to have access to those lists, I hope you will get in touch with the committee and we will see if we can assist in that. It is my understanding that the American Legion, for example, and the veterans organizations are provided lists from the VA for these purposes.

Mr. SPARKS. Yes.

Mr. WALDIE. It would occur to me that it is a similar obligation for a similar purpose, to provide access to the lists, at least to an organization such as you represent.

Will you please introduce your next witness?

Mr. SPARKS. Mr. Chairman, gentlemen of the committee, it is a pleasure to have with us from the Congressman's home State, California, Mr. James Cos, president of chapter 3, from Los Angeles, Calif.

Mr. Cox. Mr. Chairman, for the record, my name is James F. Cox, a retired letter carrier and post office supervisor with 37 years' service from 1929 to 1966. I am now president of chapter 3 of the National Association of Retired Federal Employees in Los Angeles, Calif., with a membership of about 1,000.

Your bill, H.R. 1262, and the Senate companion bill, S. 626, as they now read will provide a minimum annuity equal to the minimum paid under Social Security, currently \$84.50 per month. It would also increase by \$300 per year—\$25 per month—the annuities of those who retired before October 20, 1969. It would also increase a survivor's annuity by \$165 per year—\$13.75 per month—the effective date, of course, to be July 1, 1973.

This bill is an equalizer for those who retired before October 20, 1969, to bring them up to the standard corresponding to present-day retirees. I retired with the loss of 2,200 hours of sick leave. The high or best 5 years instead of the best 3 years was used as my base, and I lost 1 percent per year for each year that I was under 60. Unused sick leave, high 3 years of pay, and more liberal age qualifications are all included in the retirement laws being used for those retiring since October 20, 1969.

The increase in wages since 1969 now allow the present-day employee to retire on nearly as much as we received as base pay before 1969.

One of the primary purposes of the Older Americans Act of 1965, Public Law 89-73, was to "provide for an adequate income in retirement to correspond with the American way of living." The "American way of living" today can be wonderful, especially in retirement with more leisure time.

There is much to see and do in this wonderful country of ours, so much to learn, and so many people who need help which we have the time to give. Yet thousands of Federal retirees are financially being forced to live as second-class citizens, and for financial reasons alone being forced into the ranks of those who need help. We should realize that more than 400,000 of our retirees who receive under \$200 per month would be better off to refuse their checks and go on the welfare rolls. It is a desperate situation, and while we get a lot of good sympathetic talk, we see no action to change the facts that now prevail.

Property taxes in the United States have more than doubled in the past 10 years. Medical bills for retirees are at their highest due to the age factor, yet the retiree now finds he is least able to pay for them. Of course, we all know now that the Consumer Price Index for the month of February 1973 went up higher than it had since 1951—22 years ago.

While speaking of these ever-increasing costs, I should like to thank you, Mr. Chairman, and your committee for the help you did give us in successfully investigating Blue Cross-Blue Shield, finally resulting in the \$7.35 per month reduction for those with self and family coverage. I hope that the \$9.92 per month increase in Kaiser's coverage can be reduced in the near future.

Why do we keep finding ourselves, as Federal retirees, the man in the middle? We in the National Association of Retired Federal Employees were pleased when Congress saw fit to increase social security benefits and railroad retirement benefits, but we were very disappointed that the same Congress did not see fit to take care of the Federal retirees.

President Nixon has submitted legislation to recompute the military retirement pay on the basis of January 1, 1971, pay scales, thus greatly liberalizing annuities of current military retirees. This money is provided in his current budget, but there is no such thought for Federal retirees.

It was interesting to note that Senator Byrd of Virginia reports that 47 percent of the four-star generals who left the service in 1971 went out on "disability" even though 70 percent of them passed physicals 6 months before their retirement, enabling them to collect flight pay. This disability retirement is, by the way, tax free. Social security and railroad retirement benefits are also tax free. Last year's 20-percent increases in social security and railroad retirement amounted to \$30 on \$150—nontaxable. The provisions of H.R. 1262 will provide \$25 on \$150—but taxable.

How can we feel that we are anything but the "forgotten retirees"? Everyone, Congress and the administration, made a big shout about the benefits of H.R. 1 in the last Congress, yet when that bill came out of the conference committee, everything for the Federal retiree had been deleted.

We now feel that it is time our Representatives and Senators in Congress give us a fighting chance by considering bills pending in our behalf, as you are doing today. We must have lots of friends in Congress when a total of 248 sponsor bills on our behalf, but unless we can get these bills out of the subcommittees and committees many Members of Congress will never have a chance to vote on them. What we want now is to get these bills before Congress and the President, so they can decide on the facts and let their true feelings be known.

Mr. Chairman, in asking for favorable action on H.R. 1262 and other bills, we do not feel we are asking for anything that is not justified by facts. The retiree has nothing to do with the rising cost of living. If everything had been frozen 8 years ago, we wouldn't be paying the prices we are today. Phases I, II, III do not mean anything to the low-income annuitant other than greater financial burden.

We realize the tremendous job you and your committee are doing, and we especially appreciate the efforts put forth by this subcommittee today. We are thankful to all those who have sponsored bills in our behalf and hope that they will soon have an opportunity to vote on them in the House and Senate Chambers. We also realize that we have 86 new Members of Congress to voice our needs and opinions to, and today and tomorrow we hope to be able to do just that.

Thank you, Chairman Waldie, and subcommittee members for allowing me to appear before you today and for hearing what we have to say. It is indeed an honor and a privilege.

Mr. WALDIE. Thank you very much, Jim.

We have another member of the committee who was able to come down here this morning, and he is a new Member of Congress, a new member of the committee, and, as the other new member that I just

introduced, has already demonstrated a grasp of this problem, and I would like to ask Congressman Moakley of Massachusetts if he would say a word or two.

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

I apologize for being late. I just came from a breakfast at the Amalgamated Meatcutters at the Statler-Hilton, so this is the way we start our day off. We had bacon this morning because the meat strike was over.

But they had a very interesting problem that concerns them, just as yours is a very unique problem that has to be dealt with. Also, I chose this Subcommittee on Retirement because of some of the experience I gained as a member of the legislature in the Massachusetts Congress.

I am happy to be working with our chairman, Mr. Waldie, and I am happy to be here.

Thank you.

Mr. WALDIE. Thank you, Joe.

Jim, that was a very excellently prepared and delivered statement. I think you had discussed with me a letterwriting effort that you were instituting, and I think, for the committee's benefit, it might be well if you take about 2 minutes to describe what is being done in that regard and the type of response you are getting.

I have been most impressed with the results that have been flowing into our office and I suspect some of the committee members may soon be noting the effect of that effort and perhaps it would help if you described it briefly.

Mr. Cox. Thank you, Congressman Waldie.

As you remember, you and I talked in Fort Worth, Tex., in regard to a March letterwriting campaign. I at the time did not know that in your mind you had January as the month you would propose bills for retirees. It happened that we definitely were thinking in the same channels and fortunately this meeting today is evidently part of it.

We had meetings in Glendale, Calif., with representatives of four of the Congressmen in the area; we have had seven or eight different dinners and meetings in southern California. I prepared pamphlets and letterwriting material and ideas to all 63 chapters in California. We, in turn, designated March as a letterwriting campaign month for the State of California. I wrote to Mr. Sparks and asked his permission, of course, and he, in turn, was all for it and gave us spots in the Retirement Life magazine, so that the whole United States, we hope, entered into the program.

We asked for a return back from the chapters as to their response. So far to date, I have over 5,000 letters that we know have left California to the committee and to the Senators and to the Congressmen of California.

The response among all of the chapters was from 20 people to 100 to 300 or 400.

We, in turn, in chapter 3 in Los Angeles, had a dinner and we had 158 people and 338 letters were received, plus another 100, at least, that people took home to write, or wished to type instead of handwrite.

The response all over the State was, "Why don't we do this more often?"

Mr. WALDIE. Let me interrupt you—

Mr. Cox. We know that it was a success.

