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HEARING

BEFORE THE

SELECT COMMITTEE ON AGING  
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

SEPTEMBER 17, 1980

Printed for the use of the Select Committee on Aging

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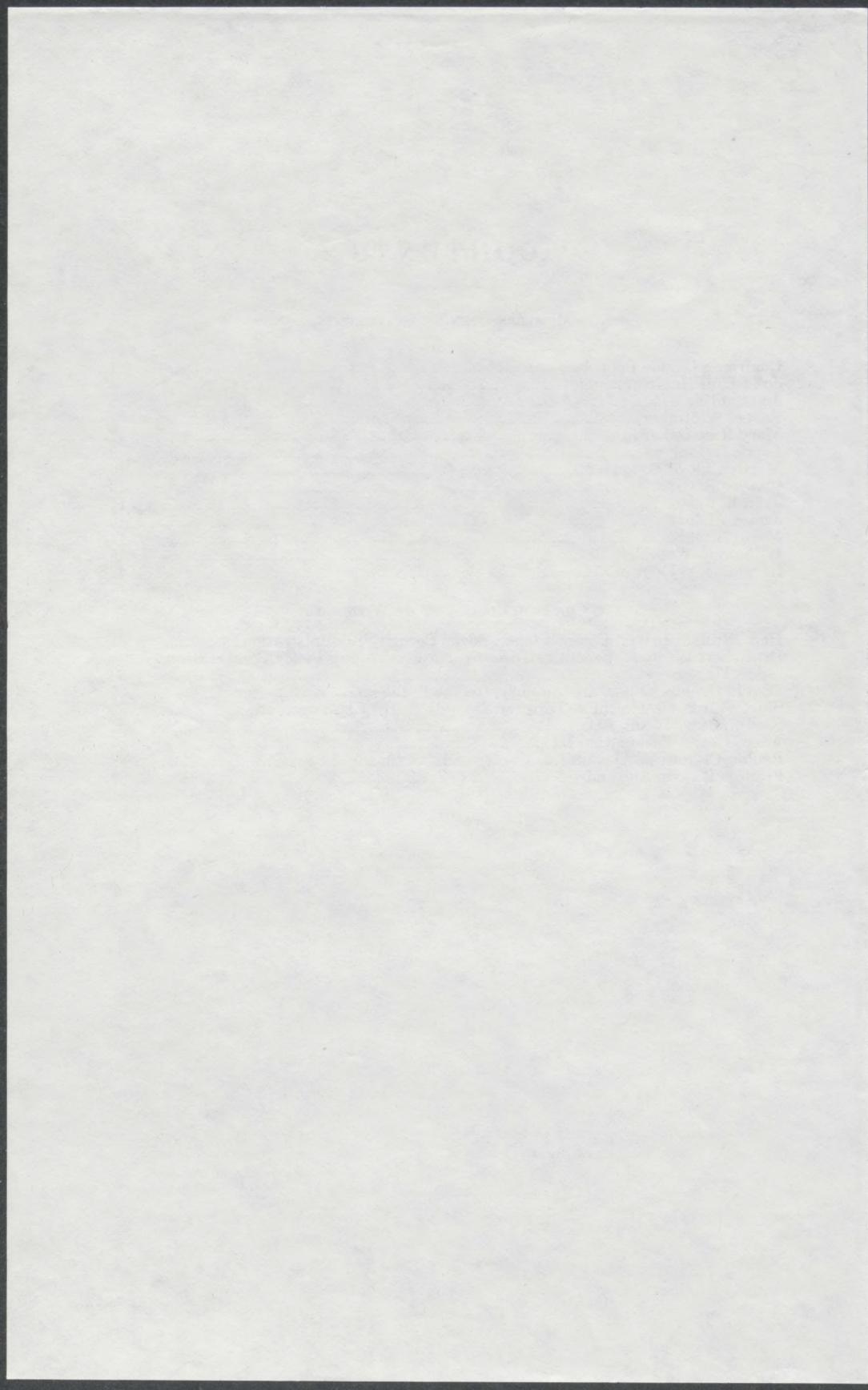
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## RETIREMENT: THE BROKEN PROMISE

WEDNESDAY, SEPTEMBER 17, 1980

U.S. HOUSE OF REPRESENTATIVES,  
SELECT COMMITTEE ON AGING,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:07 a.m., in room 2226 of the Rayburn House Office Building, Hon. Claude Pepper (chairman of the committee) presiding.

Members present: Representatives Pepper of Florida, Biaggi of New York, John L. Burton of California, Bouquard of Tennessee, Santini of Nevada, Drinan of Massachusetts, Oakar of Ohio, Ferraro of New York, Mica of Florida, Grassley of Iowa, Hammer-schmidt of Arkansas, Abdnor of South Dakota, Whittaker of Kansas, and Hopkins of Kentucky.

Staff present: Charles H. Edwards III, chief of staff; Richard Lehrman, professional staff member; Henry H. Hicks, communications director; Stephen R. McConnell, professional staff member; Jamil S. Zainaldin, professional staff member; Marie Brown, executive secretary.

### OPENING STATEMENT OF CHAIRMAN CLAUDE PEPPER

The CHAIRMAN. Good morning. We have a very important hearing this morning and a very important subject. Our staff has given long and very thorough consideration to this subject. What it relates to is the economic status of the elderly people in this country of whom there are almost 25 million. How do these people stand economically with what are they living on, what income to they have, what assets do they generally possess, what standard of living are they able to enjoy with the income and the assets that they now have? The staff has released this report, you see this study that I hold in my hand, entitled "Retirement: The Broken Promise." It is going to be filed today by the staff with the press after a little bit of further consideration and it will be available for study by all those who are interested in seeing it.

Today we begin the first of a series of important hearings which will focus on the severe retirement income problems being experienced by the 25 million Americans who are age 65 or older. And as you know the percentage of people in that age group is steadily growing. When I was born in 1900 only 5 percent of our population was over 65 years of age. Now something like 11 percent of our population are in that age category. In 50 years it will be 19 percent. Perhaps it will grow thereafter at even larger percentages. So we see how vital it is to the whole Nation to see how this growing segment of our population is getting along.

Our committee is hearing the cries of older persons who have dreamed of a secure and dignified retirement, only to confront the reality of a nightmarish struggle for economic survival; 1 out of 3 older men and 2 out of 3 older women currently are forced to try to subsist on annual incomes of less than \$4,000. Tragically, a large percentage of these people fell into poverty during old age. For these millions, the dream of a retirement in dignity has become a broken promise. I say sadly there are people in my district, in a rich, affluent part of America, generally, who every day have to choose between being able to buy a carton of milk or being able to buy a needed prescription. A national retirement income policy which allows one-quarter of the elderly population to live within \$50 a month of the poverty line can hardly be called a spectacular success.

There is a vast array of social programs which exists for the purpose of insuring that all Americans will have an adequate income during their later years. These programs often work at cross purposes with one another, however, and as one set of benefits is increased, another set is reduced. Older workers are given incentives to stay on the job under one program, but they are penalized for working under another program. The result is that each year the Federal Government spends billions of dollars to keep millions of elderly people near or just above the poverty line.

As the staff report I am presenting to the committee today clearly documents, the traditional three-legged stool of retirement income—social security, private pensions, and individual savings—is collapsing. The current retirement income system has not kept its promise to the workers who faithfully paid into social security, placed their faith in private pension plans, and tried to frugally invest in savings accounts during their working lives. Inflation has ravaged their retirement savings, or made it impossible to save, while their pension expectations have vanished into an incomprehensible maze of requirements or often disappeared because of the requirement that a worker participate in a plan for 10 years before he becomes entitled to pension benefits. These millions of older Americans have become dependent upon social security as their principal or only source of income. Their average benefit is less than \$300 a month. No wonder they feel social security just is not enough.

We definitely need to improve social security, but the social security system has borne more than its share of criticism for the economic problems plaguing our older people. We must come to grips with the failure of pension plans and savings plans to play their intended role in contributing to retirement income security, and develop appropriate solutions through congressional action.

We are introducing a package of legislation which recognizes that components of our Nation's income security system must be fashioned in such a way that they complement, rather than conflict with one another. This package recognizes two realities about the current system which must be addressed. First, this Nation cannot provide economic security for a growing elderly population by shutting them out of the work force. I would put principal emphasis on that. This Nation cannot provide economic security for a growing

elderly population by shutting them out or permitting them to be shut out of the work force of this country.

Second, we cannot continue to address the needs of those who fall between the cracks of the system by allowing them to subsist on public assistance benefits below the poverty line.

These proposals are directed at the following sources of income for older Americans:

#### EMPLOYMENT

The desire and ability to work among the elderly has often been thwarted by a combination of age discrimination and disincentives under private pensions and social security. Millions of older workers regard employment as an economic necessity. Our proposals would reward rather than penalize older people for contributing to their own maintenance by working. Work, fruitful, good work, is one of the best therapeutic assistances that one can enjoy. While we are encouraging the elderly population to have an opportunity to work we are helping them to live longer and to live healthier and happier lives.

#### SOCIAL SECURITY

Although it is our Nation's most successful antipoverty program, social security benefits alone are not enough. We are proposing changes to allow older workers to keep more of their hard-earned benefits and to increase the amount of benefits available to those who wish to postpone their retirement beyond age 65. Most of us can look forward to living many years beyond age 65, and many would like to remain in the workforce. My proposal would allow a full-time worker who postpones receipt of his social security entitlement a larger benefit. Studies have shown that this move will keep more older workers from retiring, and reduce some of the strain on the social security trust funds.

#### SUPPLEMENTAL SECURITY INCOME

In many respects, SSI is a dream program; many of us are so pleased because SSI federalized for the first time the State programs of old-age assistance. Before that, we had instances of progressive States like California, New York, and Massachusetts which had relatively high levels of payment and many other supplementary payments. But, I regret to say, most of the old-age assistance programs, particularly in my South, had very low payments. So I think our leaders wisely made this a Federal program, so that people in all States are guaranteed at least a certain minimum.

This minimum guarantee is still below the poverty line, however. Many aged, blind, and disabled SSI recipients have no other sources of income. It is reprehensible to allow these persons to exist below the poverty line. There are also millions of low-wage earners who worked all their lives paying into social security, but receive a benefit below the poverty line. Many are also ineligible for SSI. Our proposal would entitle those in need to a more reasonable and humane standard of living.

## SAVINGS AND ASSETS

Millions of workers who are covered by inadequate pension plans or may never receive benefits are ineligible for tax-deferred high-interest individual retirement accounts. In addition, the tax deductions offered to IRA participants are not likely to benefit low-income groups. We are proposing a package of incentives which will encourage this segment of the population to save for their retirement.

## PENSIONS

To everyone but the few who receive them, private pensions are the biggest broken promise of all. Current rules require virtually all workers to remain with the same employer for at least 10 years—a requirement which is often impossible. Contributions which have been forfeited by short-term workers subsidize the pensions of persons who remain with the plan over many years and are likely to work at higher wages. While the private pension system is the second-largest income transfer in America we submit that income is usually transferred from the poor to the better off or often the rich. The legislation we have developed to provide for shorter vesting and greater portability will allow millions to obtain nonforfeitable rights to their pensions and will encourage employers to help in the effort.

We can no longer allow old age in America to coincide with forced dependency, shattered dreams, want and despair. Public and private sector efforts to provide economic assistance to the elderly must be reevaluated and overhauled if necessary. Today's retirees, as well as their counterparts in the past, have relied on the responsiveness of public policy to insure their well-being in old age. We must insure to this generation and to all future generations of older Americans, that retirement will not be a broken promise.

Mr. Hammerschmidt, do you have a statement to make?

## STATEMENT OF REPRESENTATIVE JOHN PAUL HAMMERSCHMIDT

Mr. HAMMERSCHMIDT. Mr. Chairman, I would like to say to our guests and to our witnesses that meeting with Claude Pepper is a great way to start the day for he himself is truly an inspiration. I commend him for his continuing concern over many vital issues. Your very comprehensive statement this morning speaks for itself. Mr. Chairman, I too believe that for many people the American dream of a peaceful secure retirement has been lost between the rhetoric and the reality. But so that we are not overstating the dimensions of the problem and becoming engulfed in pessimism, I think it is important to acknowledge that what has developed is a two-class system of retirement in this country. One group, about 24 percent, live at or near the poverty level and relies almost exclusively on social security or SSI.

The other group, the larger one, has an adequate standard of living with employee pension benefits or assets or savings from investments. Adding the historical perspective we see an even broader picture. Over the last 20 years the elderly have experienced a tremendous improvement in their economic state. Between 1966 and 1977 the number of elderly officially counted as poor

dropped from 5.4 million to 3.2 million. Most available trend data recognize growth in the real income of those 65 and above and that fewer people will be so dependent on social security and SSI for their income. What I am suggesting is although the problems we are addressing today are serious they are not so pervasive that they cannot be solved. Although the elderly make up almost 25 million the group that needs intervention is far smaller. I think our first concern is to make sure that no older person is living in poverty. I believe that our society has the economic capacity and the resources to abolish this problem. What we need to do is elevate this issue above the many competing demands and develop consensus on the means of achieving this goal. It is my hope that the witnesses will provide us with this guidance. I notice that on our witness list, I want to single him out because I have to go to an EDA Subcommittee meeting in a few minutes, is the very distinguished Bill Driver, who is a real professional in Government service, and served as the head of the Veterans' Administration when I came. I am delighted he is the leadoff witness. I am sorry I will have to miss his testimony but I will read it. Thank you.

The CHAIRMAN. Mr. Santini.

#### STATEMENT OF REPRESENTATIVE JIM SANTINI

Mr. SANTINI. Thank you, Mr. Chairman. I wish to commend you on a superior opening statement. I wish to submit that you, Mr. Chairman, are probably the best evidence or one of the best evidences we have in the United States of America of the folly of compulsory retirement at age 62 or 65. You are a manifest demonstration of the vitality of mind and body for those who may be over age 62 or 65. If I were presenting a case on behalf of the seniors you would be my best evidence, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. SANTINI. Thank you and your able staff for having these hearings to explore one of the most pressing issues of our time: our elderly population and the insufficiency of their retirement income. I realize that responding to my request for these hearings required an extraordinary effort because of the time constraints and the scope, and breadth of the topic that we are examining here this morning. I would particularly like to point out the efforts of Richard Lehrman who spearheaded the planning of these hearings. You have my deep appreciation. My request for our committee to explore the plight of our seniors in these inflationary times arose from a realization of and a deep concern about the deteriorating economic conditions of our Nation and the deteriorating economic circumstances of our elderly. We have some graphic aids here, Mr. Chairman, which were prepared by your able staff and which clearly states the case. Chart No. 1 (see chart No. 1, p. 25) income, shows that currently the median income of elderly persons living alone is \$4,300, which is 51 percent lower than the median income for younger individuals. Moreover, the median income for elderly households is \$7,081, and that is 60 percent lower than the median income for all younger households.

Although only 10 percent of the population is over 65, the elderly do constitute 22.3 percent of all persons in America with annual incomes below \$3,999. And to measure the inflation impact I would

ask that we examine chart number two. Only the portion of an elderly individual's income derived from social security, SSI, and food stamps offers some protection from that inflation. What our graph attempts to depict here, Mr. Chairman, is that the average social security benefit is \$300, SSI benefits \$112, and food stamp benefits \$34; these are all adjusted to the consumer price index, which is depicted by the center blue line (see chart No. 3, p. 27). Now the CPI measures an overall rate of inflation. The fallacy, Mr. Chairman, of that kind of measurement of impact on the elderly is that it does not measure the cost of necessities. Necessities—food, shelter, medical care, and energy—are depicted by the orange line, which is at the top of the three progressively rising lines. Last year the price of necessities rose by a 17.6-percent margin. In the first quarter of 1980 inflation for necessities spiraled upwards at a rate of 23.76 percent. The disparity is made manifest by that excellent chart, Mr. Chairman.

In my travels to the district, particularly in my visits to senior centers, I am constantly reminded of how our programs, both public and private, are inadequate to meet the needs of our senior citizens. The greatest challenge facing this committee, and the United States of America for the balance of the 20th century is to try and make some rational sense out of the orange line and the blue line, the necessities and the Consumer Price Index, as we measure the impact of inflation on the elderly and their income. The Select Committee on Aging has held numerous hearings on the various impacts of inflation on the elderly. However, we have yet to explore in depth the supply side of the economics of the elderly, that is, their sources of income. I am delighted we are looking today at ways to put more money into the pockets of our needy senior citizens. We need to look at social security, Supplemental Security Income, and private pension plans. I think private pension plans offer an interesting arena of financial assumptions on the part of many Americans under the age of 62, who deduce that "well, yes, it is true that retirees have social security in the amount of approximately \$300 a month, but most of them have private pension plans". I think this chart ably refutes that assumption (see chart No. 5, p. 30). Only 30 percent of the men and 13 percent of the women recently entitled to social security also receive a private pension benefit. Coverage under private pension plans is generally restricted to upper income groups. Only 10 percent of the workers with incomes under \$5,000 and 31 percent of the workers with incomes between \$5,000 and \$10,000 are covered. Conversely, 78 percent of the workers earning \$25,000 and more are covered by private pension plans. I look forward to our witnesses' testimony with regard to the inadequacy of the private pension solution at least to date in this country.

The legislative proposals discussed today will be the core of a comprehensive program that you will champion through the vehicle of this committee next year, Mr. Chairman. These will be creative, fiscally responsible means to improve the well-being of our senior citizens. Thank you for these hearings and this opportunity for this committee and America to examine these critical issues.

The CHAIRMAN. Thank you for your excellent statement, Mr. Santini.

Mr. Whittaker.

#### STATEMENT OF REPRESENTATIVE ROBERT WHITTAKER

Mr. WHITTAKER. Thank you. I would like to thank you first of all for calling this hearing this morning and for giving me the opportunity to speak about an issue which is of vital concern to this committee—the poverty that our older Americans face when they are forced into retirement.

Mr. Chairman, for our older Americans, retirement has not brought the peace and happiness that so many of our older Americans looked forward to all their lives. Instead, as you so adequately stated earlier, for 1 out of every 3 older men and 2 out of every 3 older women, retirement has brought poverty and a constant struggle to survive on an annual income of less than \$4,000.

The promise of a good life after a lifetime of work has been shattered obviously, and over 14 percent of our older Americans are classified as living in poverty.

Throughout the years, inflation and even the very structure of our assistance programs have worked against our older Americans, and instead of finding financial security they have had to worry about where they will find the money to meet their basic needs.

Because of the structure of our assistance programs, when an older American receives a cost-of-living increase in one program, his benefits, are correspondingly reduced in another program, leaving the recipient with no financial gain whatever and while inflation we notice continues to climb.

I would hope that this committee will examine these programs and seek ways to insure that when the benefits of one program of assistance are raised, the benefits of another program will not necessarily suffer. Likewise, I hope we can explore the possibility of increasing the amount of outside earned income that our older Americans can earn before their benefits are drastically reduced.

We should not penalize our citizens who are both willing and able to remain employed and productive.

The task ahead of us is indeed a large one. But it is a task that we must face now, in order to relieve the suffering that so many of our older Americans are encountering because of inequities in the present system.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Whittaker. Ms. Oakar.

#### STATEMENT OF REPRESENTATIVE MARY ROSE OAKAR

Ms. OAKAR. Thank you, Mr. Chairman. I have a statement I would like to submit for the record. But I would like to make some remarks extemporaneously. We are talking about the poorest people in the United States whose retirement has really become a nightmare for them, and not a time to grow and to have serenity and to be active and so forth. We are talking about the fact that our country only spends \$7 per year on the average older person and yet we give billions of dollars away in foreign aid. We cannot afford to have an adequate medical health plan. Medicare only

covers a third of older people's needs. Does not cover all the kinds of things that all of us identify with becoming older like eye care, ear care, foot care, medication, which are among the most expensive items. We know older people's health care needs are three times more than other age brackets. We know people in Denmark, for example, spend more on their older people than people in the United States. We also know, and I think this is very, very significant, and I hope we define who the elderly poor are in more graphic terms; we know that 72 percent of all the older poor people happen to be unmarried women. And when you talk about what a person's pension plan is and what the social security system has done you are really talking about the fact that the social security system which has been one of our finest domestic programs since 1935, has not changed with the times, that 10 percent of the women were in the work force in 1935 and today we have more than 50 percent and in 1990 we are going to have more than 70 percent. We know the social security system cheats women, it absolutely discriminates against them. It cheats the divorcee, it cheats the disabled woman, it cheats the homemaker and it also cheats the working woman who has contributed to the system and does not get as much in return as someone who has not contributed to the system. So when we are talking about the poor we have to understand that we are talking about 72 percent of these elderly poor being unmarried women who are either divorced, or widows, or who never got married. We are talking about these women living on \$243.50 a month under a social security system that cheats them. We have introduced some bills, I know my chairman has cosponsored most of the bills that I introduced, but I am glad to see William Driver here, who is the new Commissioner of Social Security, because he has made some comments about the system that I found somewhat disparaging. We will give him a chance to say some things about what it is we can expect in the future to rectify a system that is outdated and which discriminates against the majority of elderly poor. Thank you, Mr. Chairman.

[The prepared statement of Representative Mary Rose Oakar follows:]

PREPARED STATEMENT OF REPRESENTATIVE MARY ROSE OKAR

I want to commend our chairman for holding this hearing on the adequacy of retirement benefits. For some retirement is a stage of life free from want, as it is intended to be. For too many others retirement represents a broken promise.

There are several sources of retirement income available to older Americans, but for more than half the most important source is social security. In this era of double-digit inflation, the adequacy of social security benefits and the operation of the cost-of-living adjustment (COLA) need to be reassessed. The Advisory Council on Social Security in 1979 reported that when the inflation rate climbs above 6 percent annually, the annual adjustment offers only a minimal protection for beneficiaries. They recommended biannual adjustments during such high inflationary periods, a recommendation which I strongly support. We also know that the cost-of-living adjustment is linked with the Consumer Price Index. Some have urged that we "cap" adjustments to hold down costs to the trust fund; others have argued that linking COLA to the CPI actually overstates the inflation rate and thereby overcompensates the elderly. However, studies have shown that the cost of necessities have risen higher than the inflation rate measured through the CPI, and it is necessities which make up the bulk of the elderly's budgets. For this reason, and for others, I strongly oppose setting a maximum on COLA, nor will I support any proposal to tax benefits for any retired individual, let alone those relying on social security.

Inflation is not the only force eroding the retirement income of the elderly, but surely it is the chief one. Inflation hurts all Americans, but it is most burdensome

for the elderly. In an earlier hearing we heard of the skyrocketing costs of medical care. While our federal Medicare program has grown to meet part of this increased cost, for many of our elderly decent medical care has become a luxury they can no longer afford. And what has been the impact of inflation on private pensions and savings? For those fortunate enough to have them, the value of private pension annuities have dwindled proportionate to the spiralling rate of inflation. I think we all recognize that inflation erodes savings, yet our elderly have been told for most of their lives that the best preparation for retirement is the accumulation of savings. Do these, too, represent broken promises?

Nor can we ignore the economic plight of elderly women. As Chair of the Task Force on Social Security and Women of the House Select Committee on Aging, I have had the opportunity to hear from a wide variety of witnesses—experts, government officials and women themselves—concerning the treatment of women under social security. We found that unmarried women account for 72 percent of all elderly poor; that the average monthly social security benefit for women who retire at 65 is \$243.50, and for women who retire before 65, \$187.90. Women who combine homemaking with work in the paid labor force, disabled homemakers, widows, and divorced spouses are treated inequitably and inadequately under social security. For these groups, retirement all too often marks the beginning of an economic nightmare. It is vitally important that we modernize our social security system to bring it into accord with contemporary needs and realities. To this end, I have introduced six bills in the 96th Congress which are designed to address issues of equity and adequacy which so adversely affect older women.

I come from a district with a large number of elderly. Many of these elderly live in that gray borderland between poverty and financial independence. In the last fifteen years we have made great strides forward in reducing the incidence of poverty among our elderly, but mail from my district indicates that progress in combatting elderly poverty has begun to stall. We urgently need a comprehensive federal retirement policy that can avert the impoverishment of our elders. Some would argue that we have no retirement policy at all, while others point to the contradictions which exist in our federal programs. For example, we have the Age Discrimination in Employment Act which seeks to remove barriers to continued employment for elders, and the social security retirement test which operates as a work disincentive. The importance of work for the elderly who lives at the bare edge of subsistence looms especially large in this day—because some simply prefer work to retirement, and because other must work to supplement a dwindling retirement income.

I very much welcome the testimony of our witnesses this morning. I hope they can shed some light on these and other complex retirement issues which so seriously affect the well-being elderly. It is not a question of whether we should act, but rather what Congress must do to restore the promise of retirement for all Americans.

The CHAIRMAN. Thank you very much, Ms. Oakar. Mr. Hopkins.

#### STATEMENT OF REPRESENTATIVE LARRY J. HOPKINS

Mr. HOPKINS. Mr. Chairman, thank you very much. Let me say first of all for the benefit of the people in this room who may not know, this committee has worked extremely hard—I exclude myself from that. For example, just a few days ago an amendment was put through on the House side to relieve some 31 million Americans from the suffering of arthritis through the efforts of this committee, something that the FDA had been dragging its feet on for over 15 years.

I want to compliment our chairman and the members of this committee who worked extremely hard to get that amendment passed on the House side.

Mr. Chairman, the apparent trend in retirement age today seems to be that it is getting lower, that our people are choosing to retire earlier and at the same time our people are living longer. This presents a great deal of problems for the social security system, at least in my view. People in America have worked all their lives to save up for what has become known as a nest egg; now they find

that they are struggling to stay in the nest and they do not seem to be able to find the egg.

The above age 65 group of course is our fastest growing segment of our population today. I have said this before, I think it is always worth repeating, I used to think there were just a few people over age 100 in our country. The fact is there are over 13,000 Americans that are over age 100.

It is my hope that today's hearings will place particular emphasis on the rural elderly whose social security benefits are lower and whose unemployment rates are higher. The shocking reality that approximately 81 percent of the rural elderly have incomes below \$4,000 must be dealt with expeditiously. Mr. Chairman, I commend you for holding this hearing and I enthusiastically look forward to the testimony and the recommendations of our witnesses today. Thank you.

The CHAIRMAN. Thank you very much, Mr. Hopkins. Mrs. Bouquard.

#### STATEMENT OF REPRESENTATIVE MARILYN LLOYD BOUQUARD

Mrs. BOUQUARD. Thank you very much, Mr. Chairman. I certainly do appreciate your calling these hearings and your very deep concern.

America today is on the brink of a revolution. It will be a peaceful conversion, but it will nonetheless cause a dramatic shift in the socioeconomic and geopolitical institutions of our Nation. I am referring to the "greying of America," the onset of a population shift in which larger and larger numbers of our people are living longer and thus tilting the population balance away from the youth and toward those in the age 55 and older subcategories.

The challenge of this decade the the 1990's for all Americans, is to prepare a structure that will permit our society to deal competently and effectively with the changing needs of an aging population.

The purpose of this hearing is to evaluate how the retirement system helps to fit into that structure. To me, the fundamental question is what are Americans retiring from, and what are we retiring to? In far too many instances the answer to that question is that we are retiring from positions of relative economic security and independence into a position of poverty, fear, and want.

When we talk about the elderly, we are talking about ourselves and about our future. We must accept forthrightly the challenge to act responsibly and humanely.

We are here today to seek solutions to the problem of improving the quality of life for those who have dedicated their lives to building this Nation. The quality of our lives is the result of their hard work and self-sacrifice. We must seek to assure them the dignity and rewards that are the full measure of their labor.

The CHAIRMAN. Thank you. Mr. Grassley.

#### STATEMENT OF REPRESENTATIVE CHARLES E. GRASSLEY

Mr. GRASSLEY. Thank you, Mr. Chairman. I want to thank you for calling this very important hearing. We have had hearings before on the problems of retirement, particularly as they relate to

inflation, but I think the title of this hearing, "Retirement: A Broken Promise," legitimately asked the question: Why have the high expectations of retirement become a broken promise for so many people in America? I think if we look far and wide enough, a lot of the broken promises are going to come right back here to us in Government. There are causes rooted in public policy that have helped break the promise of a well earned retirement. I think first of inflation, and the way it eats up peoples' savings. Six percent of the savings in this Nation are held by people who save for retirement; people 55 years of age and older. These are mostly small accounts in savings and loans and banks. The effect of inflation on these accounts is seen in the fact that a thousand dollars saved at the beginning of this year will probably be worth only about \$850 at the end of the year. I think of what the Advisory Commission on Intergovernmental Relations said in its most recent report. This report points to the great extent to which the Federal Government contributes to inflation. I remember the most recent report of the Joint Economic Committee of the House and Senate which also speaks of the manner in which Government exacerbates inflation. This report reveals how inflation discourages people from saving, and how that in turn leads to an increase in unemployment and a decline in productivity. We find, therefore, that our own Government agencies are stressing the very real role that the Federal Government plays in inflation. Inflation contributes to the broken promises.

Another factor in the broken promise is the social security earnings limitation which places an economic sanction on people who want to work. It is all right for people to have all the income they want to from their savings, but if you want to work, or if you need to earn income to supplement your social security, you are penalized 50 percent of all you make over \$5,000.

Then of course there is still discrimination in employment, regardless of the good legislation that the committee has gotten through. The chairman is to be especially commended for his work in this field. However, there is still age discrimination which inhibits the employment of senior citizens. We should use the opportunity that we have in this Congress not only to encourage people to save for retirement so that they will not have to rely entirely on social security. This should be done by expanding the use of the individual retirement accounts. In this regard, I would note that women, who represent the largest percentage of our Nation's elderly are being discriminated against because as homemakers they do not have the same right as men to have homemaker retirement programs or individual retirement accounts. This disadvantages women more than anybody else in retirement because they do not have the same tax advantages that working spouses have.

I look forward to the testimony on why retirement is a broken promise. I am predisposed to agree that it is in most cases, but I think many of the reasons will bring us right back here to Washington where public policies have exacerbated the problem for retirees in America.

The CHAIRMAN. Thank you very much. Mr. Burton.

## STATEMENT OF REPRESENTATIVE JOHN L. BURTON

Mr. BURTON. Thank you very much, Mr. Chairman. I am happy to be here. The hearing that you are holding today complements many hearings that our own Subcommittee on Retirement Income and Employment has held. I think broken promises comes to mind when we talk about the administration's trying to change the CPI for social security recipients, by removing the housing component, which I always thought was part of the cost-of-living. We are also talking about broken promises when we talk about decreasing the cost-of-living allowance for Federal employees who are retired and for retired military personnel from twice a year, to one a year in order to save money. When the double COLA was given to Federal civilian and military employees, it was given in return for eliminating the 1-percent add-on for retired Federal employees that made up for the lag between the time when the cost-of-living increased so much during a certain month and about 9 months later when they got the money. So I talk about broken promises when I hear the administration wants to change the cost-of-living index for social security recipients and other retirees; when I hear the administration and the Congress, not the House, but the other body, wants to take away the twice a year cost-of-living increase that was given in return for something that was taken away. I really call those broken promises.

I hope this hearing also deals with some of the SSI problems. In our State of California, where I happen to have authored the State SSI legislation, we exempted the price of a house, which at one time I think had to be less than \$25,000, from the eligibility requirements for SSI. Our great colleague, the late Bill Ketcham, who, by nobody's stretch of the imagination was a fiscal liberal, passed the legislation that exempted housing as an asset for the elderly. I think we also had to increase the resource test, too, so the elderly, blind, and disabled recipients could have more liquid assets than \$1,500 in the bank. These are important issues to address.

When you see old people going into stores and buying cat food, and they are your next-door neighbors and you know damn well they do not have a cat, but they are buying it for their own food, you know somebody, somewhere, has broken a promise. I think it has been the Federal Government. As I say we have seen evidence twice this year of this administration and the other body breaking a promise. The administration, by talking about changing the CPI for social security benefits. And our counterparts in the other body, by eliminating the twice-a-year COLA for retired Federal employees and retired military personnel, are breaking promises. Cutting back on Federal COLA's is a promise broken because a contract was made when the Federal retirees gave up one portion and in return they were promised they would get a twice a year cost of living so they at least could keep up with the pace of inflation, and not have a lag time.

Mr. Chairman, with your permission I would like to ask a question before the first witness testifies, because I have to go to another hearing. I would ask the Commissioner, does it take legislation for the administration to raise the CPI for the elderly or can

they just do it through administrative action? With your permission, I ask if that might be the first thing he addresses himself to.

The CHAIRMAN. Very good. Thank you very much, Mr. Burton. As chairman of the full committee, I wish to commend Mr. Burton who is chairman of the Subcommittee on Retirement Income and Employment for the excellent work that he and his subcommittee have done in this field. Mr. Abdnor.

#### STATEMENT OF REPRESENTATIVE JAMES ABDNOR

Mr. ABDNOR. Thank you, Mr. Chairman. I welcome the opportunity for our committee to explore the topic of retirement benefits to the elderly. The range of problems associated with this country's retirement income programs is yet another example of good intentions gone sour. I have rather a lengthy statement, Mr. Chairman. I ask unanimous consent that I be allowed to place this in the record.

The CHAIRMAN. Without objection.

[The prepared statement of Representative James Abdnor follows:]

#### PREPARED STATEMENT OF REPRESENTATIVE JAMES ABDNOR

Mr. Chairman, I welcome the opportunity for our Committee to explore the topic of retirement benefits to the elderly.

The range of problems associated with this country's retirement income programs is yet another example of good intentions gone sour. In the last 15 years, our society has generally responded to the needs of the elderly by developing or expanding Government programs. As we are now finding, the limited success of these programs has been accompanied by major disadvantages. Social Security, for example, was not designed to be the sole source of retirement income for those over 65, yet for many, Social Security benefits are the major or sole source of retirement income. Some features of Social Security, like the Earnings Limitation, have not been adjusted to reflect increased monetary need as a result of increased life expectancy and early retirement. And as we found out the hard way, years of mandated retirement has helped to shackle the elderly to Government income assistance, as they are robbed of their independence and their source of fulfillment and worth. As I said in this Committee's hearing on "American Attitudes Towards Pensions and Retirement" in February of 1979, it is time for a sound national policy toward retirement.

The passage of the Age Discrimination in Employment Act has made some inroads toward increasing the job opportunities for senior citizens. There are, however, many more employment disincentives which must be rectified. For example, the existing Social Security law penalizes an older worker by reducing his or her Social Security benefits by one dollar for every two dollars earned over \$5,000 a year. I have sponsored legislation to repeal this earnings test in every Congress since I was elected, and I am more convinced today that such a repeal is necessary. We must reassert the senior's right to earn, and design programs to reward independence rather than enforcing dependency through "deeming" requirements, resource tests, and earnings limitations.

Labor force participation rates have decreased rapidly: 30 years ago close to 50 percent of all men aged 65 or over remained in the workforce, compared to 20 percent today. While I recognize that many retirees choose not to work, it has been estimated that one to three million would prefer to work, whether for personal or financial reasons. When we know that Social Security recipients who don't have at least a part time job are 4 times as likely to fall into poverty as those who have a job, it is important that we improve employment prospects for the elderly.