Mr. WALDIE. I commend you on that and I would certainly suggest that others institute a similar effort. As effective as your national officers are in delivering the message to Congress of bills in which you are interested, they need help, as do officers in any organization, and they need help from the people of the community. That sort of effort is the type of thing I think that assists Congressmen and Senators in understanding about the provisions of bills in which you are interested, as well as the importance of these bills to you, so I would encourage you on that.

Let me just make a general comment before I call on the other members of the committee for questions about the matters you have discussed.

I find myself in support of every issue that you have described, but as I mentioned last night and to those of you who were present last night, this will be repetitive, but there is a climate on the Hill this year that is unlike the climate in past years, similar to it, perhaps, but even more difficult relative to the commitment of the President, relative to spending of the budget. So that any benefit bill that has a cost factor to it will be met with more resistance, I think, this year, all along the line more so than at any other time.

I suggest that to you not to discourage you; I suggest it to you only to encourage you to greater effort as to what you will be doing in the next couple of days in contacting Members of Congress, because the problem is greater this year and the necessity of eliciting support for Members of Congress for bills of the nature that Mr. Cox described will be greater than it has ever been. So whatever effort you have done in the past to gather support for legislation in which you are interested—those efforts, in my view, given today's climate, will have to be increased even beyond that which you have done in the past.

Now, I would like to ask Mr. Bafalis if he has any questions that he would like to ask the witness.

Mr. BAFALIS. Thank you, Mr. Chairman.

I am curious as to what kind of a total price tag H.R. 1262 has on it?

Mr. Cox. A price tag?

Mr. BAFALIS. Yes, sir.

Mr. Cox. I would have no idea, sir, in regards to the total cost of such a bill. The way that things are when it comes to the voting and the way that the amounts of moneys are involved, it has seemed repeatedly to me that we always sit out at the back door and wait for the truck to come by and it never gets there and I would have no idea as to the cost of the bill itself.

Mr. BAFALIS. The reason I asked the question is because as the Chairman pointed out, there is a very strong economy move going on in the Congress today and as you move around the Hill, I am sure this question will be asked over and over again. It is on the minds of all of us. Two vetoes have been sustained in the past 10 days and I think we realistically have to come up with a program that is going to be able to begin, at least, to meet the needs, and one at the same time that can pass not only the Congress, but will not be vetoed by the White House.

Mr. Cox. The whole thought has been that we sat in 1971 in June at the same group and gave out the same bills that we are talking about

today. I mentioned if we must have 258 sponsors in Congress—as a rule when a Congressman sponsors a bill, he would definitely put in a yes vote on a bill if he is a sponsor of that bill, unless, of course, things change too much.

But the whole thing is that it sits in the committees and doesn't get out. Those 258 people never have a chance to vote on it. What we are asking is that it does come out of the committees so that those 258 would be allowed to vote.

I would say definitely that the cost of the bill would be much less, 20 or 25 percent less than the 20 percent increase in social security costs. Now, it would be just a round figure and I wouldn't know the exact figure.

Mr. BAFALIS. I understand it is about \$2.5 billion, is that correct, Mr. Chairman?

Mr. WALDIE. Yes.

Mr. BAFALIS. Thank you, Mr. Cox.

Mr. WALDIE. The answer to the question is that it is \$2.5 billion cost, the additional cost to the retirement system, but that is amortized by law over a 30-year period making an annual cost of \$80 million, roughly, and if you will recall last night, I mentioned that the hearings last week on the condition of the retirement fund made it perfectly clear, as is the custom to say nowadays, that there is \$400 million in retirement fund contributed by Federal employees, not the Government, in excess of the contribution that law requires since 1969. They have been contributing at a higher percentage than the actuarial requirements of the fund mandate.

There is, therefore, \$400 million in the retirement fund that should either be redistributed back to the employees by a reduction in their contribution to retirement, or by an increase in the benefits of the retirement system. It would have no impact, then, on the Federal budget if you ascribe the cost of this bill amortized over the 30-year period that the law requires, if you ascribe that cost to the surplus in the retirement fund that has been contributed by the employees alone, not the Government, this bill is a modest bill and would have no impact on the budget.

So it would seem to me that we can get over that hurdle with those statistics.

Thank you, Mr. Cox.

Mr. Cox. Thank you very much.

Mr. WALDIE. Mr. Sparks, will you introduce your next witness.

Mr. SPARKS. Mr. Chairman, it is a special privilege this morning to recognize one of the ladies of our organization. We have thousands and thousands of fine women in this organization that add greatly to our strength.

Miss Minnie Gould is here from chapter 80 of Albuquerque, N. Mex., representing the ladies of her area and the ladies of her organization.

Miss GOULD. Chairman Waldie and members of the committee, for the record, my name is Minnie E. Gould. I am from Albuquerque, N. Mex., a former president of chapter 80. Now I am delighted to be able to appear before you this morning and add my voice to our association's urging for immediate action on H.R. 1262.

Now, we appreciate the fact that this subcommittee has made a thorough study of the facts available through the civil service annuitants. In an effort to bring you the personal interest—and you can't

get away from personal interest. It is what we are founded on. The personal interest factor that we see day by day among the retirees in our immediate localities, I have held interviews with 138 annuitants who requested them. Since time was limited, I naturally concentrated on securing information relative to the provision of H.R. 1262, which would provide a minimum annuity of \$84.50 per month.

I would have been delighted if I had not found a one under \$84.50. But I did find a total of 23 persons who received annuities ranging from \$12 to—repeat, \$12—to \$77 per month, with years of service ranging from 5 to 17 years. Now, ironically, this \$12 per month annuity was being received by a lady with 11 years of service, and a gentleman receiving \$47 per month had served 17 years.

Aside from these two, the remainder ranged from \$25 to \$77 per month, with years of service ranging from 6 to 16 years. The CSA numbers and monthly annuities were voluntarily given to us from official records and are available for rechecking if you so desire.

Of these 23 people—the gentleman was speaking of the financial angle—15 were under \$50. Now, I wonder how anyone, any American would like to be caught, say all ages from 82 on up to 95, with less than \$50 a month to pay our current rent and pay for the current price on groceries. Now, only 10 of the 23 ranged from \$57 to \$77. Then, in addition, two ladies volunteered—and remember, we are a salty group and you don't ask personal questions unless they want to tell you, but one lady had 10 years of civil service and she was receiving \$57 a month. She worked 7 years under social security and is receiving \$68 a month. Another lady worked 11 years for the civil service, is receiving \$68 per month. Under social security, she worked 5 years and she is getting \$71 per month. So you see the difference there.

So much for the figures. Now, in talking with these people, I must say it was a very, very interesting job because we heard some very pertinent, some very interesting statements with the people interviewed, both those who were below the \$84.50 figure per month, and the others.

I should like to briefly summarize for you some of the observations I made from sitting down and talking with these annuitants.

One, retirees interviewed, as a whole, are definitely not gripers. Now, I say that because it seems to be the popular thing today to pretend that everybody except myself is griping and holding their hands out. That is not true. All we ask is that we get some of these glaring inequities corrected.

Now, the greater number of these people come from a hardy pioneer stock who were taught to make the best use of what they have, regardless of the amount. They have been extremely patient and are doing their best to look at all facets of a very real problem in this time of unparalleled spiraling costs of even the barest necessities of life.

Second, it was a privilege to note that our Federal retirees have a very generous dose of hope and faith; that is, hope for their own future and that of our country as a whole, and faith, not only in themselves, but in you as a committee considering their needs, and in all elected representatives at all levels of government.

They believe—in fact, they are confident—that you will do your very best to correct the glaring inequities in annuities.

And, third, and last, one kind old gentleman laughingly said he was quoting Bruce Barton, and it went something like this, "When you get to the end of your rope, tie a knot in its tail and hang on!" That, my friends, is what I feel that the overwhelming majority of our low-income annuitants are doing. I am confident that you join with me in the hope that their rope doesn't become so frayed that it will no longer hold a knot.

Thank you, gentlemen, for this opportunity to appear before you. I trust that you will soon see fit to favorably report H.R. 1262.

Mr. WALDIE. Well put, Miss Gould. Who is Bruce Barton?

Miss GOULD. He is an ex-Congressman, Mr. Waldie, so you know that future generations will be quoting you.

Mr. WALDIE. My goodness. As an attorney when you have a witness on the stand and you are behind, you quit, so let me quit on that note.

Do you have any questions, Mr. Moakley?

Mr. MOAKLEY. No. I just think that Minnie is on the wrong side of the table.

Mr. WALDIE. Excellently prepared and delivered statement, Miss Gould, and amazing stories and sad stories.

OK, thank you very much, Miss Gould.

Mr. SPARKS, your next witness, please?

Mr. SPARKS. Congressman Waldie, Mr. Wretman, who was to deliver this next testimony, is the gentleman I refer to who had the attack and was not able to be here. But we have Mr. Redmon, Federation president of the Illinois chapter, who has volunteered to read the statement of Mr. Wretman, with your permission.

Mr. WALDIE. Thank you.

Mr. REDMON. He said "volunteer." He really twisted my arm.

Chairman Waldie, members of the subcommittee, my name is Edgar G. Redmon. Willard suffered a heart attack April 2 and has been under intensive care until April 7 and is now on the road to recovery. I will now read this record for him.

Chairman Waldie, members of this subcommittee, my name is Willard A. Wretman. I am secretary of the Illinois Federation of Chapters, National Association of Retired Federal Employees. I entered the U.S. Postal Service in Moline, Ill., on May 1, 1930, and worked as a post office clerk and supervisor in that office until my retirement on July 31, 1960—30 years and 3 months.

Basing my annuity on my 5 highest years' salary, at the time of my retirement I received a monthly annuity of \$216.30 per month. This has been increased by some small raises and cost-of-living increases during the past 12.5 years to \$316.15. If I had not been able to supplement my annuity with other employment during the past 12 years, I could not have made it.

I am thinking of a lady who worked in our office as a charwoman, whose husband was unable to work for many years due to illness. She was the sole supporter of the home. He passed away a few years ago. She reached retirement age and had to retire. She has been trying to keep a small home—for which she worked and paid—and to support herself with a present annuity of \$95.20 per month. She is now in the hospital and may be hospitalized for a lengthy period.

I might add this lady is deceased now.

No doubt her doctor and hospital bills will force her to sell her home and possibly take all she can realize from the sale. There are hundreds of our annuitants who are in similar circumstances and are desperately in need of assistance.

Our city of Moline, Ill., is a manufacturing city, and through the years the wages paid by industry there have far exceeded the wages paid by the Government. Their employees do not contribute to any pension funds, yet their annuities are greater than ours by far. They also receive free hospital and medical services at full coverage, both when employed and when retired.

It does not seem fair that we should give the best 30 to 50 years of our lives in conscientious services to our Government, pay into a pension plan for our retirement and then find that, even with our cost-of-living adjustments, many of our members are existing at poverty levels.

The cost-of-living provision in the civil service retirement law is a help to annuitants, but in many cases inadequate. For instance, a 4.8-percent cost-of-living raise for an annuitant who receives \$100 per month—and there are many of them—would receive \$4.80 per month or 16 cents per day. This can hardly be considered a pay raise.

Gentlemen, on behalf of approximately 1 million Federal annuitants and survivors—for many of them it is already too late—I plead that you will issue an early, favorable report on H.R. 1262 and then do all you can to secure its passage in the House of Representatives.

Thank you for your time and for the privilege of presenting our problems to you.

Mr. WALDIE. Thank you, Mr. Redmon.

Mr. Moakley, do you have any questions?

Mr. MOAKLEY. No questions.

Mr. BAFALIS. I don't have any questions.

Mr. WALDIE. We appreciate your testimony and hope you will extend to Mr. Wretman the wishes of the committee for a prompt and speedy recovery.

Mr. REDMON. Thank you, Mr. Chairman, I will.

Mr. SPARKS. Mr. Chairman, this next young boy that I am going to call on, Thomas Ward, chairman of the chapter 23, Manhattan, N. Y., president of the chapter that has approximately 2,600 members. We are delighted to have Mr. Ward with us today.

Mr. WARD. Thank you.

Chairman Waldie, members of the subcommittee, I am Thomas F. Ward, a member of the National Association of Retired Federal Employees and the president of Manhattan chapter 23, New York City.

I welcome the opportunity to come before you to talk of many things, particularly the merits of H.R. 1262. On behalf of NARFE, Mr. Chairman, I thank you for introducing this bill. It could not come at a better time. With the spiraling cost of food, the increase of prices generally, and the cost of labor, it is a startling and harrowing thought to consider the thousands of Federal retirees whose annuities are less than \$100 per month.

Many times one hears of the fabulous annuities that Federal retirees receive, while all the while there are approximately 275,000 who receive less than \$100 per month. Many of these annuitants retired some years

ago when salaries were small and the computing of annuities was based on a narrow scale.

Furthermore, argument is made that the majority of those in the low annuity brackets had been short-term Federal employees. Statistics, however, prove otherwise. Two years ago, before this committee, it was demonstrated that many retirees in the low category who were employed 15 years received annuities ranging from \$19 to \$52 per month; those in 20- to 25-year group averaged \$45; and the 25 to 30-year group received less than \$100.

Mr. WALDIE. Let me interrupt you, Mr. Ward. That really has been a troubling statistic to many members. Let me ask Mr. Devlin who is on our staff.

Ralph, there is not—anyone that has worked 20 to 25 years and receives a \$45 pension—how can that be?

Mr. DEVLIN. I can think of a fourth-class postmaster who may have had an income of \$200 or \$300 a year.

Mr. WARD. Maybe he took out a late annuity.

Mr. WALDIE. Is it part time? Is that what we are dealing with, too? Do you have the answer to that?

Mr. DEVLIN. I don't know. I could only speculate.

Mr. WALDIE. Well, Ralph says he has to speculate, but I would sooner ask you people to say. Would it be possible for a person working full time for that period of service to draw a pension of only \$45 a month?

VOICE. Yes, 15–20 years ago, that was GS–1 or 2 levels.

Mr. WALDIE. Well, I am going to have that one run down by the Civil Service Commission, because that has been one of the troubling statistics. As you point out in your statement, the general response to that is yes, but you are talking about a unique group of employees who may have been, I think someone said, a gas lamp lighter, that type of nonsense, but not really a Federal employee is the answer.

VOICE. Not many of them are left, Mr. Chairman.

Mr. WALDIE. No, I will bet there aren't at this period of time. Those are very, very sad statistics, and we will try and run those down further, Tom, and I am suggesting that they are not exactly accurate, but they ought to be fully explained for the committee.

Mr. SPARKS. Mr. Chairman, if I may, I am sure that we still have a lot of those letters that we received signed by members giving that information, and I am sure Mr. Reddick has quite a few we turned over to him.

Mr. WALDIE. I would appreciate that. I remember Tom Walters talked about this last time, but if you would provide for the committee a rundown of some experiences so that we get these things together and understand exactly what we are talking about, that would be helpful.

Mr. SPARKS. I would be happy to do that.

Mr. WALDIE. Tom, please continue.

Mr. WARD. In 2 years' time, with the value of the dollar decreasing, the cost of living skyrocketing, and one's income fading away, the minimum annuity of \$84.50 will be a boon to many; however, a basic annuity of \$100 would be more realistic, and not unreasonable. We are pleased to note that H.R. 1262 does make provision for a minimum annuity.

Now we come to the second part of the bill.

For years many Federal employees worked beyond their time in order to put together some savings and to acquire a more satisfactory annuity. Until October 20, 1969, the employees left service with an annuity based on his 5 highest earning years. Those employees who retired later were fortunate to have only 3 years of their highest earnings computed. This, alone, was an annuity increase of 40 percent.

Mr. WALDIE. Forty percent increase just by changing the formula of computation from 5 years to the 3 highest; that was a 40-percent increase. That is enormous.