There are other things that can be done, such as improving private pension systems and encouraging individual investments to increase one's retirement income. Too often the elderly place their assets in savings and checking accounts, which are especially vulnerable to inflationary trends.

Clearly, the elderly are among the hardest hit by the spiraling inflation of the past two years. Rather than endorse expanded Government programs to address the problems of elderly retirees I would like to see us work to eliminate the overly rigid regulations of our existing programs, and continue our efforts across the board to

slow down inflation in this country. It is important to remember that we are not going to be able to rely on the Federal Government to take care of all the problems facing the elderly. We must insist with more conviction than ever that the programs we do support be of high quality.

In closing, let me once again mention the special problems of the rural elderly as they are affected by the Government's retirement income policies. In this country, 81 percent of the rural elderly have annual incomes below \$4,000, 61 percent of them living on incomes below \$2,000 a year. These figures provide a sad commentary on growing old in America, and we should make special efforts to identify the economic concerns of rural populations as they grow older.

Again, I appreciate the interest in this important area of aging and would like to commend you, Mr. Chairman, for convening this hearing.

The CHAIRMAN. We have one more distinguished member of this committee from whom we have not heard. Mr. Biaggi.

#### STATEMENT OF REPRESENTATIVE MARIO BIAGGI

Mr. BIAGGI. Thank you very much, Mr. Chairman. My tack may be just a little different. I do not regard the promises as being broken. I regard it as a promise that has not completely been fulfilled because the fact of the matter is when the promise was made there were considerably less benefits being given. The Congress and the administration has responded; perhaps the people of today are extremists. The inflation problem was one that was not within the contemplation of the Congress, at least to the degree in which we find ourselves enmeshed today. But the Congress did respond, the administration did in fact respond. The President announced a 14.3-percent increase. At the same time there were efforts in the other body to raise that only by one-third. Happily that sentiment did not prevail. There was an effort to raise the cost-of-living index from semiannually to an annual event. That did not prevail. There is a continuing effort to deal with discrimination in employment, in every area, public and private, notwithstanding the fact that it is contrary to law. There has been some progress but it is not sufficient. There are many guilty people but I think the populace at large is the real wrongdoer in this respect. They have not come to recognize that maturing people continue to be an asset to our nation. We look at the extended life expectancy of the seniors and we also look at their energy and willingness to contribute. We have a very substantial hurdle to eliminate in that area. A state of mind must be altered. We must not think in terms of those who are reaching 50 and 60 as being prepared to retire to pasture. That is medieval thinking. The individual should be measured on his ability to function and his desire to function. Discrimination still exists. It has diminished somewhat but certainly not to the full extent of the law.

Mr. Chairman, it is not a broken promise, it is a promise that was made in good faith many years ago. It is a promise that has been reinforced with each benefit that we get. It is a promise that needs further nourishing, it is a promise that needs complete fulfillment. I do not believe we will ever reach that stage, given the fluid nature of our society. But at least we as Members of the Congress have a responsibility to do the very best we can. I believe a hearing like this will focus attention on the ever-increasing needs and also alert the Members of Congress to their obligation to respond to those needs. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Biaggi. At this time, I would like to submit the prepared statement of our colleague, William Wampler for the hearing record. Hearing no objections, so ordered.

[The prepared statement of Representative William C. Wampler follows:]

PREPARED STATEMENT OF REPRESENTATIVE WILLIAM C. WAMPLER

Mr. Chairman, I am pleased to participate in today's hearing on an issue that is most important to our increasing older population—"Retirement: The Broken Promise". It is disheartening, yet necessary, to acknowledge the devastating effect inflation is having on the quality of life of all Americans, especially the elderly. We must continually examine inflation in context of economic policies and move to implement solutions such as spending and eliminating fraud and waste in federal programs.

With increased life expectancy and advanced medical technology it is estimated that the average male will live 24.2 years past the age of 50 and the average female 31.1 years. An adequate retirement income is a necessity if these older Americans are to continue to live a life of independence and dignity.

Many of our nation's retirement systems are being eroded by the rising rate of inflation. The adequacy of cost-of-living increases for Social Security, SSI, and private pension plans in reducing the effect of inflation should be reviewed. It is also important to examine the relationship between many of our social programs, such as Social Security, SSI, Medicare, Medicaid, and ERISA. All too often when retirement benefits are increased in one program they are offset by a reduction in another.

Mr. Chairman, I commend you for holding this hearing and enthusiastically look forward to the testimony and recommendations of today's witnesses. I welcome the older citizens who are kind enough to share their experiences with the Committee and hope the staff will work with each of them as individuals to resolve their particular problems. It is my hope that through their testimony our Committee will be able to help resolve many of the problems confronted by retired Americans.

The CHAIRMAN. Due to its size, we are not going to submit the staff report "Retirement: The Broken Promise." for the record. But the staff has prepared a short summary of the report, and if there are no objections, I would like to submit that summary for inclusion at this point in the record. Hearing none, so ordered.

[The staff report summary follows:]

## RETIREMENT: THE BROKEN PROMISE

## STAFF REPORT SUMMARY

## INTRODUCTION

Millions of Americans work toward the goal of a retirement in security and with dignity. However, one out of three older men and two out of three older women are found to live on annual incomes of less than \$4,000. The disproportionately low incomes of the elderly suggest that a large percentage fell into poverty during old age. For these millions, the dream of a retirement in dignity has been shattered.

There is a vast array of social programs -- Social Security, SSI, Medicare, Medicaid, ERISA, the Older Americans Act, tax credits for the elderly and State homestead exemption laws -- that exist for the sole purpose of providing the elderly with an adequate retirement income. However, these programs sometimes work at cross purposes with each other: as one set of benefits is increased, another is reduced. In other instances, program guidelines create enormous work and savings disincentives. The Federal government is thus spending billions of dollars to keep millions of elderly people near or just above the poverty line.

The staff report examines a new model of "retirement" income. Three traditional sources of income -- private pensions, assets, and Social Security -- are examined. Our report also acknowledges the necessity of general fund public assistance, especially the Supplemental Security Income program. A new fifth leg of "retirement" income is examined, with the conclusion that it be totally integrated with the other four major sources of income. The role of employment in maintaining a living standard is assuming increasing importance as (1) life expectancy increases, (2) older Americans become a greater portion of the population, and (3) increases in consumer prices erode the value of nonindexed retirement benefits. Employment opportunities are considered less in their context as a civil right and more as an economic necessity.

## I. ECONOMIC STATUS OF THE ELDERLY

- Income - Currently, the median income of all elderly persons living alone (\$4,300) is 51 percent lower than the median income for all younger individuals (Chart I). Moreover, the median income for all elderly households (\$7,081) is 60 percent lower than the median income for all younger households (Chart II). Although only 10.7 percent of the population is over 65, the elderly constitute 22.3 percent of all persons in America with annual incomes below \$3,999.

- Poverty - The poverty rate for the aged is 15 percent, compared with the overall poverty rate of 11 percent. However, the inadequacies of the poverty threshold are enough to understate elderly poverty by as much as an additional 21 percent. The poverty measure is based on an inadequate emergency food plan and an outmoded calculation of elderly food consumption. Even assuming that the food plan (called a "starvation diet" by USDA officials) is adequate, the calculation artificially reduces the poverty measure by 40 percent. (See pp. 11-14, 18). The poverty line allows an elderly couple \$.66 per meal per person and \$120 per month for an apartment for two.

Thus, it is no surprise that one-quarter of the elderly population is located within \$50 a month of the poverty line, and that over 41 percent attempt to survive on incomes within \$200 a month of the poverty line. (Charts IVA, B)

- Assets - In the latest survey by the Social Security Administration, only half of the newest beneficiaries received asset income. Those with asset income averaged only \$600 annually. The new beneficiaries surveyed tend to be better off than the rest of the elderly population.

- Inflation - Only the portion of an elderly individual's income derived from Social Security, SSI, and Food Stamps offers some protection from inflation. (Average benefits: Social Security-\$300, SSI-\$112, Food Stamps-\$34) These benefits are adjusted according to the Consumer Price Index, which measures the overall rate of inflation. The elderly spend most of their incomes on necessities (food, shelter, medical care, energy). Last year, the price of necessities rose 17.6 percent; in the first quarter of 1980, inflation for necessities spiraled upwards at an annual rate of 23.7 percent. (Chart III)

## II. SUPPLEMENTAL SECURITY INCOME

- Benefit Levels - The Federal maximum was raised to \$238 for an individual and \$357 for a couple as of July 1980. The 1980 individual maximum equaled 81 percent of *last year's* poverty line. Benefits are reduced one dollar for every dollar of unearned

income received above a \$20 disregard, including Social Security benefits. Thus, an OASI recipient with a \$240 benefit is eligible for only \$18 in SSI; an individual receiving \$259 in Social Security is ineligible and remains well below the poverty line.

- **State Supplementation** - Supplementation by the States above the bare minimum Federal benefit is mandatory for former recipients of Old Age Assistance whose benefits would be reduced by SSI, and encouraged for other SSI recipients. Thus, supplementation programs can be mandatory and/or optional; they can be administered by the State or by the Social Security Administration; and can offer basic and/or special needs benefits. In short, the absence of minimum standards has led to the absence of State responsibility to the extent that three States, California, New York, and Massachusetts, account for 74 percent of all supplementary payments, and for over 53 percent of all persons receiving supplementary payments.

- **The Resource Test** - In order to be eligible for SSI, persons cannot have liquid assets exceeding \$1,500 (\$2,250 for couples) with a few exceptions. The resource test is all-or-nothing; that is, exceeding it by a dollar renders one ineligible for a program. As a result of the nature and stringency of the test, a majority of the elderly poor are ineligible for benefits. Moreover, the resource test is apparently demeaning enough to discourage from participation over 56 percent of the elderly who are poor enough to be able to meet the strict requirements. The stringency of the test also acts as a significant disincentive to save for older persons.

- **Institutionalized Recipients** - Individuals in Title XIX (Medicaid) facilities for one month have their benefits reduced to \$25 a month if Medicaid pays at least 50 percent of the cost of care or more. Reduction of the benefit to \$25 can make return to the community virtually impossible, as there is no evidence that the cost of maintaining a household vanishes when a person is institutionalized. In fact, to the extent that Medicaid fails to pay the cost of care, necessary expenditures increase. Moreover, the reduction assumes that a one-month duration of institutional care is a prelude to lifelong institutionalization, although over half of all nursing home patients are discharged within eight months. The \$25 benefit level has remained frozen since SSI was enacted in 1972.

On the other hand, States have used SSI benefits to "deinstitutionalize" hundreds of thousands of aged, blind, and disabled patients in nursing homes and mental hospitals. A fiscal disincentive to caring for these patients in nursing homes in the form of an increased State share of Medicaid payments has encouraged States to pay SSI benefits for "domiciliary care" of these individuals--care in unsafe and unsanitary boarding homes.

- **The "Deeming" Requirement** - Under present law, the already modest SSI benefit is reduced by one-third when a recipient is living in an ineligible relative's household, because he is deemed to be receiving in-kind support and maintenance from that person. In addition, benefits are reduced by the extent to which the market value of a commodity obtained from a nonrelative exceeds the price paid for it by a recipient (the reduction is *not* limited to one-third).

These provisions, under which the value of in-kind income and maintenance is "deemed" to the recipient, result in a strong disincentive to families attempting to assist their poverty-stricken relatives. In addition, "deeming" deprives recipients of the benefits of any bargains they might strike or any charity they might receive. Moreover, the dollar-for-dollar "in-kind support and maintenance" benefit reduction often places a beneficiary in worse economic circumstances than if he had never obtained a discount on an item in the first place. Recipients cannot convert "in-kind support and maintenance" into cash for other uses or in any way dispose of it and thus receive less than the full value.

### III. OLD AGE AND SURVIVORS INSURANCE (SOCIAL SECURITY)

- **Overview** - Social Security is the most successful antipoverty program in the U.S., lifting virtually ten million elderly people over the poverty line. OASI is a delicate balance between two contradictory goals -- providing benefits which are adequate but at the same time related to individual contributions.

- **Benefit Structure** - In most instances, the benefit structure has been successful in balancing the goals of equity and adequacy. Virtually all contributors who live to their lifespan expectancy have and will receive a favorable return on their contributions. The "adequacy" function in particular, has been successful in helping to close the income gap between low and high wage earners, women and men, and blacks and whites. However, this function is frustrated to the extent that other sources

of income (earnings, assets, pensions) are directed predominantly to upper-income white males. While the benefit structure of Social Security is progressive and favors lower-income groups in accordance with the goal of adequacy, it was not intended to be the sole source of income in old age. Yet, it is precisely these lower-income groups for whom Social Security has become the major or sole source of retirement income.

- The Earnings Limitation - Perhaps the most controversial aspect of the program, the earnings limit reduces benefits by \$2 for every \$1 of income earned above a certain limit. This reflects a liberalization of the earnings test, which used to be absolute (beneficiaries lost \$1 for every dollar earned).

The earnings limit reflects the philosophy that OASI is a social insurance plan to replace income lost due to retirement or death. In 1935, when the Social Security Act was created, life expectancy was much shorter than at present. Persons turning 65 years old in 1979 can expect to live an average of 16 more years. Because of (1) the inability of the nation's retirement systems to sustain a completely retired population over 65, and (2) the inability of current sources of retirement income to sustain their value over sustained periods of high inflation, earnings from employment have become a major new source of income for the elderly. The retirement test as it currently exists is no longer consistent with the current model of income support for older Americans, and should be liberalized.

- The Escalator Clause - The "escalator clause", under which benefits are increased annually according to the consumer price index, does not maintain the purchasing power of benefits. Because there is an 18 month lag from price increases to benefit increases, and because the CPI generally understates inflation for lower-income persons, the value of Social Security benefits is eroded each year for these persons.

- Effects on Women - The current benefit structure duplicates coverage for married working spouses. Long averaging periods result in generally lower average earnings for women compared to men, since married women spend time out of the labor force in homemaking and child-care activities, and since women work in generally lower paying jobs than do men.

#### IV. ROLE OF EMPLOYMENT

Out of necessity, the four-legged retirement income stool is being fitted with a fifth leg: employment. This is occurring because of demographic, economic and legislative changes, which in recent years have created an increasing demand for employment among older persons and retirees. Without work many retirees are finding they cannot make ends meet. Employers, too, are beginning to realize that their older workers are a resource too valuable and, in many cases, too expensive to retire out on pensions. And, the society as a whole is beginning to react against the pinch of Social Security taxes and other retirement income transfers brought on by earlier and earlier retirements.

- Impact on Income - For the minority of older persons in the labor force, income from work is vital. Among all retirees, those who are employed report twice as much income as those not employed. Among the 1.3 million elderly household units with no pension or Social Security income, work is especially important: those who are not working are six times as likely to be in poverty. Even among Social Security recipients, those without at least a part-time job are four times as likely to fall into poverty as those with a job.

- Labor Force Potential - Although labor force participation rates among the elderly have declined steadily during this century, a sizeable number of retirees are "available" for work. Estimates are that while approximately one-quarter to one-half of all retirees would not choose to work because of poor health, approximately one to three million retirees would be available for work.

- Barriers to Employment - The desire and ability to work among older persons is often thwarted by a variety of societal forces which prevent them from finding or retaining jobs. The duration of unemployment among older job seekers is much longer than for younger persons. Age discrimination among employers often creates a barrier to finding a job, and once in the job, age stereotypes often get in the way of promotions, retraining and comparable pay. Disincentives also exist in Social Security, private pensions and publicly supported jobs programs. In order to improve the employment prospects for older persons it will be necessary to remove these obstacles and disincentives by: (1) modifying the structure of work, (2) modifying retirement incomes systems, and (3) expanding government employment programs.

## V. PRIVATE PENSIONS

● Deficiencies in Coverage - Only 30 percent of the men and 13 percent of women becoming recently entitled to Social Security also receive private pension benefits. Coverage under private pension plans is generally restricted to upper income groups. Only ten percent of workers with incomes under \$5,000 and 31 percent of workers with incomes between \$5,000 and \$10,000 are covered. Conversely, 78 percent of workers earning \$25,000 and over are covered (see Chart V).

● Vesting and Portability - Notwithstanding the significant reforms made by ERISA, significant numbers of workers "covered" by private pension plans will not receive a pension upon retirement because they have not "vested", or fulfilled requirements for duration of service. Only one-quarter of current "covered" workers have vested or nonforfeitable rights to their pensions.

Workers who have vested but have moved to other employment will receive pensions whose value is frozen at the time of separation. This is because few pensions are portable -- able to be transferred to a succeeding plan or a central portability clearinghouse. The existence of such a portability clearinghouse would encourage employers to liberalize vesting requirements, since they would no longer have to assume the costs of administering a pension from the time of an employee's separation to the time of his retirement.

● Erosion of Benefits Due to Inflation - Under five percent annual inflation, the value of an initial nonindexed pension benefit is cut by 23 percent at the end of five years by 40 percent at the end of ten years, and by 54 percent at the end of 15 years. Less than three percent of all plans have automatic cost-of-living adjustments; between 60 and 70 percent of all plans had some ad hoc increase within the last decade; the other plans had none.

● Integration of Plans with Social Security - Sixty percent of all private pension plans are "integrated" -- that is, they are plans in which employers may offset pension benefits by as much as 83 percent of Social Security benefits. Many totally integrated plans, especially smaller plans, amount to little more than transfer payments from low-income workers to upper-income workers.

## VI. ASSETS AND SAVINGS

● Asset Accrual - Great disparities exist in the tax treatment of different kinds of retirement savings programs. Tax deferrals on corporate pension plans equal 25 percent of payroll up to \$38,000, while the contribution limits on tax-deferred Keogh plans and IRAs are \$7,500 and \$1,500, respectively. "Covered" but nonvested workers, in addition to workers covered by inadequate pension plans are nonetheless ineligible for participation in IRAs. The joint IRA for spouses exceeds the normal contribution limit by only 16 percent.