Mr. COX. The reason was—I was an \$11,000 superintendent, and now the same man is getting \$16,000 on the same job that I retired from in 1966.

Mr. WALDIE. I am sorry. I know there are those in the audience that wish to add to assisting us or me to understand the questions that I have, but to the extent we can get it from the panel, I would appreciate we do that because we are running short of time, but maybe even more importantly, so are you people who ought to be on the Hill doing your main job you came here to do.

Tom, would you continue.

Mr. WARD. Thank you.

Bills have been introduced in the Congress over the years to increase annuities on a graduated scale. Despite the good intentions and efforts of all concerned, these bills failed to materialize. H.R. 1262, makes a most reasonable approach and has great possibilities.

Section 3 (a) and (b) of H.R. 1262, make their contribution to those who retired before October 20, 1969. For example, a retiree with a \$200 monthly annuity will receive an added \$25, which in effect is an increase of 12.5 percent; those with a \$300 monthly annuity will receive an increase of 8½ percent, and so on.

We are happy to note that an increase for survivors is also included in this bill.

Men and women who left Government service, say 10 to 15 years ago, are now that much older and each passing hour and day become more precious. With the escalating cost of health protection, medicare, rents, and food over the years, the benefits of H.R. 1262, will offer some relief from the ravaging inroads made on their annuities.

We firmly believe that H.R. 1262, has an excellent chance of survival and it is beyond one's comprehension to think it might fail. The contents of H.R. 1262, are simple, the demands are modest, and the cause is just.

Thank you, gentlemen, for giving me the opportunity to express my views and those of the members of NARFE on this very important legislation.

Mr. WALDIE. Thank you, Tom.

Mr. Moakley, do you have questions?

Mr. MOAKLEY. No question, Mr. Chairman.

Mr. WALDIE. Mr. Bafalis?

Mr. BAFALIS. No questions.

Mr. WALDIE. Mr. Sparks?

Mr. SPARKS. Mr. James A. Johnson from Tuskegee Institute of Alabama is doing an exceptionally fine job of representing the NARFE employees in the State of Alabama. We are pleased to have Mr. Johnson with us, who will conclude our testimony.

Mr. WALDIE. Mr. Johnson.

Mr. JOHNSON. Chairman Waldie, and members of this subcommittee, today I come before you with mixed emotions. My name is James A. Johnson, and I represent the National Association of Retired Federal Employees. I come from Alabama—the home of Tuskegee Institute. This educational institute was made famous by Booker T. Washington and George Washington Carver. These gentlemen espoused the theory that trained heads, hearts, and hands supported by hard work meant a successful and happy life.

The majority of the people I represent were imbued with the Washington-Carver philosophy. After developing their minds and mastering salable skills they elected to seek employment with the Federal Government. Some entered the postal service, some went with the Agriculture Department, others were employed by the Veterans' Administration, while others sought a career with the Armed Forces.

They were dedicated men and women imbued with the Booker T. Washington philosophy and motivated by the sentiment expressed by our late President John F. Kennedy, and I quote, "Ask not what your country can do for you but what you can do for your country."

These people were happy in their employment because they believed they were making a worthwhile contribution and at the same time they were earning what they regarded as a reasonable living.

They were contented because they had felt assured that at the end of their working days the Federal Government would provide them with a reasonable income during their retirement years. Today these people, though old and deprived are still proud. They do not relish the idea of having to beg their Government for the mere necessities of life. Yet, many of them have no other choice.

Two years ago, our national president, Thomas G. Walters appeared before you and cited statistics to emphasize the need for action by the 92d Congress on certain bills before it. Today, I am not going to cite statistics. Figures, at best, are cold. They appeal to the head—which is good. I am appealing to your heads and to your hearts.

At the 1971 White House Conference on Aging, President Nixon stated—

Any action which enhances the dignity of older Americans enhances the dignity of all Americans, for unless the American dream comes true for our older generation, it cannot be complete for any generation.

He further stated—

We are speaking, after all, of a proven generation, one that has brought this country through the most turbulent period in human history.

Gentlemen, there are several bills now pending before this subcommittee with are of interest and importance to our Federal retirees. I refer particularly to H.R. 30, which would restore full annuities to those who have lost their designated survivor beneficiaries and have not remarried, and the measures to increase the Government's contribution toward health benefit premiums and allow pre-1960 retirees to elect coverage under the Federal employees health benefits program. I would hope that you will soon give favorable consideration to these bills.

I am here today, however, to request your immediate favorable consideration of H.R. 1262, introduced by you, Mr. Chairman, which

would give financial relief to those older persons who have the greatest need of it to retain their self-supporting dignity in today's inflationary society. The bill's establishment of a minimum monthly annuity and the provisions for an increase in monthly annuities would be of great assistance to thousands of our former Federal employees.

The above quotations from President Nixon's address to us who attended the 1971 White House Conference on Aging reminds me of Sir Wolsey's farewell address as stated in Shakespeare's "Henry the Eighth," and I quote, "Had I served my God with half the zeal I served my King, he would not in mine old age have left me to the mercy of a rude stream that must forever hide me."

I believe Cardinal Wolsey's comments and thinking has some relevance to us today.

Gentlemen, the fate of these old public servants, who at best have but a short time to live is partially in your hands. By whatever you do, or do not do, you will contribute to the final chapter of their lives. What will that chapter be? I pray that you will do your best to see that the 93d Congress provides the kind of help that will enable our retirees to live their last days in dignity.

Mr. WALDIE. A fitting end to the testimony before this committee today; an excellent statement, and we appreciate it, Mr. Johnson.

Gentlemen, do you have any questions of Mr. Johnson?

Mr. BAFALIS. I don't.

Mr. MOAKLEY. No questions, Mr. Chairman.

Mr. WALDIE. Do you have questions of the other witnesses?

Mr. MOAKLEY. I would like to say one other thing. I would like to commend the witnesses for a very professional and very logical presentation to this committee. I am sure if you talk with the other Members of Congress on the same plane that you have talked with this committee, you are going to go a long way to convert a lot of people to your side. I am very happy to be part of this subcommittee and very happy to have been here for most of the testimony this morning.

Thank you very much.

Mr. WALDIE. Mr. Bafalis?

Mr. BAFALIS. I would also like to commend the witnesses and add to what Mr. Moakley has said and to what the chairman has said. In the short period of time I have been in Washington, I find those groups who come here and go to all of the congressional offices and present their case have some real effect on the Members of Congress. I have been impressed by that.

About 2 weeks ago, the lumber dealers throughout this Nation came to the Congress en masse from all 50 States. As a result of their action, we have seen some changes on the administrative level. I think we are going to see some changes through legislation and I would earnestly support the comments that have been made.

Go out now and do your job around the Hill. I think you are going to see some real effects.

Again, I hope I can be of assistance to you and I thank you for coming to inform us of your problems.

Thank you, Mr. Chairman.

Mr. WALDIE. Mr. Sparks, ladies and gentlemen, as usual you have presented your case with force, with sincerity, and maybe most importantly of all, with dignity. It has been most persuasive and in order that those presentations be given a wider circulation than they might otherwise receive, I will have them placed in the Congressional Record for distribution.

We thank you for your courtesy to this committee and for your permitting us to join you down here today.

We will now adjourn this committee so that we might get about our business and that you might, more importantly, get about your business.

Thank you very much.

[Whereupon, at 10:30 a.m., the hearing was adjourned.]

ANNUITY INCREASES FOR CERTAIN RETIREES AND REDUCED RATE OF EMPLOYEE DEDUCTIONS

THURSDAY, JUNE 28, 1973

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON RETIREMENT AND EMPLOYEE BENEFITS,
Washington, D.C.

The committee met at 9:30 a.m. in room 219, Cannon House Office Building, Hon. Jerome R. Waldie, chairman of the committee, presiding.

Mr. WALDIE. The meeting will come to order. It's 9:30.

The first witness is Mr. Andrew Ruddock. Mr. Ruddock, if you will hold it a moment and I will read an eloquent opening statement and we will start.