● Resources of the Elderly - Only half of all newly retired OASI beneficiaries had asset income, which averaged \$600 annually. With respect to composition of assets, aged persons had 33 percent of resources invested in home equity (as compared to 43 percent for all ages). By contrast, elderly persons were far more likely than their younger counterparts to have portfolios predominated by liquid assets such as savings and checking accounts (assets for the elderly were 47 percent liquid vs. 37 percent for all ages).

● Effects of Inflation on Assets - The 1978 value of a \$10,000 investment in the following kinds of assets in 1967 was: checking account - \$4,000; compounded savings account - \$8,250; equally divided between both - \$6,670; AAA Bond - \$6,300.

The real value of average stocks bought in 1967 was 40 percent of purchase value in 1978. Dividend returns increased four percent, while the CPI shot up by 80.5 percent.

Home values were the one major asset which rose faster than the CPI (103 to 80 percent between 1967-78). These gains can be realized only by selling the home, however. In the interim, the costs of ownership (utilities, maintenance and repair, property tax) have risen faster than the CPI.

## RETIREMENT - THE BROKEN PROMISE TESTIMONY

THE HONORABLE WILLIAM DRIVER, Commissioner of the Social Security Administration, previously Administrator of the Veterans' Administration, will address the role of Social Security in the nation's income security system.

DR. ROBERT BINSTOCK, Executive Director, National Aging Policy Center on Income Maintenance, Brandeis University, will address the economic status of the aged and the role of public assistance in meeting the needs of the elderly poor.

MR. DONALD GRUBBS, Consulting Actuary, George S. Buck Co., Washington, D.C., will address the need for and outline mechanisms to provide increased coverage under the private pension system.

MRS. SHIRLEY BRUSSELL, Executive Director, Operation ABLE, Chicago, Illinois, will address the need for increased employment opportunities for older workers, as well as the role of the public and private sectors in meeting those needs.

A PANEL OF FIVE PUBLIC WITNESSES, including:

- Mrs. Alice Green, Washington, D.C., age 78 - taught school until marriage (no pension), husband worked for GM (no pension) but became disabled and had to quit. Mrs. Green was trained to be a practical nurse -- practiced until 1959 when she could no longer lift. She began to receive Social Security and VA survivor's pension in 1966, upon the death of her husband. Current income: \$202-OASI, \$82-VA).

- Mr. Max Manes, New York, New York, age 74 - worked as hatter for 45 years (no pension), until he lost his job at the age of 63. Mr. Manes considers himself lucky to have found a part-time job as a bartender. Current income: \$450-OASI, \$350-earnings.

- Mr. Reubin Ostrowski, Alexandria, Virginia, age 74 - worked at ten different jobs, but not long enough in any but one to vest in a pension plan. The exception, a nine year stint as a cost clerk, yielded a one-time "pension" payment of \$50. Mr. Ostrowski's wife worked for the Federal government. Current income: \$400-OASI, \$300-Civil Service survivors benefits, \$100-Civil Service benefit for disabled son (Mr. Ostrowski lives with and financially supports his son.)

- Mr. Fred Rhoads, Tucson, Arizona, age 59 - worked 24 years as a cartoonist for a publishing company (no pension), chiefly drawing the cartoon soldier Sad Sack. Mr. Rhoads, who drew and created 9,000 Sad Sack strips for comic books (as compared to 800 by creator George Baker), was involuntarily terminated at the age of 57. The publishing company, which included Mr. Rhoads in its health benefit plan, had not paid its share of unemployment or Social Security coverage for him. Current income: withdrawals from the principle of a modest inheritance left by his father.

- Miss Frances Rogers, Alexandria, Virginia, age 73 - performed chiefly secretarial work for private firms (no pension). Worked 16 years for the Federal government as a civilian for the Army, until she was forced to retire at the age of 70. Currently works at odd jobs (minimum wage) to supplement income. Current income: \$400-Civil Service retirement, approximately \$100 in earnings.

RETIREMENT - THE BROKEN PROMISE  
LEGISLATION - SUMMARY  
SUPPLEMENTAL SECURITY INCOME

(1) Benefit Level Modifications

- RAISE FEDERAL GUARANTEE TO THE POVERTY LINE
  - Census Bureau Poverty Threshold for nonfarm individuals and couples over 65. (current individual and couple benefit levels equal 81 and 97 percent, respectively, of *last year's* poverty thresholds)
- ADJUST INCOME EXCLUSIONS
  - Increase to \$35/month for unearned income (currently \$20/month)
  - Tie earned and unearned income exclusions to Section 1617 increases in the cost of living (current disregards are frozen at their 1972 levels of \$65 and \$20, respectively)
- MODIFY TREATMENT OF SOCIAL SECURITY BENEFITS
  - Eliminate flat dollar disregard (currently \$20/month)
  - Disregard 25 percent of OASDI benefits
- MODIFY TREATMENT OF UNEARNED INCOME
  - Exclude "in-kind support and maintenance" from a relative from countable income (such "in-kind support" currently reduces benefits by one-third)
  - Treat "in-kind support and maintenance" from a nonrelative at 67 percent of the current market value of the particular commodity or service. Limit reduction of benefits due to receipt of such income to one-third. (Such "in-kind support from a nonrelative currently reduces benefits dollar for dollar with no limit on the reduction of benefits)
  - **Offset any reduction due to "in-kind support and maintenance** that a recipient contributes toward that in-kind income

(2) Modification of the Resource Test

- REVISE RESOURCE DISREGARDS AND LIMITS
  - Exclude following assets when determining benefit levels:
    - o first \$2,000 in liquid assets (\$3,000 for eligible couple)
    - o first \$2,000 in personal effects/household goods (\$2,500 for eligible couple)
    - o first \$5,000 of the value of an automobile
    - o first \$1,500 of the face value of a life insurance policy or the equivalent amounts of a separate account which exists for the sole purpose of meeting the burial expenses of the recipient(s)
    - o first \$6,000 of nonliquid, income producing assets
    - o the value of a burial plot
 (Current law disregards the first \$1,500 of liquid assets, up to \$1,500 of personal goods, and the first \$4,500 of the value of an automobile. The other proposed asset disregards are similar to those under current law, with this exception: there is no disregard for the value of a burial plot.)
- INSTITUTE SLIDING ASSET SCALE
  - Reduce benefits to the extent that resources exceed the aforementioned limits as follows:
 

	reduction
o first \$500	
1 dollar for each \$25 over any limit	\$ 20
o next \$500	
1 dollar for each \$10	\$ 50
o next \$500	
1 dollar for each \$5	\$100
o next \$1,500	
1 dollar for each \$2	\$250

 Under this formula, the benefits of an individual would not phase out until assets exceed the disregards by \$1,636. Couples would remain eligible until assets exceeded the disregards by \$1,874 (currently, exceeding the disregard by one dollar results in loss of eligibility)
- THE RESOURCE THRESHOLDS TO ESCALATOR CLAUSE
  - Include the above limits in Section 1617 cost of living adjustment (these thresholds have been frozen since 1972)

- (3) Adjustment in Benefits for Institutionalized Persons and Separated Couples
- DELAY REDUCTION FOR INDIVIDUALS IN A TITLE XIX FACILITY FOR FOUR MONTHS (benefits currently are reduced to \$25 after one month in a Medicaid institution)
  - CONTINUE TO TREAT A COUPLE WITH AN INSTITUTIONALIZED SPOUSE AS AN ELIGIBLE COUPLE FOR FOUR MONTHS (under current law, benefits to the institutionalized spouse are reduced to \$25 after one month in a Medicaid institution)

- 2 -

- OFFSET REDUCTION TO THE EXTENT THAT INDIVIDUALS IN A TITLE XIX FACILITY PAY MEDICAL COSTS OUT-OF-POCKET
  - Up to half of the out-of-pocket costs paid by a recipient in a Medicaid institution can be used to offset the mandatory reduction for institutionalized recipients. This provision cannot be used to increase the Federal benefit beyond the maximum (under current law, the reduction applies completely even if Medicaid pays as little as 50 percent of the cost of care)
- ADJUST REDUCED BENEFIT TO REFLECT INCREASES IN THE COST OF LIVING
  - Increase reduced benefit for institutionalized recipients to \$35/month
  - Tie benefit to COLA provisions (the "escalator clause")
- MODIFY ELIGIBILITY OF COUPLES LIVING APART
  - Treat each spouse of a couple living apart for more than one month as an eligible individual (spouses of separated couples are currently given only one-half of the couple's benefit until they have lived apart for six months, under current law)

## SOCIAL SECURITY

(1) Adequacy of Benefit Levels

- INCREASE THE SPECIAL MINIMUM BENEFIT FOR LONG-SERVICE LOW WAGE WORKERS
- INCREASE THE NUMBER OF YEARS CREDITABLE FOR THE SPECIAL MINIMUM BENEFIT FROM 30 TO 35. Allow credit for up to 10 years for childbearing years.
- WAGE-INDEX THE EARNINGS RECORD OF A DECEASED SPOUSE in order to ensure that young widows do not receive survivor benefits based on outdated earnings
- INCREASE THE FAMILY MAXIMUM FOR DISABILITY BENEFITS TO 80 PERCENT OF THE AVERAGE INDEXED WAGES OF THE FIVE HIGHEST YEARS
- INCREASE THE LUMP-SUM DEATH BENEFIT TO \$600

(2) Removal of Disincentives to Employment

- LIBERALIZE THE EARNINGS OFFSET FOR SOCIAL SECURITY BENEFITS
  - Reduce the 50 percent offset to 25 percent for wages up to \$2,000 over the limit, 33 percent for wages \$2,000-\$4,000 over the limit, and 50 percent for wages \$4,000 over the limit
  - Index these thresholds to increases in the national wage base
- INCREASE THE DELAYED RETIREMENT CREDIT
  - Increase the primary Social Security benefit by an annual rate of 3 percent for months of benefit deferral up to age 66, 4 percent for months up to age 67, 5 percent for months up to age 68, 6 percent for months up to age 69, and 7 percent for months up to age 70
  - Total increase in primary insurance amount for individuals who defer retirement until age 70 - 25 percent

(3) Increase Protection Against Inflation

- PROVIDE FOR SEMIANNUAL COST-OF-LIVING ADJUSTMENTS
  - Provide for adjustments in March and September whenever prices have risen by an annualized rate of 10 percent since the measuring period on which the last cost-of-living adjustment was based

## PENSIONS

(1) Adequacy of Pension Coverage

- SHORTEN VESTING REQUIREMENTS
  - Amend ERISA to provide for 100 percent vesting in five years (the current law requirement is ten years)
- ESTABLISH A CENTRAL PENSION PORTABILITY CLEARINGHOUSE
  - Administered by the Social Security Administration
  - Require transfer of benefits from private plans to equal the amount a plan would be presently required to "cash out" for workers separating from the plan
  - Funds to be invested under the management of the Pension Benefit Guaranty Corporation

(2) Adequacy of Pension Benefits

- PLACE A "CAP" ON INTEGRATION OF PENSION BENEFITS WITH SOCIAL SECURITY
- REQUIRE PLANS TO PROVIDE A MINIMUM LEVEL OF BENEFITS TO ALL PARTICIPANTS

(3) Equity of Tax Treatment

- AMEND THE INTERNAL REVENUE CODE TO PROVIDE A 50 PERCENT TAX CREDIT FOR INDIVIDUAL RETIREMENT SAVINGS (under current law individuals are entitled to a tax deduction)
- INDEX THE CONTRIBUTION LIMITS OF INDIVIDUAL RETIREMENT ACCOUNTS AND KEOGH PLANS TO THE COST OF LIVING (only the contribution limits to corporate plans -- which are much greater -- are indexed under the current law)
- ALLOW VESTED EMPLOYEES TO MAKE CONTRIBUTIONS TO IRAs (OFFSET BY TAX CREDITS) WHICH ARE LIMITED TO THE DIFFERENCE BETWEEN AN EMPLOYER'S CONTRIBUTION TO A PRIVATE PLAN AND THE IRA CONTRIBUTION LIMIT (vested covered employees are currently ineligible for participation in IRAs, without regard to their level of promised benefits)
- ALLOW COVERED EMPLOYEES TO MAKE FULL CONTRIBUTIONS TO AN IRA UNTIL THEY HAVE VESTED

CHART 1

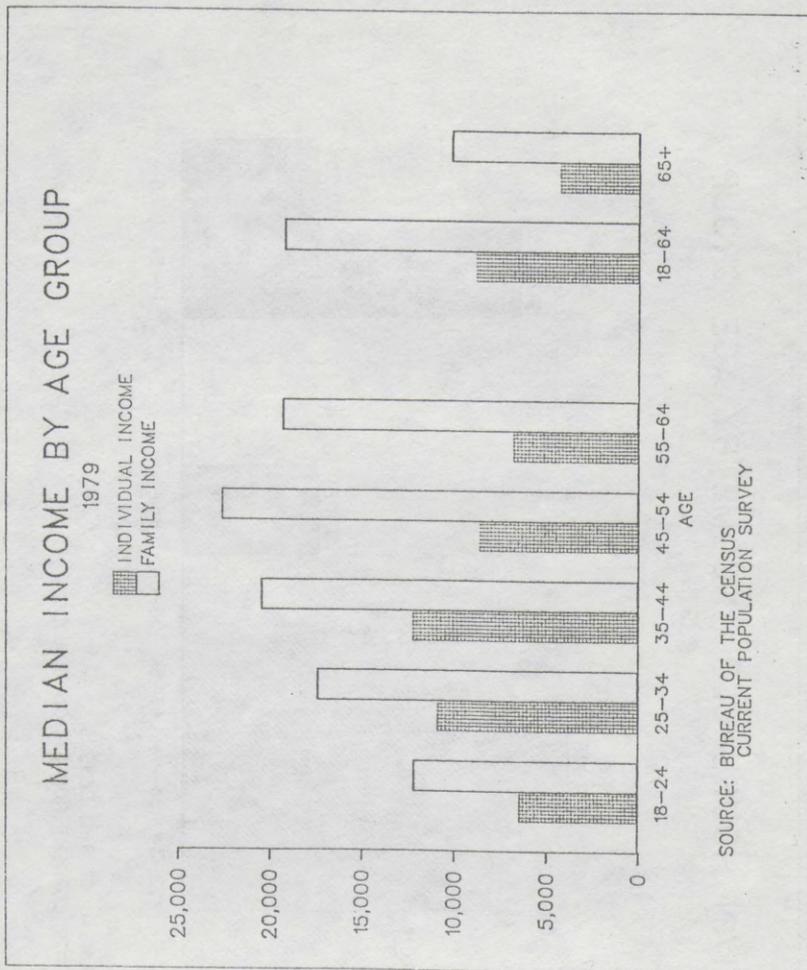


CHART 2

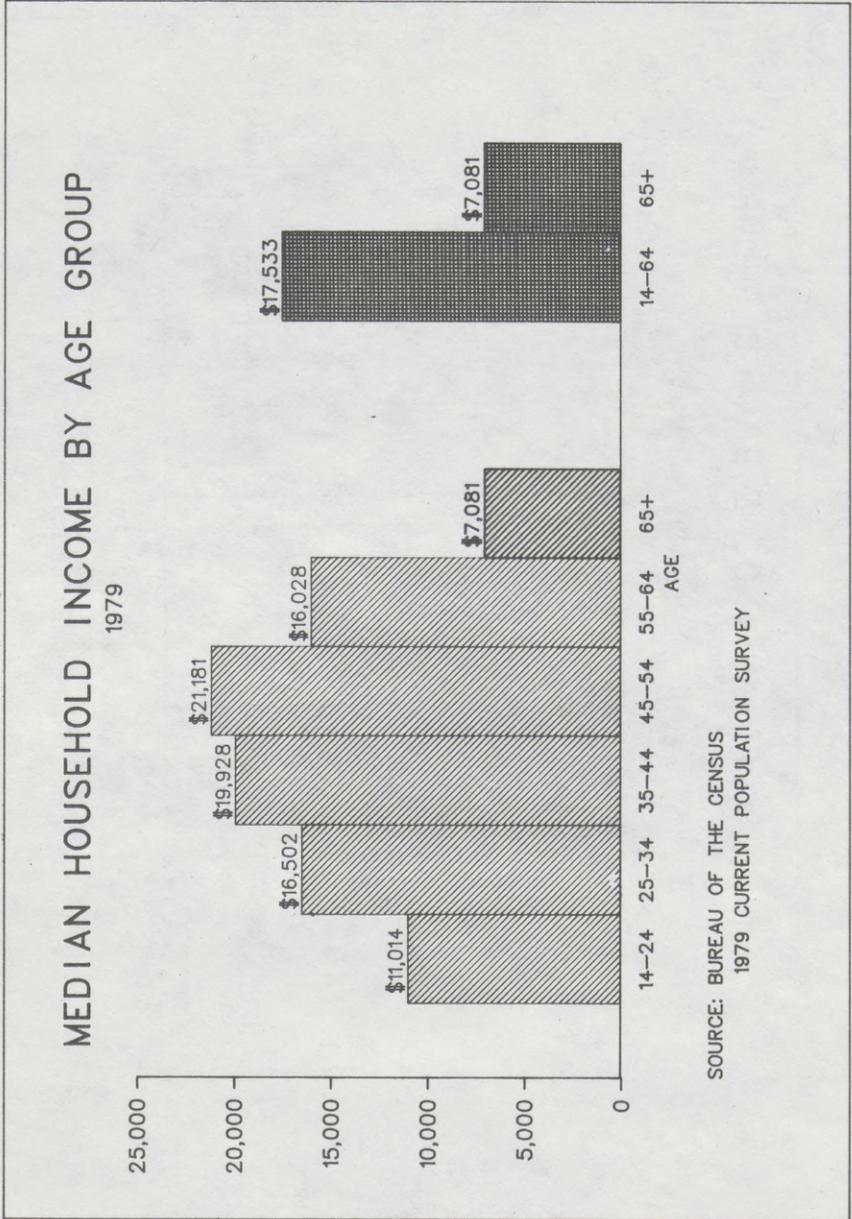


CHART 3

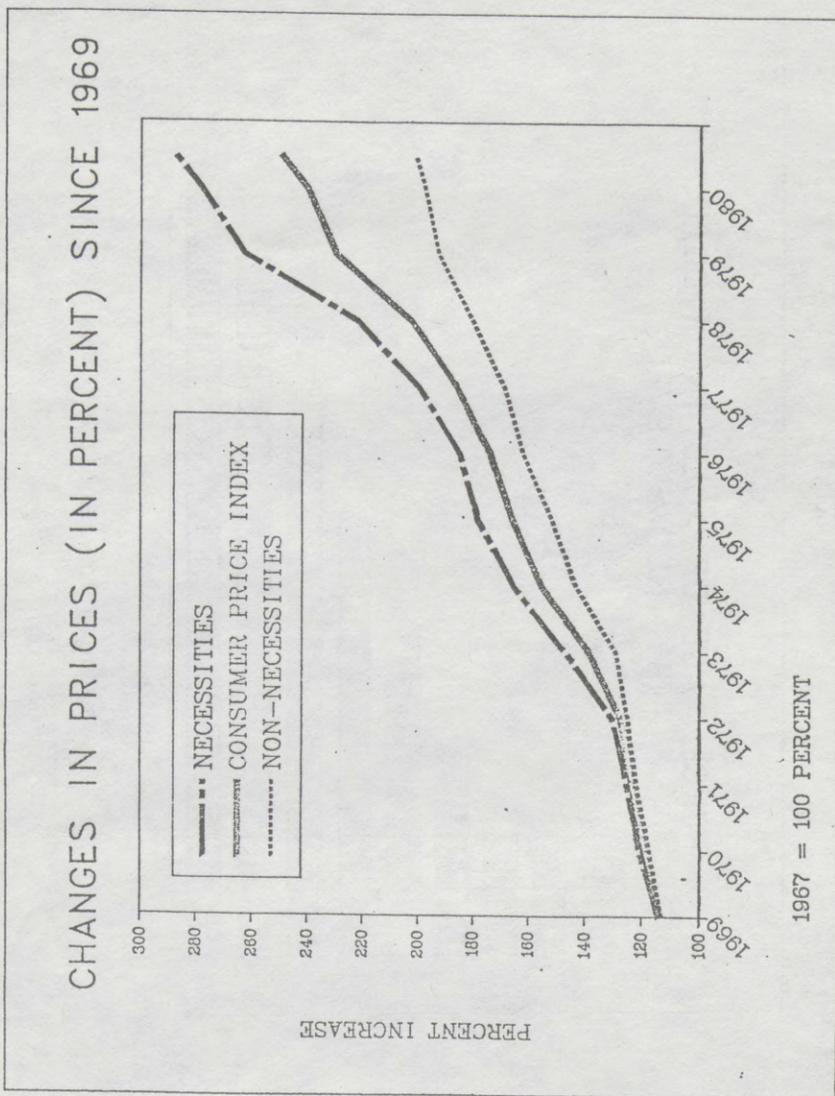
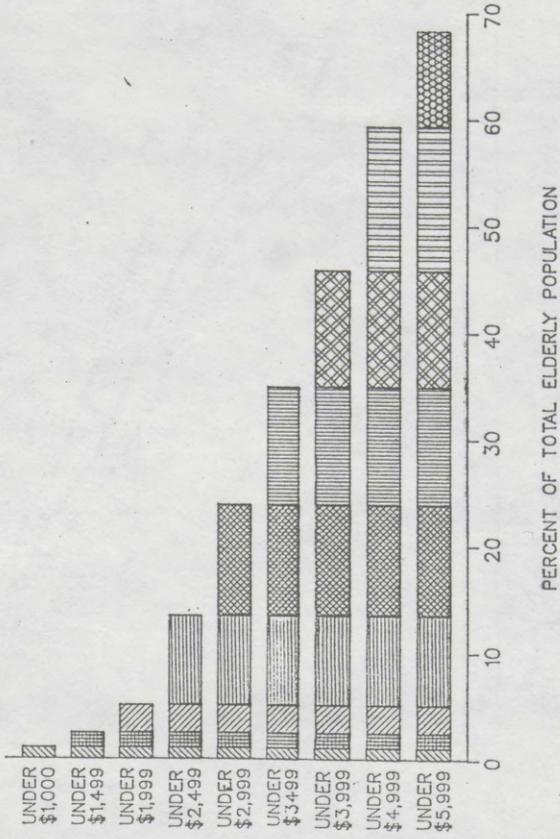


CHART 4

# PERCENTAGE OF AGED INDIVIDUALS BY INCOME LEVEL



Source: Bureau of the Census  
1979 Current Population Survey

CHART 4a

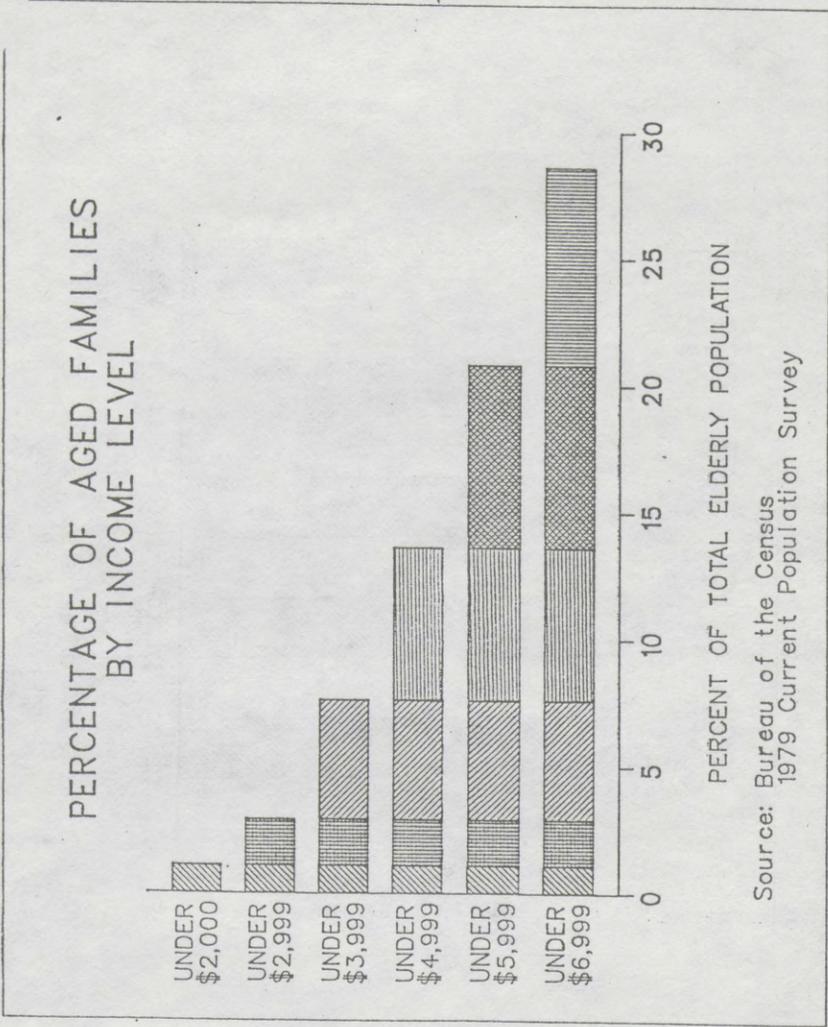
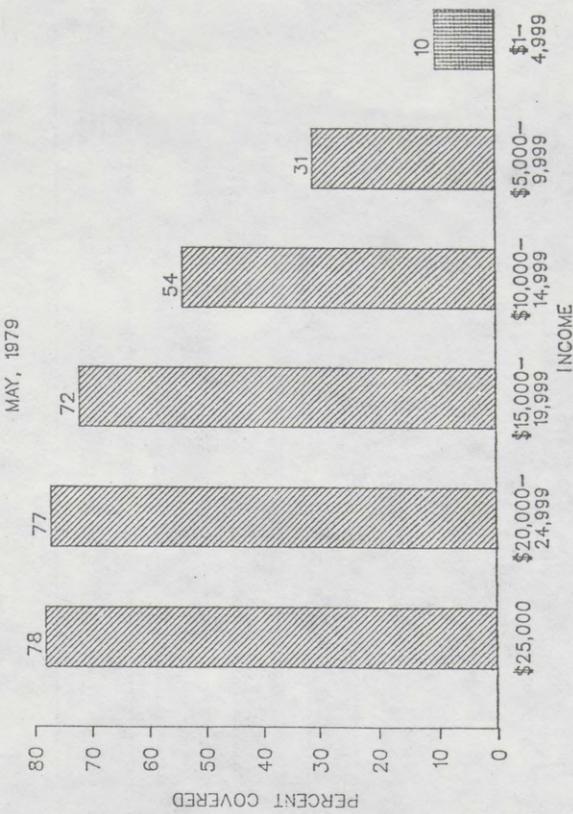


CHART 5

PERCENT OF FULL-TIME WORKERS IN THE PRIVATE SECTOR  
COVERED BY PENSION PLANS BY INCOME



SOURCE: BUREAU OF THE CENSUS  
CURRENT POPULATION SURVEY

The CHAIRMAN. Now we will ask the panel to please come forward. Hon. William Driver, Commissioner of the Social Security Administration, previously Administrator of the Veterans' Administration; Dr. Robert Binstock, executive director, National Aging Policy Center of Brandeis University; Mr. Donald Grubbs, consulting actuary, George S. Buck Co., Washington, D.C., and Mrs. Shirley Brussell, executive director, Operation ABLE, Chicago, Ill.

PANEL CONSISTING OF HON. WILLIAM DRIVER, COMMISSIONER, SOCIAL SECURITY ADMINISTRATION; DR. ROBERT BINSTOCK, EXECUTIVE DIRECTOR, NATIONAL AGING POLICY CENTER, BRANDEIS UNIVERSITY; DONALD GRUBBS, CONSULTING ACTUARY, GEORGE S. BUCK CO., WASHINGTON, D.C.; AND SHIRLEY BRUSSELL, EXECUTIVE DIRECTOR, OPERATION ABLE, CHICAGO, ILL.

The CHAIRMAN. Mr. Driver, will you please have a seat. We are mighty glad to have all of you on the panel. Mr. Burton, you wish to ask the question?

Mr. BURTON. I would ask unanimous consent because I do have to go to another meeting, and I apologize.

The CHAIRMAN. Go right ahead.

Mr. BURTON. In your statement you discuss the cost-of-living benefits as the great advantage of social security, yet there is talk about cutting back on the increases. What I would ask you is, can this administration in any way unilaterally change the components of CPI for social security increases or must Congress take action?

Mr. DRIVER. I believe it would require legislation.

Mr. BURTON. You do think it needs prior legislation?

Mr. DRIVER. Yes, sir.

Mr. BURTON. It would not be the administration's intent to try to do that administratively?

Mr. DRIVER. No, sir.

Mr. BURTON. You are pretty certain of that, I mean, of the law?

Mr. DRIVER. I feel certain that it would require a piece of legislation passed by both Houses and signed by the President to change the rules.

Mr. BURTON. To change the rules or eliminate component parts.

Mr. DRIVER. Yes, sir.

Mr. BURTON. Thank you, Senator.

The CHAIRMAN. Mr. Driver, we will hear your statement.

Let me say to the panel, we usually run late at these hearings, unfortunately. If any of you have a written statement you would like to have appear in the record, it will appear in full in the record. You are all so knowledgeable about the subject, if you care to summarize your oral presentation, it will enable the members of the committee a little bit more time to inquire about things we wish to ask about.

Mr. Driver, we will start with you. We appreciate you being here today.

#### STATEMENT OF HON. WILLIAM DRIVER

Mr. DRIVER. Thank you, Mr. Chairman. I do have a statement, which I will submit for the record. I would like to hit a few of the high points in the statement.

[The prepared statement of the Hon. William Driver follows:]

PREPARED STATEMENT OF WILLIAM J. DRIVER, COMMISSIONER OF SOCIAL SECURITY

Mr. Chairman and members of this distinguished committee, I welcome the opportunity to appear before you today to discuss the nation's retirement income system and the role in that system played by the programs administered by the Social Security Administration.

As you know, Mr. Chairman, America has a very strong and vital commitment to her elderly. It is, I believe, essentially a commitment that grows from the roots of our national values: it is founded on fairness and compassion; it honors our sense of pride in hard work, independence, and self help; and it reflects our concern that aged Americans should share in the fruits of the social and economic progress that they have helped this nation achieve. The commitment was formalized in January 1935, when the Committee on Economic Security submitted its report to President Roosevelt. It was 45 years ago this past August when he signed into law the original Social Security Act. The programs created by that Act have established the framework of today's retirement income system.

The retirement income system that we have built—and are still building—is the most important manifestation of that commitment. As you know, today this nation's retirement income system consists of three major elements: (1) social security, (2) private pension and asset accumulation programs, and (3) programs of income assistance for the aged. Each of the elements has its own unique structure and each has its own particular role to play in the retirement income system. Yet each must complement the others so that, taken together, the three elements produce a rationally and effectively organized retirement income system that assures adequate retirement income for the nation's aged.

The Social Security Administration is directly responsible for two major pieces of the retirement income system. It administers the Old-Age and Survivors' Insurance program which, together with the medicare program, is the social security element of the system. It also administers the Supplemental Security Income program, which is this nation's most important program of income assistance for the aged.

Today I will discuss with you the two programs that SSA administers, the role that each is designed to play in the retirement income system, the way in which each is structured to play its role, and the contribution that each makes to the general goal of assuring an adequate income for the aged. I will also make some general remarks about the structure of SSA's programs and the role of the retirement test in the retirement income system.

SOCIAL SECURITY (OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE)

The social security program provides the foundation upon which the other elements of the retirement income system rest. It has proven to be one of the most enduring and efficient programs in American history. Indeed, many consider it to be the Government's most successful social program. It reflects a continuing national determination to protect the vast majority of citizens against the major risks that can disrupt earning capacity. This is a remarkable achievement. The program has been shaped and expanded by nearly every Congress and Administration since the 1930's, and has become a permanent social institution with strong bipartisan support.

Social security is a nearly universal program of contributory social insurance. Workers currently in employment covered by social security—and their employers—pay tax contributions that finance benefits to current beneficiaries. In return, as a result of their work in covered employment, these same workers are earning a right to social security cash benefits for themselves and their dependents when they retire, die, or become disabled.

Last June, 35 million people received an aggregate total of \$10.5 billion in social security cash benefits. Some 27.2 million—or more than three-fourths—of these beneficiaries were retired workers and their dependents of aged or disabled widows or widowers. An additional 3.2 million, or about 9 percent, were young survivors of deceased workers, and 4.7 million, or about 13 percent, were disabled workers and their dependents.

Meanwhile, 115 million people are working in covered employment this year and are earning credits toward their own future retirement benefits. They and their employers will pay some \$118 billion in taxes to finance the benefits being paid this year. As a result of their own or a spouse's work in covered employment, some 95 percent of the people turning 65 this year will be eligible for social security benefits.

Since 1972, the law has provided for social security benefits to be adjusted annually to keep pace with inflation as measured by the Consumer Price Index (CPI). This

is one of the great advantages of social security. The indexing of social security benefits to the cost of living has helped protect millions of Americans against the ravages of inflation. They can look to the future with the confidence that there will be no erosion in the purchasing power of at least that portion of their retirement income derived from their social security benefits.

In assessing the extent to which social security benefits meet the income needs of our nation's elderly, it is important to keep in mind that social security has two distinct objectives: providing adequate earnings replacement and providing adequate incomes. These are not wholly compatible objectives. Constructing a system that strictly follows the wage replacement objective will tend either to produce benefits that are inadequate for low-wage earners or to produce benefits which are inappropriately large for high-wage workers. Emphasizing income adequacy more than the system does now would tend to narrow the range of benefits payable at various earnings levels and often result in benefit payments in excess or prior wages. Moreover, if we go too far in stressing the adequacy objective at the expense of the wage-replacement objective, we risk undercutting the fundamental principle that the social security program is earnings-related social insurance.

From social security's beginning, the benefit formula has been designed to balance these two objectives by providing social security benefits which more nearly approximate full wage replacement for lower wage workers than they do for higher wage workers. This deliberate design provides higher benefits and a better standard of living to lower earners than they would receive if benefits were strictly proportional to earnings. This is in recognition of the fact that lower paid workers are far less likely to be able to supplement their social security benefits with income from private savings and are less likely to have worked in employment that provides them with private pension income. Higher wage workers are presumed to have a greater ability to supplement their social security benefits with income from private sources and room has been left for income from such private supplements.

Just as there are two distinct objectives for social security, there are two distinct ways to assess the adequacy of the benefits available under the retirement income system in general, and the social security program in particular. Today, I would like to discuss the performance of the social security program using two commonly employed measures of progress toward these objectives, one a measure of the adequacy of earnings replacement and the other a measure of the adequacy of the absolute level of incomes.