Mr. RUDDOCK. All right, sir.

Mr. WALDIE. We hold a hearing today to seek further information regarding important retirement legislation.

H.R. 1262 would essentially do two things: (1) increase by \$300 a year the annuity for those Federal employees who retired prior to October 20, 1969, and (2) set a minimum annuity for all civil service annuitants at the same level the Congress has determined the social security minimum should be.

The \$300-a-year increase is made in recognition of the fact that those retiring after October 20, 1969, have enjoyed a substantially liberalized retirement system, and those affected by this bill need such an increase to live in dignity.

For those annuitants receiving less than \$200 a month—and there are many of them whose careers in Government service spanned decades—this increase is almost too little. In my view, it is the least that we can do.

The second bill under consideration is H.R. 8817, which I introduced to remedy what I consider to be an inequitable situation regarding employees' contribution rate to the retirement fund. The current law intended that the employees' contribution should cover 50 percent of the "normal costs" of the retirement system, with a matching contribution from the employing agency.

In 1970, normal costs were projected to be 14 percent, so therefore, employee contributions have been pegged at 7 percent. However, the past 3 years experience shows that "normal costs" have not approached 14 percent and as a result what I consider to be an overpayment of \$400 million over and above what was needed to meet normal costs has been paid into the system. The Civil Service Commission has applied this surplus toward the unfunded liability—a debt which is clearly in no way the responsibility of Federal employees.

Until normal costs approach 14 percent, I do not think that Federal employees should continue to make such overpayments and therefore, H.R. 8817 would reduce by one-half percent the contribution rate to the retirement system.

Mr. Ruddock is our first witness, the Director of the Bureau of Retirement, Insurance, and Occupational Health of the U.S. Civil Service Commission.

STATEMENT OF ANDREW RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH, U.S. CIVIL SERVICE COMMISSION

Mr. RUDDOCK. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear this morning to present the Civil Service Commission's views on H.R. 1262.

The purpose of this bill is twofold. First, it would establish a minimum civil service annuity equal to the minimum social security benefit. Second, it would increase by a flat-dollar amount all civil service annuities based on separations beginning before October 20, 1969, a date that major liberalizations were enacted in the civil service retirement law.

More specifically, effective July 1, 1973, H.R. 1262 would establish a minimum annuity equal to the social security minimum primary insurance amount, which is now \$84.50 per month. Under current law, this would round up to a civil service monthly annuity of \$85. Thereafter, this guaranteed minimum monthly rate would change to reflect any future changes in the social security primary insurance amount, including any cost-of-living increases made possible, beginning in January 1975, under the Social Security Amendments of 1972.

The civil service minimum annuity would apply to retired Federal employees, to surviving spouses, and to each surviving child of a deceased employee or annuitant; however, no child in a family would get a minimum annuity exceeding three times the minimum primary insurance amount divided by the number of children receiving annuity.

H.R. 1262 would also provide, effective July 1, 1973, or on the commencing date of annuity if later, a \$300 increase in the annuity payable to a former employee that is based on a separation from service before October 20, 1969, and an increase of 55 percent of that amount—\$165—in the annuity payable to the surviving spouse of such an employee.

The Commission strongly opposes enactment of H.R. 1262. The first part of this bill providing for the minimum annuity is designed to benefit particular classes of annuitants according to the amount of their annuities. In effect, this and similar legislative proposals are intended to provide benefits on the basis of a relationship to need rather than a relationship to the value of services rendered to the employer. We believe such an approach is unwise for several reasons:

1. It incorrectly assumes that all those receiving less than some specified amount of annuity are in financial need.
2. It runs counter to the generally accepted concept that a retirement system should provide benefits in direct relationship to the value of services rendered by the employee.

3. It would require employees to help assume the financial burdens of certain individuals through contributions to the retirement fund, rather than having what is essentially a general social burden assumed by the population as a whole.

I would like to amplify on each one of these points in turn. In so doing, I want to share with you the results of a study we recently completed. In my testimony on April 3, 1973, concerning the status of the retirement fund, I referred briefly to a study then in progress to inquire into the total income of a sample of civil service retirees and survivors. We have now completed this study of 1972 incomes of retired employees and survivor annuitants, and you will shortly be given a copy of the report which is now being prepared.

First, the question of need related to amount of annuity. The survey indicates over 27,000 retirees, and an additional 27,000 survivors, are receiving less than \$50 per month in annuity. Most of these people have substantial additional income from social security or other sources. For example, over 93 percent of these retirees have outside income, with an average total monthly income of \$345. About 90 percent of the survivor families have outside income, with an average total monthly income of \$210. I should add that we are understating other income and total income because we did not seek data on income from investments, rentals, or other miscellaneous sources.

Mr. WALDIE. Can I stop you a moment there?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Do you cover whether any of that income is welfare?

Mr. RUDDOCK. One of the questions we asked was, I believe the question was worded, "public assistance." Let me check that.

Mr. WALDIE. What did you find on that?

Mr. RUDDOCK. We asked "amount received as public assistance allowances."

Mr. WALDIE. Yes. What did you find on that?

The reason I ask is because you break down how much social security benefits were and it would be of more interest to me to find out how many of Federal retirees have been forced onto welfare because of inadequate pensions.

Mr. RUDDOCK. Mr. Waldie, it is my recollection, and I will check this for the record, but it is my recollection that the answers we got on that were inconsistent to a point that we were not able to validly estimate the amount of the public assistance.

Mr. WALDIE. What do you mean? Your statement is they received public assistance and they gave inconsistent answers? That was question 6 of your survey which reads:

If you receive public assistance payments from your State, county or local government, please report the total amount received for 1972. We ask this question so we may determine the importance of such payments to civil service annuitants. This includes, for example, aid to families of dependent children, old-age assistance or aid to the blind or totally disabled. Your participation in this survey is entirely voluntary.

I don't quite understand why you get inconsistent responses to that and consistent responses to social security benefits.

Mr. RUDDOCK. Mr. Waldie, obviously I am not prepared to discuss that particular item intelligently.

Mr. WALDIE. OK. Well, then, let's pass on but nevertheless, I would like to have an intelligent response to it by writing, if you will.

Mr. RUDDOCK. All right, sir.

Mr. WALDIE. All right. You see, that's really terribly important to me. If we are forcing our retirees to go to old age assistance and welfare and public assistance because we are not paying them a sufficient amount, then I think that's important for us to know.

Mr. RUDDOCK. I agree, Mr. Waldie. I would point out that unless the system is converted to one which intends to supply fully adequate retirement income to everyone who meets at least the minimum qualifications, then I think we are always going to have the people who have worked for the Federal Government who are entitled to an annuity based on short service or low salary but where the annuity does not provide adequate income for the individual.

Mr. WALDIE. Well, OK. My only reason for the inquiry is because a great deal of the statement is predicated upon the assumption these folks are well off and don't really need this extra money.

Mr. RUDDOCK. Well, Mr. Waldie, I would not for one moment sit here and say I think a person is well off because he is receiving public assistance.

Mr. WALDIE. Well, they have substantial outside income is the term used. Most of these people have substantial additional income from social security or other sources.

That would sound to me as if they are pretty well off. Maybe that's a wrong interpretation of what you meant.

Mr. RUDDOCK. In the interest of conserving your time I would like to provide additional information on that for the record.

Mr. WALDIE. I would appreciate that.

Mr. RUDDOCK. Social security benefits are an important part of the other income received by these and other annuitants. For example, the survey shows that over 58 percent of retirees in the 65 and over age bracket were receiving social security benefits in addition to their civil service annuity. Moreover, in this same age bracket, for retirees whose civil service annuity is less than \$100 per month, over 80 percent are also receiving social security benefits which average \$148 per month. Clearly, then, the facts indicate that size of an annuity is a poor measure of financial need.