The most common tool to measure earnings replacement is the ratio between benefits provided under social security to a particular kind of worker and the gross earnings of that worker immediately before retirement. We can get an idea of the potential role social security can play in achieving our retirement income goals by comparing the wage replacement rate provided by social security for hypothetical workers to rough calculations of the wage replacement rate needed by those workers to maintain fully their preretirement standard of living. For this purpose, I will focus on projections made last year of the social security replacement rates for some hypothetical workers retiring at age 65 in 1982.<sup>1</sup>

A single individual who retires in 1982 at age 65 and who consistently had earnings equal to the Federal minimum wage will receive social security benefits that replace 57 percent of preretirement gross earnings. By contrast, this worker is estimated to need an 80-percent replacement rate to maintain preretirement living standards. On the other hand, a similar hypothetical worker with a 65-year-old, nonworking spouse will receive a social security benefit that replaces 85 percent of his or her gross preretirement earnings. This is roughly equivalent to full earnings replacement for such a couple.

A single individual retiring at age 65 in 1982 after having always earned the average wage under social security will receive a benefit that replaces about 44 percent of his or her preretirement gross earnings. This is also substantially lower than the 70 percent replacement rate estimated to be needed for full earnings replacement by such a worker. A similarly situated worker with a 65-year-old nonworking spouse would receive benefits equal to about 65 percent of gross preretirement earnings, or just 10 percentage points less than the 75-percent figure estimated to represent full earnings replacement for the couple.

Workers who have had high earnings are expected to be able to supplement their social security benefits with their own savings and private pensions. Thus, a worker retiring at age 65 after having always earned the maximum amount taxable under social security can expect a 1982 social security benefit which replaces some 25 percent of gross preretirement earnings. Such a worker is expected to need about 60

<sup>1</sup> We focus on 1982 retirees because 1982 is the first year in which age 65 retirees will have their benefits computed under the new computational system that was enacted in 1977.

percent of prior earnings to maintain his or her preretirement standard of living. Thus, maintenance of preretirement living standards would require private pension and investment income equal to about 35 percent of prior earnings. And if such a worker has a 65-year-old dependent spouse, the 1982 social security replacement rate will be about 38 percent; the remaining 22 percent would need to be supplied from private sources.

In general, social security replaces a somewhat lower fraction of preretirement earnings for a couple where both spouses worked than for a couple with comparable earnings where only one spouse worked. However, the replacement rate for a two-earner couple is considerably better than for a single worker whose earnings are the same as the combined earnings of the two married people.

So as you can see, social security more fully replaces prior disposable earnings—particularly for couples—at lower earnings levels than at higher earnings levels. It leaves more room for supplementation from private sources for those who can be expected to be able to supplement their social security benefits, and for those who cannot be expected to have significant supplementary income, it provides benefits which more nearly provide full earnings replacement by themselves.

As I noted earlier, a second way of evaluating the adequacy of the retirement income system is to focus on the absolute standard of living achievable with retirement income. At this time, there is no consensus about what the absolute standard used for evaluating our retirement system's performance should be. Two standards commonly used are retired couples' budgets constructed by the Bureau of Labor Statistics and the poverty index. Neither is ideal, but for the purpose of my discussion today, I will focus on the poverty index. Despite its shortcomings, this measure has become the official standard used throughout government, and it enables us to evaluate the effectiveness of social security in preventing poverty.

Estimates based on the economic projections in the 1979 Trustees' Report indicate that the 1982 poverty line for an aged single individual will be \$347 a month and for aged couples, \$436. Using the same economic projections, we estimate that the hypothetical single worker retiring in 1982 at age 65, after always having earned the Federal minimum wage, will get a benefit of \$330 a month) just \$17 short of the poverty line. A married couple composed of that worker and a nonworking spouse will receive a benefit of \$495 a month, or \$59 more than the poverty line.

Thus, for any worker who has consistently earned as much as the Federal minimum wage, age-65 retirement benefits will come fairly close, by themselves, to providing income at least equal to the poverty line. And social security benefits will be even more adequate for those whose average earnings exceeded the level of the Federal minimum wage. The age-65 benefit paid to the single worker with average earnings will provide an income that is 140 percent of poverty—and for a worker with a nonworking spouse, the benefit will be 170 percent of poverty. Finally, these projections show the age-65 benefit payable to a maximum earner to be \$627 a month, and if there is a nonworking spouse, the couple will receive a total of \$940 a month.

Clearly, age-65 retirement benefits under social security will be sufficient by themselves to guarantee at least a poverty level income—and in most cases, an income substantially above the poverty level—to those who will be retiring in the future after substantial working careers in employment covered by the program. At the same time, social security benefits will not necessarily assure poverty level income for an individual who has not had a substantial attachment to covered employment. For example, a person who worked only half his or her life and earned the Federal minimum wage, or who worked every year but earned only half the minimum wage can expect an age-65 benefit that is only two-thirds of the poverty line, although he or she will receive a benefit that replaces 81 percent of his or her gross preretirement earnings. Undoubtedly, such a person received income from other sources while working—for example, noncovered employment or public assistance—and that person will also need support from other sources in retirement in order to have an income that exceeds the poverty line.

So far I have focused on the adequacy of replacement rates and the absolute adequacy of benefits for workers retiring at age 65. However, as you know, full-rate benefits are payable beginning at age 65, but reduced benefits are available at an earlier age. The availability of reduced benefits allows social security to assist many who are not yet 65 but who for health or other reasons are no longer willing or able to work. But at the same time, it tends to reduce, somewhat, the adequacy of the monthly social security benefit paid both before and after age 65.

#### THE SUPPLEMENTAL SECURITY INCOME PROGRAM

As social security coverage has been extended over the years to new categories of employment and as benefits levels have increased, the role of public assistance

programs has gradually narrowed. However, means-tested programs continue to be necessary for that small segment of society which has worked only intermittently or for very low wages and for whom social security cannot provide adequate benefits.

A significant improvement in our system of income support for the aged was made in 1972 when Congress created the Supplemental Security Income program, which for the first time established a Federal floor of income support as a matter of right for every aged, blind, or disabled person who does not have the resources to provide for his or her everyday needs. Before the so-called adult assistance programs were federalized, some 1,200 separate State and locally operated programs provided cash assistance to the aged, blind, and disabled with matching grants from the Federal Government.

The basic purpose of the SSI program is to fill the gap between the income available to an individual (or couple) from other sources and the income level represented by the SSI guarantee. Since June 1980, the Federal guarantee level has been \$238 a month for an individual and \$357 a month for a couple.

Those who are eligible for SSI and have no other sources of income can receive an SSI payment equal to the guarantee level. By itself, this payment provides an income for an aged individual equal to 72 percent of the poverty line and an income for aged couples equal to 86 percent of the poverty line.

Since the SSI program is designed to fill the gap between actual income and the income guarantee level, SSI benefits are reduced when an eligible individual or couple has income from another source. For example, those persons who are receiving social security benefits and are also eligible for SSI have their SSI benefits reduced by \$1 for each \$1 received in social security benefits. An exception to this rule is that each person can receive up to \$20 a month in any form of non-work income (including social security) before the reduction begins to be made.

In June, 1980, almost 2 million needy aged persons received an average of \$112 per month in Federally administered SSI payments. This fiscal year, Federal SSI payments to persons aged 65 and older will total about \$1.8 billion. All of the costs of Federal SSI benefits are paid from the general funds of the Treasury, and like social security benefits, the Federal guarantee is indexed to the CPI.

While SSI is basically a Federal program, many States provide additional cash payments to supplement the Federal benefits. Five States now provide supplements large enough to guarantee a single individual with no other income except social security a combined income from social security and SSI that is at least equal to the poverty line, and 16 States guarantee a benefit in excess of the poverty line to a similar entitled couple.

#### OTHER FEDERAL ASSISTANCE PROGRAMS

Several other types of assistance are available to needy aged persons; in many instances these programs play a major role in improving the living standards of aged persons. Many aged families, for example, receive food stamps. When the value of the food stamps available is added to the income guaranteed by Federal and State SSI payments, aged couples with no other income except social security are guaranteed a poverty line income in all 50 States.

The Federal and State governments also pay many of the medical and housing expenses of the aged. In some cases, the public payments reduce the need for out-of-pocket expenses by the aged; in other cases they provide aged persons with housing and medical services that they otherwise simply couldn't afford.

#### ANTIPOVERTY EFFECT OF FEDERAL INCOME SECURITY PROGRAMS

Up to this point I have described the way in which social security and SSI operate, the goals they are trying to achieve and benefits paid in hypothetical situations. Now I would like to give some indication of the degree to which the public programs have reduced poverty among the aged.

It is clear that social security has made a substantial contribution to raising people's incomes above poverty. We estimate that if there were no social security and no other income took its place, there would be three aged poor persons for every one we now classify as poor. Social security thus cuts the incidence of poverty among the aged by two-thirds. Although social security goes in large measure to the aged, payments to the aged and nonaged together in 1978 probably kept a total of 11.3 million persons of all ages out of poverty. Nearly 7 million of these would-be poor are persons 65 or older. In addition, many beneficiary households that don't receive enough in benefits to have income above the poverty line nevertheless are still made less poor. Data for the year 1978, for example, indicate that OASDI cash benefits cut the aggregate gap between income households have and the amount

needed to be above the poverty line for aged persons by 75 percent and for all persons by 50 percent.

As I look across the broad set of programs providing economic security for the aged, I am impressed both by how far we have come and by the work that still remains before us. As a measure of our progress, I would note that in 1959 some 35 percent of the aged population had incomes below the poverty standard. By 1978, the fraction of the aged with incomes below the poverty level had dropped to only 14 percent, so that 6 out of 7 had income sufficient to lift them above the poverty level.

In examining the changing profile of the aged poor, an area of particular concern is the disproportionate poverty rate among the aged women who live alone. Although less than 8 percent of aged couples have income below the poverty line, 22 percent of aged widows have incomes below that standard. As we address ways to improve the treatment of women under social security, we must be extra conscious of the needs of these aged widows.

Although the total number of aged poor has declined since 1959, the number of aged women living alone in poverty has changed very little in that time. Ironically, this may actually reflect the success of the effort to close the poverty gap in this country. Economic independence is a cherished goal in the United States for persons of all ages. Because incomes are rising, more and more adults are able to live by themselves as soon and as long as possible. Many of those who are now counted as poor are poor precisely because they are living by themselves. Previously, lower income would have forced many to move in with relatives, where their combined family income exceeded the poverty standard.

#### CONCLUDING OBSERVATIONS

Mr. Chairman, I also think it may be useful to spend a few minutes on the question of the ongoing relationship between social security and SSI and on the role of social security in retirement policy generally. We have spent considerable time this morning on the problems of assuring some degree of income adequacy among the aged. We have been concerned about the aged because they generally have low incomes and frequently have extraordinary expenses and they are a group towards whom society feels indebted—they deserve a decent living. The “golden years” should not be an empty phrase.

We have also identified some specific problem areas with regard to the adequacy of social security benefits. For example, there is the higher incidence of poverty among the very old, especially aged widows and others who may have been on the benefit rolls for many years.

For those who have not worked regularly or who may have extraordinary financial needs it is very important that we have sound, well-targeted income-tested programs to assure that basic living needs are met. SSI is one such backstop for those for whom social security or private resources are not sufficient.

While there is always a hope that the numbers of people who lack income from other sources will be as small as possible, it is vital to the ongoing integrity of social security and to the private sector that we have such an assistance program. Without such a program, pressures to accomplish additional adequacy goals through social security, and at the expense of the wage-related concepts underlying social security, would be enormous.

Reasonable people can and do differ as to the extent to which social security should emphasize adequacy goals relative to other program aspects. But I think that there exists a point beyond which a tilt toward basic adequacy at the expense of reasonable wage replacement for the average earner would seriously erode public acceptance of social security.

I have talked so far about how an effective SSI program is essential to avoid serious distortions in the social security program. But this is a two-way street. Experience in this country suggests that assistance programs such as SSI work best and are most widely accepted when they are relatively small. Assistance programs work best where the needs of the vast majority of the population are met through private means or through social insurance programs such as social security.

This may seem a digression, but—given the thrust of our discussion this morning—it seems worth noting (and not without some irony) that one of the most controversial and unpopular aspects of the social security program is the provision that most directly targets social security to those who are retired—that is, those who do not have substantial earnings from current employment. I am referring, of course, to the social security earnings test. This test is often criticized as discouraging work among older people and as penalizing those who wish to supplement their social security benefits with earnings.

It is important, I think, that public retirement programs for the aged not interfere unduly with normal work incentives. On the other hand, as is clear from this hearing, we must be concerned about the adequacy of social security benefits for those who are not working. The social security earnings test seeks to balance these concerns. Social security has always been viewed as an earnings replacement program so benefits have been designed to replace in part earnings that are actually lost. In this context it has always been considered appropriate to have some objective measure of retirement. Clearly, paying social security benefits regardless of a person's earnings is not consistent with targeting social security funds where the need is the greatest.

Thus, the very existence of the retirement test reflects a desire to restrict payments to those who have actually retired—to target benefits so that they are as adequate as possible for those who need them the most. The objective of the social security earnings test is similar to the objective served in private pension plan by the requirement that an individual stop working in employment covered by the pension system before receiving benefits. There is no more reason under social security than in a private firm to add a pension on top of a regular salary for a person who reaches a given age but continues to work at his or her regular job for a full pay.

I have perhaps dwelt too long on the question of the social security earnings test. But I am mindful of the interest in this subject that has been shown by Congressman Burton's Subcommittee on Retirement Income and Employment.

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

Mr. DRIVER. Social security has two distinct objectives: providing adequate earnings replacement, and providing adequate incomes. These are not wholly compatible objectives. Constructing a system that strictly follows the wage replacement objective will tend either to produce benefits that are inadequate for low-wage earners or to produce benefits which are inappropriately large for high-wage workers. Emphasizing income adequacy more than the system does now would tend to narrow the range of benefits payable at various earnings levels and would increase the frequency of benefit payments in excess of prior wages.

My statement goes into the role that social security has played in meeting the retirement income goals. It compares earnings at various levels with the replacement rate provided by social security.

A single individual who retires in 1982 at age 65 and who consistently had earnings equal to the Federal minimum wage will receive social security benefits that replace 57 percent of preretirement gross earnings. By contrast, this worker is estimated to need an 80-percent replacement rate to maintain preretirement living standards. On the other hand, a similar hypothetical worker with a 65-year-old, nonworking spouse will receive a social security benefit that replaces 85 percent of his or her gross preretirement earnings. This is roughly equivalent to full earnings replacement for such a couple.

My statement includes information about the outcome in terms of single workers, married workers, workers who have had the minimum wage during the course of their working years, workers with average wages.

The CHAIRMAN. State for the record how much income, over what period of time, do you have to receive wages to be eligible for social security?

Mr. DRIVER. Generally speaking, a person needs 10 years of coverage to be insured for retirement benefits. This, however, is scaled down, depending on the age of the individual. But for the person entering the work force today at, say, age 25, 40 quarters of coverage are needed. That is 10 years.

The CHAIRMAN. You mean they do not get coverage until?

Mr. DRIVER. After a much shorter period, they would be covered for disability purposes and for survivor benefits, but to draw retirement benefits, 40 quarters of coverage. For people born 55 or 60 years ago, the required number of quarters of coverage is less.

The CHAIRMAN. What is the minimum benefit that anyone receiving social security receives? Is there a minimum benefit?

Mr. DRIVER. There is a statutory minimum that applies primarily to people who were submarginal workers during the course of their working career.

The CHAIRMAN. I remember a good many years ago, Congress passed a bill as I recollect giving a minimum of \$70 to anybody who was not covered by social security.

Mr. DRIVER. That is correct. There is a special payment for people who did not meet the regular work requirement. It was about \$70 a few years ago.

The CHAIRMAN. Maybe they had been in it awhile, but they did not have any appreciable minimum income, so Congress made the minimum retirement benefit \$70 a month. Is that still in existence?

Mr. DRIVER. It is, sir. The benefit is higher now, but the number of people getting these benefits is dwindling. Certainly in the beginning of the program, as you well know, there were people who had little or no opportunity for coverage. These were swept in by special congressional action and their benefits were financed, at least in part, by general appropriations rather than moneys paid from the trust fund.

My statement then covers the Supplemental Security Income program and the people covered under it.

I then cover the Supplemental Security Income program and indicate the people covered in this.

The CHAIRMAN. Do the funds to fund the SSI program come from the social security trust fund or from general revenue?

Mr. DRIVER. General revenue, sir. This is one of the most misunderstood areas of the law. The fact that we make the payment has persuaded people it is trust fund money.

The CHAIRMAN. What is the amount receivable under SSI?

Mr. DRIVER. I can put a table in the record if you would like, Mr. Chairman. The amounts, as you probably know, vary by State because many States supplement the payments.

[The material supplied by Mr. Driver follows:]

SSI PROGRAM—STATE BY STATE SUPPLEMENTATION LEVELS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY

	State supplement	Total Federal payment and State supplement
Alabama.....		\$238.00
Alaska <sup>1</sup> .....	\$145.00/235.00	383.00/473.00
Arizona.....		238.00
Arkansas.....		238.00
California.....	182.00	420.00
Colorado.....	55.00	293.00
Connecticut.....		238.00
Delaware.....		238.00
District of Columbia.....	15.00	253.00
Florida.....		238.00
Georgia.....		238.00
Hawaii.....	15.20	253.20

SSI PROGRAM—STATE BY STATE SUPPLEMENTATION LEVELS FOR AGED INDIVIDUALS LIVING  
INDEPENDENTLY—Continued

	State supplement	Total Federal payment and State supplement
Idaho.....	54.00	292.00
Illinois.....		238.00
Indiana.....		238.00
Iowa.....		238.00
Kansas.....		238.00
Kentucky.....		238.00
Louisiana.....		238.00
Maine.....	10.00	248.00
Maryland.....		238.00
Massachusetts.....	137.22	375.22
Michigan.....	24.30	262.30
Minnesota.....	34.00	372.00
Mississippi.....		238.00
Missouri.....		238.00
Montana.....		238.00
Nebraska.....	110.00	348.00
Nevada.....	46.70	284.70
New Hampshire.....	33.00	271.00
New Jersey.....	23.00	261.00
New Mexico.....		238.00
New York.....	63.21	301.21
North Carolina.....		238.00
North Dakota.....		238.00
Ohio.....		238.00
Oklahoma.....	79.00	317.00
Oregon.....	12.00	250.00
Pennsylvania.....	32.40	270.40
Rhode Island.....	42.05	280.05
South Carolina.....		238.00
South Dakota.....	15.00	253.00
Tennessee.....		238.00
Texas.....		238.00
Utah.....	10.00	248.00
Vermont.....	41.00	279.00
Virginia.....		238.00
Washington.....	43.15	281.15
West Virginia.....		238.00
Wisconsin.....	99.70	337.70
Wyoming.....	20.00	258.00

<sup>1</sup> Alaska has 2 payment levels for independent living arrangements.