Next is the question of what role a retirement system should be expected to fulfill. Should it provide benefits based on the needs of a former employee, or should it provide benefits based on the services rendered by the employee? We believe it is unrealistic and infeasible to expect any employer, including the Federal Government, to be responsible for the future financial needs of employees no matter how brief their service or how limited their work contributions. Staff retirement systems are designed to provide benefits in direct relation to the value of services rendered, as measured typically by length of service and by former pay.

The Civil Service Retirement System is designed to provide an annuity after a full career of 30 to 35 years which, with its automatic cost-of-living increases, should be large enough to enable an employee to continue his approximate standard of living into his retirement years.

By the same token, an annuity based on less than a full career should not be expected to provide more than a proportionate part of retirement income. We have many annuitants whose benefits are based on only a few years—as little as 5 years—of work for the Government. The annuities paid to, or on behalf of, these short-service employees are low because the value of the service they rendered is low in comparison with the full-career employee. Annuities were never intended to be the sole support of such short-service employees.

The results of the recent annuitant income survey indicate that the retirement system is fulfilling exactly the role for which it was designed. For example, retirees with 30 to 34 years of service were receiving an average annuity of \$525 per month; those with 35 to 39 years of service were receiving an average annuity of \$611 per month. By way of contrast, those with less than 10 years of service were receiving an average monthly annuity of \$103.

An equally close relationship between size of annuity and average salary is reflected in the results. Retirees with an average salary in the \$10,000 to \$14,999 bracket were receiving an average annuity of \$639 per month, while those whose average salary was less than \$1,000 were receiving an average monthly annuity of only \$62.

Clearly the retirement system is providing benefits closely geared to value of services rendered, as measured by length of service and average salary. We submit that this is the proper function of a retirement system.

We estimate that if this bill were enacted, the additional budget outlays for fiscal year 1974 would be \$256 million and by the fifth year would rise to \$306 million. In view of the urgent need to exercise fiscal restraint, as emphasized in the President's 1974 budget message in which he urged the Congress to join in a concerted effort to control Federal spending, we do not believe that such an increase in budget outlays is warranted.

Further, enactment of H.R. 1262 would increase the unfunded liability of the Civil Service Retirement System by an estimated \$2.774 billion. This amount would be amortized by 30 equal annual installments of \$171.8 million each. The normal cost of providing future retirement benefits, now 13.1 percent of payroll, would be increased by 0.05 percent of payroll.

This brings me to the issue of whether it is appropriate to ask employees to help assume the financial burdens of certain individuals through their contributions to the retirement fund. In our judgment, it is reasonable and proper to ask employees to share in the cost of a retirement system where both the extent of their contribution and the amount of their benefit are closely geared to the same measure—their pay. Under the present procedure, those who earn less in pay contribute less to the fund, and receive a lesser benefit, while those who earn more contribute and receive more.

H.R. 1262 would depart from this procedure by requiring every employee to contribute a portion of his pay for a benefit which would be received by only a limited number of employees rather than shared by all employees. We believe this is not a sound concept for a retirement system to adopt.

My comments up to now have been directed primarily toward the first part of the bill. However, our estimates of cost apply to the bill

in its entirety. I would like to comment now on the second part of the bill, which would increase annuities that are based on a separation which occurred before enactment of Public Law 91-93 on October 20, 1969.

Only Federal employees retiring on or after that date benefit from the liberalizations made by that law. Specifically, their annuities are computed using a high-3 years' average salary rather than a high-5 years' salary, and they can count unused sick leave as service for annuity computation purposes.

These liberalizations produce larger annuities for employees separating on or after October 20, 1969, than for employees who separated before that date. Liberalizations, and their cost, can sometimes be justified because of a need to maintain or improve the Government's ability to compete for best-qualified people in the labor market. The cost of extending liberalizations or their equivalent to those already retired cannot be so justified. Adoption of a policy of retroactive application of liberalizations would make it increasingly difficult to obtain approval of any changes because of the added cost.

In addition, this proposed provision seems also to be largely based on a concept of need rather than a concept of value of services rendered. On this basis, we have the same philosophical and pragmatic objections we raised concerning the first part of the bill.

Results from the recent annuitant income survey contain information which is useful in considering the proposal in the second part of the bill. Certainly, annuitants who retired in earlier years when salaries were lower and when the computation formula and other benefit provisions were less generous tend to receive lower annuities than those received by more recent retirees. This should not necessarily be construed as direct evidence of a pressing financial need, however, as many of the earlier annuitants receive social security benefits or have other substantial sources of income.

A few statistics may serve to illustrate. Retirees who were entered on the benefit roll before 1945 receive an average monthly annuity of \$195, but about two-thirds have outside income with average total monthly income of \$280.

Mr. WALDIE. Now, let me just stop you a moment.

If you had been able to establish that two-thirds of them have average monthly incomes of \$280, surely the sources of that income are known to your surveyors, aren't they? We ought to be able to establish what of that \$280 is public assistance.

Mr. RUDDOCK. Again, Mr. Waldie, I don't believe we have included any of the public assistance in the amount of total income but within the next, I would think 2 to 3 weeks at the longest, we will give you the full report.

Mr. WALDIE. OK.

Mr. RUDDOCK. And with special attention to your interest in exactly what we did get on the public assistance.

Mr. WALDIE. Now, when you are talking about "average total monthly income of \$280," is that—would that be the average annuity of \$195 plus the difference making \$280?

Mr. RUDDOCK. That would be the total monthly income including the annuity.

Mr. WALDIE. That would be all they would have to live on, the \$280?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Well, you surely don't—you keep using the qualifying adjective "substantial," "have other substantial sources of income." That's less than a hundred dollars sources of income a month extra. Is that "substantial source of income" in the Civil Service Commission's view?

Mr. RUDDOCK. It would be more substantial for some than for others obviously. That's an average.

Mr. WALDIE. Yes, if you are starving.

Mr. RUDDOCK. It would include some people whose outside income was very, very small. I think the point, if there is one, is that you can't tell by looking at the rate of annuity whether this is an individual who is in need and—

Mr. WALDIE. Well, you pretty well can tell. The average annuitant who retired before 1945—if his monthly income is \$280, that sure as hell is need, isn't it? That's with his retirement and other outside income his income is \$280 a month. Isn't that need?

Mr. RUDDOCK. If you had an individual with exactly that average I would say that he certainly—

Mr. WALDIE. Well, you must have individuals with a lot less than \$280 to make that average.

Mr. RUDDOCK. But in this average there would be a wide range and I think the point is that you can't tell by looking at the annuity of an individual whether he is an individual—

Mr. WALDIE. Of course not.

Mr. RUDDOCK. Because you don't know the extent of his other income.

Mr. WALDIE. But you do know that a very large number of Federal employees that retired, say before 1945, have \$280 or less income a month including their annuity; that's a fair statement, isn't it?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And that's a disturbing thing to me. Those people are in need, are they not?

Mr. RUDDOCK. I would say they are.

Mr. WALDIE. Yes, I would say they are, too.

Mr. RUDDOCK. Certainly, some of them are, without any question.

Mr. WALDIE. Unless someone else is supporting them, at \$280 a month you can't live on. I mean, you simply can't live on \$280 a month, can you?

Mr. RUDDOCK. Well, I would come to a point on the next page of my testimony—

Mr. WALDIE. OK.

Mr. RUDDOCK. By way of contrast, those retirees entered on the benefit roll from 1965 through 1969 receive an average monthly annuity of \$382, and almost 72 percent have outside income, with an average total monthly income of \$548. Most of the people in this latter group retired before Public Law 91-93 was enacted in October 1969.

For those who have been receiving annuities for many years the automatic cost-of-living adjustments built into the Civil Service

Retirement System have provided substantial benefit increases to keep pace with rises in the Consumer Price Index. In the past 4 years alone, these adjustments have resulted in five annuity increases totaling 26.2 percent. In addition, another cost-of-living increase of 6.1 percent will be effective July 1 of this year, resulting in six increases in 5 years totaling over 33 percent.

In brief, the Civil Service Retirement System has not and, in our opinion, should not adopt a policy of assuring its already retired employees that their benefits will be kept on a par with those available to employees currently retiring, taking into account increases in salary and liberalizations in the Civil Service Retirement Law.

Instead, the policy is one of providing annuities in amounts related directly to length of service and salary received, and thereafter guaranteeing that the purchasing power of the "earned" annuity will be preserved by automatic upward adjustments in accordance with the rise in cost-of-living as reflected by the Consumer Price Index.

While we are fully in sympathy with those retired persons or survivors who are in financial need, we strongly oppose across-the-board increases based on a presumption of need, because we do not believe that the retirement system is an appropriate means of solving the problem. The financial plight of these people is not a result of their employment by the Government. To the contrary, their situation results from broader social and economic conditions which apply to our society as a whole, and their unfortunate situation is no different from that of a number of older citizens in our society who never worked for the Government.

The Commission therefore strongly recommends that no action be taken on these or other proposals for additional annuity increases.

I thank you for the privilege of appearing today. I will be glad to answer any questions you may have.

Mr. WALDIE. Just one question. If we were to pass this bill and did increase the normal cost of providing future retirement benefits by .05 of payroll, we would still be considerably less than the 14 percent of payroll that we assumed was the normal cost, would we not?

Mr. RUDDOCK. Yes, sir. That would leave normal cost .85 percent less than the current income from employee deductions and agency contributions.

Mr. WALDIE. So the passage of this bill would not throw the economics of the plan as we have proposed them out of kilter?

Mr. RUDDOCK. No, sir, not on the normal costs. It would create, as we have indicated, an unfunded liability which would require appropriations over a 30-year period.

The Civil Service Commission would not, as I'm sure you recognize, recommend any increase in the employee deductions because of this .05 percent increase in normal costs.

Mr. WALDIE. Would you proceed, then, with the next bill?

Mr. RUDDOCK. Yes, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear today to present the views of the Civil Service Commission on this legislation to lower both the employee and agency contribution rates in the Civil Service Retirement law from 7 percent to 6½ percent.

In its formal report dated June 27, 1973, the Commission recommends against enactment of the bill at this time. Mr. Chairman, I suggest that this report be incorporated in the record of the subcommittee's proceedings.

Public Law 91-93, which was enacted in 1969, adopted a method for permanent financing of the Civil Service Retirement System that included two major provisions for meeting normal cost.

One, employees would pay approximately half of the normal cost, which was then 13.98 percent, through payroll deductions fixed by law at 7 percent of pay.

Two, the Federal Government, as employer, would pay the other half of normal cost by agency contributions of 7 percent of pay.

Normal cost is the average percentage of pay required to be set aside, invested and earning interest, throughout the total careers of a group of new entrants in order to pay benefits to them and their survivors. It is in no sense a cost for a given year calculated on the experience of that year.

The employee deduction rate is not fixed administratively by the Commission, but is set by act of Congress and can be changed only by amending the law.

The Board of Actuaries of the Civil Service Retirement System in its 50th Annual Report, now published as House Document No. 93-37, estimated normal cost as of June 30, 1970, to be 12.95 percent of payroll. This reduction from the prior figure of approximately 14 percent did not result from lower benefit costs, but reflected an assumption that the long term rate of income from investment will be 5 percent rather than the 3.5 percent used in a prior valuation.

To the extent that more dollars of income from investment are available to help pay benefits, less of the pay of covered employees is needed. The Board recognized that present employee deductions and agency contributions totaling 14 percent exceed the normal cost of 12.95 percent.

Because of the possibility of further increases in the early retirement rate and the fact that cost-of-living annuity increases continue to add to the unfunded liability of the system, the Board recommended that both benefits and contribution rates be left at the current level.

Mr. WALDIE. May I stop you there a moment?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. What do unfunded liability costs have to do with this formula? I assumed when the formula was established it had nothing to do with unfunded liability. That was the responsibility of the Government totally and exclusively. You have an indication in that paragraph that somehow or other the 14 percent had a contribution to unfunded liability contained with it; is that correct?

Mr. RUDDOCK. Yes. The Board of Actuaries expressed some concern in the report about the fact that the financing system adopted in 1969 did not stop the growth of the unfunded liability. They are—

Mr. WALDIE. What the Board of Actuaries are saying is that Congress made a mistake in 1969 when they should have been making contributions to the unfunded liability from the 14 percent?

Mr. RUDDOCK. I don't believe they used the word "mistake." They do recommend that the method of financing the cost-of-living increases be changed.

Mr. WALDIE. Well, the fact of the matter is we have not changed it.

Mr. RUDDOCK. That's right.

Mr. WALDIE. We decided what the financing would be and we assume that you follow the will of Congress. So none of that money should be applied to reduction of unfunded liability. Has any of it been applied to reduction of unfunded liability?

Mr. RUDDOCK. That is the net result of having income from employee contributions and agency contributions that exceed normal costs.

Mr. WALDIE. Right, it is.

Mr. RUDDOCK. Because you don't, as a bookkeeping transaction, transfer that money from employee deductions or agency contributions and apply it to a reduction of unfunded liability.

Mr. WALDIE. That is the effect.

Mr. RUDDOCK. That is the effect in calculating the unfunded liability, you are arriving at a process of estimating the liabilities over assets, so it does have that effect.

Mr. WALDIE. And this recommendation not only has that effect but approves that effect and seeks that effect. The Board recommends that both benefit level at the current level and contributions at the current level because of the fact "that cost-of-living annuity increases continue to add to the unfunded liability of the system."

That isn't what Congress intended, though, was it?

Mr. RUDDOCK. No, sir.

Mr. WALDIE. So the Board is recommending something contrary to the desire or the intent of Congress.

Mr. RUDDOCK. The Board is recommending a change in the method of financing the cost-of-living increases.

Mr. WALDIE. I don't see that the Board is recommending a change in the method of financing the cost-of-living increases. I see the Board is recommending taking the moneys that are presently being contributed without a change in the law and applying it to the unfunded liability.

Mr. RUDDOCK. Mr. Waldie, I believe the Board of Actuaries said that they recommended that there be no change until some different method of funding or financing the cost of living increases that would be adopted; until some method of stopping the growth of the unfunded liability could be adopted.

Mr. WALDIE. All right. Please continue.

Mr. RUDDOCK. The Commission supports the Board's position and recommends strongly that action to reduce the rate of employee deductions and agency contributions not be taken at this time.

The average age of voluntary retirees has been steadily dropping. In 1963 it was 64.3; it had come down to 64.0 by 1966, to 62.9 by 1969, to 62.7 by 1971, and to 62.0 by 1972. More early retirements cost more money, and if this trend continues, the next valuation, which by law must be not later than June 30, 1975, will have to include an assumed retirement rate that will increase the estimated normal cost.

Mr. WALDIE. May I ask a question? I may have misunderstood it.

Mr. Terry tells me that normal costs in 1971 and 1972 in fact were dropping; is that correct?

Mr. RUDDOCK. No, sir. The normal costs, as estimated by the Board of Actuaries, dropped suddenly from approximately 14 percent to

12.95 percent as of June 30, 1970. That would have occurred at the same time as the adoption of the assumption of the 5 percent investment income rate for the alltime future. Just by changing your assumption that over the long haul your average income from investment would be 5 percent rather than 3½ percent you reduce the normal cost.

Mr. WALDIE. Well, perhaps I asked the question wrong. Let me ask Mr. Terry to ask you the question.

Mr. TERRY. All right. I think the point that we want to make is whether it dropped to 12.95 suddenly at that point or not. Even though your statistics show here there has been a steady decrease in the average age of the employee at the point of retirement, evidently that has not substantially affected the normal costs and therefore, the assumption here that as the age of the voluntary retirees continues to drop the normal costs will be driven up don't seem to have been borne out by the experience we have had over the last couple of years.

In other words, it has dropped but the normal costs have not risen.

Mr. RUDDOCK. Well, the Board has not made another valuation in which they have assumed a higher rate of early retirement. In other words, they made this calculation, which is a mathematical process, as of June 30, and using an assumption of—with respect to early retirement based on the experience at that point.