The CHAIRMAN. What is the Federal payment?

Mr. DRIVER. The Federal payment is \$238 for an individual, and \$357 for a couple.

The CHAIRMAN. Those are the three categories of the elderly poor, the disabled, and the blind?

Mr. DRIVER. Yes, sir.

The CHAIRMAN. To be eligible for SSI?

Mr. DRIVER. Yes, sir.

The CHAIRMAN. Can you receive SSI benefits and social security?

Mr. DRIVER. Yes, sir, but the two are integrated; the more social security you draw, the less SSI payments. There is an income limit under SSI and social security is considered in terms of satisfying that limit.

The CHAIRMAN. The result is the individual is prohibited from receiving more than what minimum amount?

Mr. DRIVER. Well, there is a \$20 disregard of income. In other words, you could have \$20 a month and still draw as an individual, \$238, which would give you a total of \$258.

The CHAIRMAN. The law would only allow you to draw \$20 social security?

Mr. DRIVER. Yes, before you begin to offset the SSI payment.

The CHAIRMAN. Then do they deduct the SSI payment?

Mr. DRIVER. They give less as the social security income goes up.

The CHAIRMAN. Under that system, what is the amount of money that a recipient of social security, who is eligible also for SSI, may receive?

Mr. DRIVER. Well, you would not count the first \$20 of the social security benefit, and then you would offset the remainder on a dollar-for-dollar basis, so by the time you counted to \$258 of social security, you will be out of SSI.

The CHAIRMAN. What I am trying to relate is the amount of money one could receive, \$4,000 a year is the poverty level. What I am getting at is, can the individual from the two sources, if he is either a blind or elderly poor or disabled person, can he receive from both social security and SSI as much as \$4,000 a year?

Mr. DRIVER. No, sir. The only way that could happen is where the States would supplement the payment. Five States now provide supplements large enough to guarantee an individual a livable income with no other source than SSI. That is, at least equal to the poverty line.

The CHAIRMAN. How much does it take to get an individual to the poverty line?

Mr. DRIVER. I am sorry, Mr. Chairman, I do not have that at my fingertips. I can give you the poverty levels for the record, if I may do that.

[The material supplied by Mr. Driver follows:]

The estimated 1980 poverty levels are \$3,970 (\$330.80 per month) for aged single persons and \$5,010 (\$417.50 per month) for aged couples. Federal SSI benefits in 1980 for both single persons and couples with no other income are below the poverty level. For the first 6 months of 1980, maximum monthly SSI benefits were \$208.20 for individuals and \$312.30 for couples. In July 1980, maximum SSI benefits increased 14.3 percent, to \$238 a month for individuals and \$357 a month for couples, to reflect changes in the Consumer Price Index. Annual incomes of SSI recipients who will have only SSI income during calendar year 1980 will be \$2,677 for the individual and \$4,015 for the couple. The estimated gap between income and poverty for these individuals will be about \$1,293 for the individual and \$995 for the couple, averaging about \$107 and \$83 per month, respectively.

The CHAIRMAN. Well, now, Mr. Driver, what is the average amount received by a recipient of social security?

Mr. DRIVER. \$330 a month, roughly.

The CHAIRMAN. And what is the amount of the Federal payment for SSI?

Mr. DRIVER. \$238.

The CHAIRMAN. That would be a total of less than \$2,900 a year for an SSI recipient, or about \$3,600 for an average social security recipient, which is not a very high income for an individual to have. Now why do we have to so drastically diminish the amount of the social security benefit that a person is going to receive simply because that individual is also eligible for SSI?

Mr. DRIVER. Well, of course, we reduce the SSI, not the social security benefit, but you do not have to, Mr. Chairman, obviously.

It is a case of when the payment standards were established by the Congress, they chose those levels as being reasonable. As you well know, the SSI payments are increased when the cost of living changes. So they have kept pace with the level targeted by Congress when the levels were established. The question of whether they should be higher or not is one of judgment and one we are judging constantly. But it is a question of where you want to pay.

Mr. BIAGGI. Mr. Chairman, on that point, I have a question that comes to my mind. I would like to compare the amount of money you give to SSI recipients to the amount of money that criminals receive for disability.

We have a case, I think it is renowned at this time, where the Son of Sam, David Berkowitz, was receiving some \$300 a month while in prison.

Two questions: First, how does the amount of money that the recipient gets from SSI compare to disability payments while in prison, and second, what is the current policy of the administration with relation to paying prisoners' disability pensions? We have the case where the Son of Sam was sentenced to 300 years in prison, he was receiving \$300 a month. He killed six or seven people. He terrorized the community. Most of us were not aware that he was receiving these payments. Now by virtue of his case we wonder how many prisoners are receiving the disability pension.

Mr. DRIVER. The program is fixed by statute. It is an earned right program. People who draw it help pay for the benefit through their taxes. Entitlement to this program is only earned by working in employment covered by social security. The act specifies payment under certain conditions. Where the recipient who meets the work and disability requirements of the law is residing, is not a factor in determining an individual's right to payment under the act.

Mr. BIAGGI. Do you not think it should be?

Mr. DRIVER. In the statute itself, Congress has specified what circumstances would warrant withholding of the payments. The commission of a crime is not one of those, except for treason. That is so specified in the act. The interpretation under the law then is that we have absolutely no authority to withhold payment to prisoners.

Mr. BIAGGI. The first part of the question is germane to the chairman's line of questioning.

Mr. DRIVER. The SSI payment is a welfare payment—

Mr. BIAGGI. I do not want to characterize it.

Mr. DRIVER. The amount of social security benefits you are entitled to depends on your earnings record. Wage differences up to the taxable base would fix a different amount for each different worker.

Mr. BIAGGI. Is there a way of determining how many prisoners receive this?

Mr. DRIVER. At the present time, the GAO is making a survey and will furnish that figure to the Congress as soon as possible. Present figures would indicate there are about 6,000.

Mr. BIAGGI. It seems to me that when the law was written, and I know it is not your responsibility, that there was no prohibition, it was an earned right, but at the time that was enacted, it was not

in contemplation of the Congress that we would have the taxpayers of our country paying twice. They are paying for his maintenance in prison and for his disability pension. There is something basically wrong with that.

Mr. DRIVER. There is legislation moving in the Congress today which would direct that we make payments to the prison system instead of to the inmate out of the disability fund. This is moving in the Congress now. I do know it is a very lively subject at this time.

The CHAIRMAN. Ms. Ferraro has come in. Would you like to make a statement?

Ms. FERRARO. No, I just want to commend you for holding these hearings, and ask unanimous consent to have my statement entered in the record.

The CHAIRMAN. Without objection.

[The prepared statement of Representative Geraldine A. Ferraro follows:]

PREPARED STATEMENT OF REPRESENTATIVE GERALDINE A. FERRARO

Mr. Chairman, allow me to thank you for the opportunity to express my views on the current situation of "Retirement: The Broken Promise". You are to be commended for holding this important hearing which will, I hope, focus our attention on what can be done to help alleviate this problem.

As the Representative of over 72,000 senior citizens, and as a member of the Committee, I am truly concerned with the retirement problems which now face so many of our older Americans. There are several sources of retirement income available to older Americans, but for more than half the most important source is social security.

Since 1940, the retirement income structure has grown from a number of individual programs to the complex system of today. Despite this remarkable growth in the retirement income system, in 1977 over 3 million people who were age 65 and over were in poverty as defined by the official Poverty Index. This represents 14 percent of our retired population. Over 80 percent of these people in poverty were receiving social security. It was insufficient, however, to keep from being poor.

Although poverty among the aged has been greatly reduced in the past two decades, one of the reasons for the continued existence, 40 years after the beginning of social security, of a significant number of the retired in or near poverty is the lack of broad coverage of the non-retired population by retirement income programs other than social security. People who have been adequately covered by pension plans before they retire rarely experience poverty. But those who were not covered in their adult lives may have little opportunity to prepare adequately for their retirement.

Social security recipients are concerned with the threat of decreased benefits and the fiscal solvency of the trust funds. Former and present federal employees are concerned by the threat of universal coverage—a move which they see as throwing them from the frying pan into the fire. All of them are concerned about the threat of a retirement income which will not allow them to maintain even a decent standard of living. Our elderly population is increasing at a rapid rate. Older Americans are depending more and more on retirement income for the basic necessities in their post-working years. Americans are, quite understandably in this time of inflation, saving less and less. The problem is a severe one which undercuts the intent of the social security program and underscores the need for a national policy on retirement. More than half of the total senior population, 13.5 million elderly, receive social security alone. They have no private pensions. Social security is not a supplement to their retirement income—it is their retirement income.

It is evident to me that retirement income policies will play an increasingly important role in the lives of our constituents. Likewise, it will be increasingly important for this Committee and this Congress to deal with the problem. More participation in retirement programs is the major challenge facing policymakers seeking to improve the economic security of retirees.

The CHAIRMAN. Go ahead, Dr. Driver.

Mr. DRIVER. I have described the benefits paid and the goals they are trying to achieve. It is clear social security has made a substan-

tial contribution to raising people's income. We estimate if there were no social security and no other income took its place, there would be three persons poor for every one we classify now as poor. Although social security goes in large measure to the aged, there are many beneficiary households that do not receive enough in benefits to have income above the poverty line. Nevertheless, data for 1978, for example, indicate that OASDI cash benefits cut the aggregate gap between income households have and the amount needed to be above the poverty level for the aged persons by more than 75 percent and for all persons by more than 50 percent. In examining the changing profile of the aged poor, an area of particular concern is the disproportion of the poverty rate among aged women who live alone. Twenty-two percent of aged widows have incomes below the standard. Thus, we feel this is an area where we must be extra conscious.

In the conclusion to my statement, Mr. Chairman, I discuss the point that while reasonable people can and do differ as to the extent the social security program emphasizes adequacy goals, there is some consensus that some balance must be struck. Also we think it important to keep in mind the earnings tests which play a rather distinct and vital role of targeting benefits so they are at least as adequate as possible for those who need them the most.

All those things are discussed in my statement. I will try to be responsive to any questions you have.

The CHAIRMAN. Mr. Driver, before you finish and so the members will have the benefit of such a statement from you, what we are getting at as you heard us say this morning is how to increase the income, improve the standard of living of the elderly people of this country.

Now, have you any suggestions to make either with respect to social security or SSI or with respect to other programs? We want the benefit of your experience and your knowledge.

Mr. DRIVER. Well, Mr. Chairman, as you know, the moneys available for social security payments are directly attributable to the payroll taxes that go into them. The most recent surveys I have seen of the attitudes of the American public have indicated a willingness to pay more for increased benefits. So clearly it would be possible to increase levels of payment by increased taxes. There is no other source of income. The social security system is a turn-around system based on payroll taxes. There has been talk recently of supplementing that by general revenues; it would appear from surveys made, the Hart survey being the most recent I have seen, that the working population in the country would be willing to pay more for additional benefits. This clearly would give you an opportunity to do that.

Short of this, the only way to improve benefits for any category would be to reduce benefits for some other category now entitled. We have no surplus of funds in the system, and we do not anticipate any.

The CHAIRMAN. The disability benefits now are payable out of the social security trust fund, are they not?

Mr. DRIVER. Yes, sir.

The CHAIRMAN. If that is put under general revenue, how much additional funds would be available for old-age insurance?

Mr. DRIVER. At the present time, the fund is not spending at the level anticipated. Therefore, we are in the process of seeking the Congress' permission to shift revenues from that fund in order to strengthen the old age and survivors' fund, which is running behind. So it would seem to me there will be very little left in that fund to use for any other purpose, unless, as you say, you were to support the disability program from general revenue.

If you did that, and financed the estimated 1980 disability expenditures of \$15.9 billion from the general fund, you would have nearly \$16 billion in 1980 that could be used for some other purpose.

The idea that has been expressed most frequently is to fund the hospital fund out of general revenue. That currently represents 1.05 percent of payroll for employees and employers, each.

The CHAIRMAN. You mean medicare?

Mr. DRIVER. Yes. The hospital insurance tax represents roughly \$24 billion. If that were funded—

The CHAIRMAN. That would be about \$40 billion added to the general revenue budget.

Mr. Biaggi.

Mr. BIAGGI. No comments, Mr. Chairman.

The CHAIRMAN. Mr. Santini.

Mr. SANTINI. Thank you. I am sure you have to contend with, on a daily basis the apprehension that our social security fund is now or soon will be bankrupt. I would appreciate any statement that you might wish to offer to the committee and for the record with regard to the existing state of bankruptcy or prospective state of bankruptcy of our social security fund.

Mr. DRIVER. As I indicated earlier, in the old-age and survivors' fund, income is less than the outgo in today's economic situation. Under the present financing arrangements, without supplementation from any source, we would have about a year before the old-age and survivors' fund would be practically out of money.

Under the provisions of legislation that has passed both Houses under different bills and which we hope will be enacted during this session, it will be possible to move money from the disability fund into the old-age fund. This will give us additional time to explore ways of changing the structure to improve the outlook.

I would say this to those who speak in terms of bankruptcy. This is a turnaround financing arrangement. Congress since 1935 has acted over and over again to increase the moneys available for social security purposes. As long as Congress and the President continue in the future as they have in the past to support this program, I would feel there is no danger of running out of money.

Based on the statements made by Members of Congress today and by the President and the executive branch in general, there clearly is strong support for this program, and I have no reason to feel that will not continue and the moneys will be available.

Mr. SANTINI. I concur in that particular sentiment, but it is important to recognize that if Congress did not act, in 16 months that fund would not be able to meet its responsibility to retirees.

Mr. DRIVER. That is about right.

Mr. SANTINI. What is your recommendation with regard to removal of medicare from the social security funding pot?

Mr. DRIVER. That was recommended by the last Advisory Council. I think today, either that or a lesser amount of financing, 50, 60, 70 percent of hospital payments out of general revenue, or a general revenue borrowing authority, would be satisfactory. A borrowing authority would allow us to borrow funds when needed and pay them back when other trust fund revenues exceeded expenditures. We could see it through.

Mr. SANTINI. That seems to be a case of robbing Peter to pay Paul. I think if we cleaned this up we would be doing much more of a service to both recipients and the Government. As long as we leave this juggling act—taking from fund 1 to put in fund 2—we are not dealing with the problem in a forthright manner.

Mr. DRIVER. It makes no sense that we have separate funds. I think they could be merged and you could have a strict accounting to the Congress every year. Then you would not have the kind of crises that come along. I think that you could put the reporting requirements on the trustees and the administrators of the fund so that you could be satisfied from a legislative oversight standpoint that things were being done properly, and still at the same time give us much more latitude to prevent these crises from arising. However, that would not be enough in today's situation. The income to the funds has been geared to wages and the outgo to prices. Since wages have lagged far behind prices, our income is lagging far behind our outgo.

Mr. SANTINI. Did you have an opportunity to observe chart I cited in reference to the use of the Consumer Price Index, and at the same time necessities increased 17.3 percent last year and 22 percent in the first quarter of this year. That suggests a road to nowhere in terms of the problems in assuring minimum income assurance to our elderly.

Have you any recommendations with regard to that disparity?

Mr. DRIVER. This is an area where very close examination should occur every year. There should be a total examination of what is in the CPI market basket, and there should be some agreement between Congress and the people who set the index that this is in keeping with what is going on today.

We have heard that there should be a separate CPI for the aged. Some feel if there were, it would result in a lower Consumer Price Index. I think this is an area that warrants a good deal of public discussion and analysis, then some sort of public agreement on what items would be in the basket.

Mr. SANTINI. As the leading expert on social security, what would be your suggestion?

Mr. DRIVER. I would have to examine what you have under necessities, but if it represents as the word seems to connote the necessities of life, I see no alternative to that. Average social security payments are not large; they have kept people living in a very delicate economic situation. They have provided enough so that most beneficiaries are able to hold their head above water. But for many of them, that becomes more and more difficult.

Mr. SANTINI. Finally, Mr. Chairman, and Commissioner, a recent article in the Social Security Bulletin claimed that increased tax revenues would offset 80 percent of the cost of eliminating the

earnings limit. How would you assess the cost of liberalizing the tests?

Mr. DRIVER. Well, if you do it for all age groups—

Mr. SANTINI. Do you have any reason to quarrel with the general representation of that text?

Mr. DRIVER. Only half would go to general revenue and less than half to the trust funds. But that overall figure of roughly 80 percent would be accurate, only if those aged who are now working increase their work activity and an additional 10 percent of the workers aged 65 to 69 who otherwise would stop working continue to work full time.

Mr. SANTINI. What would your recommendation be in that regard?