Now, if the trend toward early retirement continues to increase beyond the assumption they use then making valuations using an assumption of a higher early retirement rate will give you a higher normal cost. That is the point we are making here, but this is not a matter of you calculate what the normal cost was for 1971, what it was for 1972, what it was for 1973. That is not the process.

Mr. WALDIE. Very well.

Mr. RUDDOCK. Because it is always difficult to raise the deduction rate, we recommend that the deduction rate not be reduced until we have more experience with this trend of earlier retirements.

The unfunded liability of the retirement fund, now approximately \$65 billion, is increased by about \$350 million for each 1 percent of increase in annuities. Cost-of-living annuity increases since 1969 have added about \$4.5 billion to the liability, and the 6.1-percent increase to be effective July 1, 1973, will add over \$2 billion more.

The retirement financing law enacted in 1969, Public Law 91-93, provides that the Secretary of the Treasury, at the end of each fiscal year, will transfer to the retirement fund the equivalent of interest on the unfunded liability (including that attributable to cost-of-living increases) beginning with 10 percent for 1971, 20 percent for 1972, and so on, until by 1980, 100 percent of the interest equivalent will be transferred.

The Board of Actuaries believes the present financing method should be changed and that future annuity increases should be funded either by including them in normal cost or by 30-year amortization. They recommend that the salary deduction rate not be changed until a different method of financing the cost-of-living annuity increases has been enacted.

The Civil Service Commission shares the Board's view that action should not be taken at this time to reduce employee and agency contributions, but believes the financing system adopted by Public

Law 91-93 in 1969 is working as intended by the Congress and should not be changed at this time. The Commission accordingly strongly recommends against enactment of H.R. 8817.

Mr. WALDIE. Where you say that it "is working as intended by Congress," did Congress intend that we pay the 14 percent when the cost is not 14 percent?

Mr. RUDDOCK. The concept adopted at the time was clearly one of approximately sharing normal costs half and half. That is not so stated in the law. The deduction rate is fixed by the Congress and it's working exactly as it's fixed unless or until it is changed.

Our point here primarily was we are not recommending a change in the method of financing the cost-of-living increases.

Mr. WALDIE. I know you are not. But you are recommending that the surplus that is created in the fund because we are paying in more than the fund costs, be applied to the reduction of unfunded liability, which is not what Congress intended at all. Now, is that a correct statement?

Mr. RUDDOCK. We are not recommending it in that way. We are recommending that we not change the statutory rate of 7 percent until we have more experience with the trend toward early retirement.

Mr. WALDIE. All right. If we wait until you have more experience what happens to the surplus that accumulates each year by the fact of contributions exceeding the costs?

Mr. RUDDOCK. The end result is one of not reducing but of slowing the growth of the unfunded liability. It has the same effect as the way you put it, of applying it to unfunded liability.

Mr. WALDIE. Sure it does. And if we finally get this experience that you are looking for and the experience comes to the conclusion that "yes, by golly, we are paying more than it costs. Therefore, we should reduce it," what happens to all this extra money that the employees have been paying in over and above their costs? Do they get a refund of that money?

Mr. RUDDOCK. No, sir.

Mr. WALDIE. Does that then at that point, when we finally make up our mind that the experience shows in fact we have been paying more so we should reduce it, does that mean that all that money has been paid in over the years we have been making up our mind, applies to the reduction of unfunded liability?

Mr. RUDDOCK. It would have that effect.

Mr. WALDIE. That does not seem fair to me.

Mr. RUDDOCK. Over the entire career of the Federal employee, if history is any guide, the deduction rate would be raised not immediately when it is ascertained that the normal cost exceeds twice the employee deduction rate. Normally, there is a considerable period in which the deductions and agency contributions would not fully meet normal costs so that there is probably a form of rough equity over the entire career of an employee rather than on a year-by-year or other period basis.

Mr. WALDIE. Well, we have the author of the act right here. I suspect he might have a comment or two to make on this.

Mr. DANIELS. Well, Mr. Chairman, I think you are absolutely right that when this law was enacted in 1969, we increased the contributions both on behalf of the agency and employees from 6½ to 7 percent.

The objective there was to meet the normal costs which, if my recollection serves me correctly, was 13.86.

Mr. RUDDOCK. Yes, sir. And then with the liberalizations that were included in Public Law 91-93, it brought the total to 13.98.

Mr. DANIELS. Right. Now, I think, Mr. Chairman, you are absolutely correct on the intent. But, Mr. Ruddock, in response to a question from the chairman, you indicated that we ought to wait awhile to gain more experience with this law before we make any contribution changes or reductions.

How long a period of time do you think we should wait?

Mr. RUDDOCK. More experience, Mr. Daniels, with the trend toward early retirement. The law requires a valuation be made not later than June 30, 1975. I would hope that we could make one sooner than that.

Mr. DANIELS. Well, that's 2 years off.

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. Now, in the meantime, you have this accumulation of the excess on the contributions, which amounts to approximately \$350 million a year?

Mr. RUDDOCK. It would be close to that, around 310, 320, in that neighborhood. Now, that includes both employee deductions and agency contributions.

May I remind you, Mr. Daniels, that when Pulic Law 91-93 was enacted the normal cost was estimated as you say at 13.86, and that we had been operating for a number of years with an employee deduction of 6½ percent. One of the problems we were trying to solve was that the income from employee deductions and agency contributions did not equal the existing normal costs.

Mr. DANIELS. That's right. Inadequate employee-agency contributions existed for some considerable period of time prior to the enactment of the new financing law.

Mr. RUDDOCK. Yes, sir.

Mr. DANIELS. Now, with reference to the cost-of-living increases, do you have any specific recommendation to make to the subcommittee as to how we may take care of their effect upon the unfunded liability?

Mr. RUDDOCK. Mr. Daniels, the Commission is not recommending any change in the method of financing those increases that was adopted by the Congress in 1969. You may remember some of the debate that occurred. A point was discussed specifically. It was intended that the liability created by cost-of-living increases would be financed as it is through the transfer of interest payments by the Secretary of the Treasury.

Mr. DANIELS. You are satisfied with that method, then?

Mr. RUDDOCK. For the present time, yes, sir. That method will provide all of the dollars that are needed to pay these increases.

Mr. DANIELS. Thank you. I have no further questions, Mr. Chairman.

Mr. WALDIE. Mr. Ruddock, may I ask you one more question on another bill? Are you familiar with H.R. 30?

Mr. RUDDOCK. Yes. That's the bill that would restore the full annuity to a retired employee whose spouse predeceases?

Mr. WALDIE. Right. Does the Commission have any position on that?

Mr. RUDDOCK. Yes. I testified recently before the Senate Post Office and Civil Service Committee on a bill to do exactly this.

The Commission recommends that that not be changed at this time. The reduction in the annuity of a retiring employee has been liberalized over the years until now it's a token reduction. If you did it on an actuarial equivalent basis, the rate would vary depending on the respective ages of the retiree and the spouse but as an average, the reduction required would be approximately 20 percent in order to provide the surviving spouse with 55 percent.

We started out with actuarial reduction in 1940. They were so—well, severe is the best word I know—so that in the 8 years from 1940 to 1948, less than 8 percent of eligible retiring employees took a survivor annuity because they just felt they couldn't afford it, so over the years this has been liberalized repeatedly in a series of steps until now reduction is 2½ percent of the first \$3,600 of an annuity and 10 percent of any excess. To restore the full annuity to a retired employee when the spouse dies first would be a further liberalization.

Now, let me comment I think the ultimate, I think the direction in which we are going, and I think the point we will reach will be one in which survivor annuity after retirement will be without election, will be without reduction. It will be as automatic as the payment of survivor annuity where death occurs in the service and our feeling is that with the fiscal problems, with the budget problems, this is not the time to adopt that further liberalization.

Mr. WALDIE. Thank you, Mr. Ruddock.

[Whereupon, at 10:22 a.m., the hearing was concluded.]

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