Mr. DRIVER. Here again, you get down to the question, are those the first priorities where you want to put additional money, or are the priorities at a lower level? Here you are talking clearly in this area of people who would be at the maximum. Therefore, it would be a matter of judgment as to whether you felt on balance, to keep the program attractive to all areas of workers, you wanted to put some incentive at the top, versus paying additional moneys to people at the bottom or near the bottom who are having a hard time.

Mr. SANTINI. That is part of a total question that we have a responsibility to address legislatively. Your recommendations will be meaningful. You are not prepared to make a recommendation?

Mr. DRIVER. No. I would also say, based on the results in today, I do not believe an incentive to keep people in the work force would be there in anywhere near the level needed to offset the drift to earlier retirement. The average social security drawer today prefers to retire before 65. They like early retirement. I do not think the potential incentive to keep people working is there. I do not see how removing the income test, based on today's economic and employment situation could be an effective incentive.

The CHAIRMAN. Mr. Biaggi.

Mr. BIAGGI. Given the increased life expectancy and increased cost, and given the present situation found in the new legislation that would permit borrowing, then your suggestion is that we get some general revenues. Are you not really saying that in the long run, social security, the method of funding social security will have to be changed? Absent that, social security is in fact in peril?

Mr. DRIVER. I do not think the philosophy of funding has to change. I think the general commitment of moneys in the years gone by has to be changed.

Mr. BIAGGI. You say surveys were made and people were supportive? I can tell you as a Member of Congress, and my colleagues share this, when this new bite takes effect, there will be a cry across the Nation. When that new bite takes effect, and you and I know it is quite substantial, there will be a strong voice raised in our Nation. The President has recognized it by proposing tax credits. But we cannot continue to burden the worker at this point, especially the young person who is reluctant to participate in the program.

Given that, what would your comments be on the proposal that a former Member of this House, Mr. Burton of Massachusetts, has

been the advocate of, one-third general revenues, one-third employee, and one-third employer?

Apparently we are moving in that direction, piecemeal perhaps, but it will require a whole change in the funding philosophy.

Mr. DRIVER. It is still coming out of tax revenues, with a different emphasis.

Mr. BIAGGI. You will not create additional revenues as you will here?

Mr. DRIVER. You will take it from the economy in some form of taxing. If you take it from the employer he will feel you are interfering with capital growth. If you take it in payroll tax increases, as you say, there will be a hue and cry from workers. The one-half of 1 percent that will go into effect in January, I am sure, will make people unhappy. But if you look at the benefit side, I think that the program will stand scrutiny and support the taxes that are levied. For example, 28 percent of all young women who enter the work force, and 42 percent of all the young men, will die or become disabled before retirement age. To subscribe to a change, one-third, one-third, one-third, might be fine in some political atmosphere, but I do not think we have reached that point yet.

I think it is incumbent on all of us who have anything to do with social security to make sure the philosophy underlying social security is understood. I think if we continue to do that, we will have the funds necessary to make the program viable.

Mr. BIAGGI. You are already going into general revenues. It is a question of to what degree.

Mr. DRIVER. That is correct.

The CHAIRMAN. Ms. Oakar.

Ms. OAKAR. I was glad to hear you say we have always seen the social security system survive since 1935, and you are sure we will see it survive in the future. But the sensational headlines do not explain the situation. It causes anxiety to older Americans, which I think is cruel. So, I want to thank you for making that statement.

It was in the 1960's that we put the trust fund under the auspices of the budget. Would you be in favor of repealing that? Dr. Cohen and others feel it is one of the disasters because it does not give the trustees real flexibility.

Mr. DRIVER. I can understand both points of view. If I were in a budget director's shoes, the unified budget would present a better picture of Federal expenditures. From the selfish standpoint of an administrator of a program, it would be easier for me the other way. You could look at it more clearly. The scrutiny perhaps would be more available for everybody. From that standpoint, fine, but from the overall financial standpoint of the Federal Government, I believe it would be a bitter pill to change it.

Ms. OAKAR. OMB is sometimes called the fourth administrative branch—I do not know that we should always just bow to their whim. People pay into that system. What really aggravates people when they see the editorials is that it is a welfare system. The point is, it is not. When you pay into any insurance plan, you expect to get something in return. So I am glad to hear you say you are considering making that recommendation.

Why do we categorize the trust funds? The same people pay into the system. I remember in 1973 or 1974, when we had a recession,

a lot of people attempted to get disability benefits, but the regulations did not have the fine tuning. So, some got it and others did not. Now you are saying there is a surplus. So it gives the impression that the trust fund is in much worse shape than it is. Why do we have these magical categories that are meaningless?

Mr. DRIVER. There are many reasons. The difficulties are as you described. We have to tell you what is going on, how many disability cases we expect in future years, then you have to put a judgment on all that advice and say, out of the 6.13 in payroll taxes we will put 0.75 in the fund. When we did that in 1977, we gave you the best information we had, and it did not work. Clearly, it raises people's worries as to why we cannot pinpoint this better. It might be much better if it were all in one fund; then we would not have one fund running ahead and the other behind and need to amend the law to change it.

Ms. OAKAR. Are you prepared to make that recommendation to Congress?

Mr. DRIVER. Yes, at least in theory.

Ms. OAKAR. Decategorizing those areas gives a clearer view of the economic stability of the trust fund.

I think it is important for the record that you make your position clear. I want to quote them. You indicated you disagreed with former Secretary Califano's statement that social security discriminates against women. You indicated you did not see an immediate need for change in terms of the system. I notice in your testimony today, you said, those were direct quotes and I wondered if you, for the record, would relate how you feel about the inequities toward women. We know two HEW reports say de facto discriminates against women, and the system is based on outmoded notions toward women. We notice the White House Conference on Families stated it was discriminatory.

I could go on with the kinds of testimony that our committee has had under the auspices of the Task Force on Social Security and Women and from the victims themselves, both the men and women who feel it is cheating them.

I wonder if you could clarify that interview.

Mr. DRIVER. I would like to call it back, if I could. I do not have any feeling that the social security system reflects our economic system toward women is fair. I did not mean to say that. If that implication is taken, I would clearly say for the record that is not my feeling and has never been. I recognize the inadequacies in the system for women. We have been hard at work trying to find solutions to those problems. I indicated in what I said this morning, and more fully in the statement, some specific problems that stick out. If I referred to all to discrimination, I would talk of the fact that in recent years—and it has only been in recent years—the courts have struck down what were truly discriminatory actions under social security. I believe that those are principles which are applying now. I would certainly hope that is the case and we would recommend that any that do linger in a sense of not being implemented, be swept away. I do not want discrimination in the program. From the standpoint of giving fair treatment versus unfair treatment, clearly women come out on the short end. We have to change that.

Ms. OAKAR. When you were responding to Congressman Santini, you indicated 20 percent of the women in the work force can expect to be disabled before age 65.

Mr. DRIVER. Twenty-eight percent.

Ms. OAKAR. You know the disability structure is very, very unsatisfactory in terms of its treatment toward women. Women go in and out of the labor force. If they are out of the labor force for more than 5 years, they cannot recover.

Mr. DRIVER. If they are out just before the disability occurs, it is difficult.

Ms. OAKAR. You say in your statement that you do not see that there is any immediate solution or recommendation about this. I am glad you feel that interview would be better left unsaid, but for the record, are you going to be prepared to either support some of the legislation I have introduced? I know you may not want—

Mr. DRIVER. You do not want me to go into all that now, do you?

Ms. OAKAR. No, because I know you are going to meet with the Congresswomen's caucus.

Mr. DRIVER. As we told you before, we were working on completing the analysis of the Advisory Council's recommendations. We have finished that. We felt we had to at least go through that exercise in order to do justice to this subject. We want to point out the additional areas in which we are now going through a case-by-case analysis covering the entire question of the treatment of women. When you get that, I think you will have the information you need to make the judgments you are talking about.

Ms. OAKAR. The HEW Commissioner has already given two reports, the last of which was mandated by Congress, in terms of citing the various ways very clearly. There are 10 or 12 points I will not bother repeating, but I will submit it for the record, in which the system discriminates against women.

[The material submitted by Representative Oakar follows:]

#### DISCUSSION OF ISSUES

This section discusses the major issues that have arisen under social security as a result of the increased labor-force participation of married women, the higher divorce rate, and the changing views about the roles of women. These issues can be divided into two general categories.

The first category concerns the adequacy of protection for women in various circumstances. The second category concerns the equitable treatment of different groups of beneficiaries and of contributors to the program. The issues are thus divided according to the adequacy and equity goals of the social security program discussed in the introduction to this chapter. Most of the issues are related to whether benefits for spouses should be based on the concept that such a spouse is a dependent of a paid worker.

#### ISSUES RELATED TO ADEQUACY

The first category of issues concerns inadequacies and gaps in protection for women who spend all or a portion of their adult lives as homemakers. The issues generally arise from the growing acceptance of the perception that each spouse is an equal partner in a marriage and that each makes a valuable contribution to the marriage as a homemaker, a paid worker, or both.

1. *The averaging period.*—In order to assure that a person who has worked in covered jobs and paid social security taxes for many years gets a higher benefit than a short-term worker, earnings are averaged over the period the worker could reasonably be expected to have worked in covered employment. This method of computing benefits generally results in higher benefit amounts for workers who have had a longer period of work in covered employment.

For a person reaching age 62 in 1979, retirement benefits will be based on indexed earnings averaged over a 23-year period. In 1991 and after, retirement benefits will be based on earnings averaged over a 35-year period.

This long averaging period generally results in lower average earnings for women than for men because married women typically spend time out of the paid labor force in homemaking and childcare activities. Table 1 shows the labor-force participation rates of married men and women.

TABLE 1.—LABOR-FORCE PARTICIPATION RATES OF MARRIED MEN AND WOMEN LIVING WITH THEIR SPOUSES

Year	Percent in labor force	
	Men	Women
1940.....	91	14
1950.....	90	22
1960.....	88	31
1970.....	86	40
1978.....	82	48

The labor-force participation rates of married women are lower for those with children, particularly for those with young children. Table 2 shows the labor-force participation rates of married women under age 55 with a husband present in the household by whether children were present and by age of child.

TABLE 2.—LABOR-FORCE PARTICIPATION RATES OF MARRIED WOMEN WHO ARE UNDER AGE 55 AND LIVING WITH THEIR HUSBANDS

Year	[In percent]			
	Total	No children under 18	With children, by age of youngest	
			6-17	under 6
1949.....	( <sup>1</sup> )	( <sup>1</sup> )	26	11
1951.....	<sup>2</sup> 26	( <sup>1</sup> )	30	14
1959.....	<sup>3</sup> 34	52	40	19
1970.....	45	60	49	30
1975.....	51	64	52	37
1977.....	54	65	56	39

<sup>1</sup> Not available.

<sup>2</sup> 1950.

<sup>3</sup> 1960.

The percentage distribution of PIA by men and women workers who retired in 1976 is shown in table 3. About 6 percent of the women awarded worker's benefits in 1976 had PIA's of less than \$2200 as compared with only 21 percent of the men. In contrast, about 21 percent of the women and 64 percent of the men had PIA's of \$280 or more. The difference in the percentage is due largely to the fact that women spend a considerable part of their working years in childcare and homemaker activities, and, when they do work, their wages are considerably lower than those of men.

TABLE 3.—DISTRIBUTION OF MEN AND WOMEN RECEIVING BENEFITS AT VARIOUS PIA LEVELS BASED ON RETIREMENTS IN 1976

PIA	Percentage distribution <sup>1</sup>	
	Men	Women
Up to \$159.90.....	10	37
\$160 to \$219.90.....	11	23
\$220 to \$279.90.....	14	19

TABLE 3.—DISTRIBUTION OF MEN AND WOMEN RECEIVING BENEFITS AT VARIOUS PIA LEVELS  
BASED ON RETIREMENTS IN 1976—Continued

PIA	Percentage distribution <sup>1</sup>	
	Men	Women
\$280 to \$339.90.....	25	13
\$340 or more.....	39	8

<sup>1</sup> Totals do not add to 100 percent due to rounding.

2. *Divorced persons.*—Divorced women may have little or no social security protection in their own right and may have social security protection only in the form of dependent's benefits based on their former husband's earnings.

The following concerns have been raised about the protection of divorced women who were full-time homemakers, worked in low-paying jobs, or worked only for a short period during the marriage:

(a) A divorced person has no social security protection based on the marriage if it lasted less than 10 years even though it is during this 10-year period that a married woman is most likely to leave the paid labor force to raise children. (Prior to 1979, the marriage had to last at least 20 years in order for the divorced spouse to get benefits.)

(b) The divorced spouse's benefit of 50 percent of the former husband's PIA may be inadequate for a person living alone since the spouse's benefit was intended as a supplement for a married couple.<sup>1</sup>

(c) A divorced homemaker cannot receive divorced spouse's benefits until her divorced husband reaches age 62 and retires even though she is age 62 or over.

(d) A divorced person's social security benefit as a worker may be low because of time spent out of the paid labor force during the marriage.

The last three of these concerns also apply to separated homemakers.

3. *Aged surviving spouses.*—The issue with regard to aged widows and widowers is whether social security should assume a greater role in providing protection for aged surviving spouses (most of whom are widows). This issue arises because aged widows depend primarily on social security for support. As a group, they are likely to be poor. In 1976, the income of 30 percent of aged widows was below the poverty threshold as compared with the income of 9 percent of aged married couples.

Aged widows are more likely to be poor than retired married couples for a number of reasons including:

(a) They are likely to have little earning capacity because of their advanced age—the average age of widow beneficiaries is about 75 and they are the oldest beneficiary group—or because they have been out of the labor force for a number of years or were lifelong homemakers.

(b) Few widows receive private pensions either because their husbands were not covered under pensions plans, or, if they were covered, the plans did not offer survivor's protection or the worker did not exercise the option to provide it.

(c) Widows are more likely to receive benefits based on outdated earnings; they may reach age 60 from 5 to 10 years after their husbands died; thus their benefits are based on his earnings indexed (updated based on wage increases) to the year of his death and adjusted based on price increases thereafter. As a result, a widow's benefit is related to the standard of living that existed at the time of her husband's death, rather than the standard of living at the time she came on the benefit rolls.<sup>2</sup>

(d) The problem of adequate income for widows is compounded by the fact that as a group they remain on the benefit rolls for many years and their benefits are adjusted according to increases in prices rather than wages, with the result that the purchasing power of the benefits is maintained. The standard of living of widows falls relative to that enjoyed by society as a whole.

4. *Widows under age 60.*—Widows under age 60 who are not disabled and who do not have entitled children under age 18 (or disabled) in their care cannot receive social security benefits. Protection has not been provided for this group on the basis that such women can be expected to work and support themselves.

As a practical matter, though, lifelong homemakers (or women who have been out of the labor force for many years) who are widowed in late middle age may find it

<sup>1</sup> The situation of divorced women whose former husbands are deceased is generally somewhat better because the benefit is based on 100 percent of the deceased ex-spouse's PIA.

<sup>2</sup> Increases in wages reflect both increases in prices and increases in productivity. Adjusting a widow's benefit by prices rather than wages means that her benefit will not reflect general increases in productivity that occur after her husband dies. (Earnings of retired workers are indexed based on the year they reach age 62 reflecting both price and productivity increases.)

difficult or impossible to get a job, and any job they do secure is apt to be low paying. Even widows with job skills or younger widows may have difficulty finding a job immediately or may need a period of job retraining. For these reasons, widows under age 60 may need some kind of immediate income, at least for a short time, to help them adjust to the loss of their spouse's income. The issue then is whether social security is the appropriate vehicle to provide such income.

5. *Recent work requirement for disability benefits.*—To be insured for social security disability benefits, a person needs 5 years of covered work out of the 10 years preceding onset of disability (20 quarters of coverage out of the last 40 calendar quarters). This 20/40 requirement is in addition to the fully insured status requirement.

The 20/40 test was specifically designed to exclude people who had no recent attachment to the covered work force. In its report on the Social Security Amendments of 1954, the House Committee on Ways and Means stated: The earnings requirements which must be met . . . are intended to limit the application of this provision to individuals who have had a reasonably long, as well as recent, record of covered earnings. They operate to screen out those who have not established a reasonably substantial attachment to the labor force and those who had voluntarily retired from gainful activity, and had not been compelled to leave the labor force by reason of their disability.

People who leave the paid labor force for 5 or more years lose disability protection even though they have spent most of their lives in paid jobs. Also, once the protection is lost, up to 5 years of covered work are required to regain protection.

Since many married women leave paid employment for 5 years or more to meet family responsibilities, they, more than men, are adversely affected by the test. In some cases, they become disabled while out of the labor force and do not meet the 20/40 test but are unable to return to work to become eligible for disability benefits. In other cases, they return to work after more than 5 years out of the labor force but become disabled before working long enough to regain disability protection. In these cases, not only will the family have to replace homemaker services that were provided by the woman, but they also lose her wages.

Since homemaker and childcare services are increasingly recognized as having an economic value, concern has been expressed that married women workers lose disability protection when engaging in such activities.

6. *Disabled homemakers.*—Homemakers who become disabled cannot get social security disability benefits even though the loss of their homemaking and childcare services may be costly for the family to replace and there may be additional expenses connected with their disability.

The situation is probably most acute in the case of separated and divorced homemakers since they are usually not supported by their husbands or former husbands. In some cases, these women become disabled before having the opportunity to get a covered job (or to work long enough to be insured for benefits) after the separation or divorce occurred and may or may not be eligible for benefits under the supplemental security income program.

7. *Disabled widows.*—Disabled widows and widowers cannot receive dependent's benefits unless they are age 50 or older, and their benefits are reduced to 50 percent of the deceased worker's PIA at age 50 and to 71.5 percent at age 60. The average monthly benefit paid to disabled widows was \$166 in June 1978.

8. *Deceased homemakers.*—No protection is provided under social security for survivors of deceased homemakers. In some cases, the death of a homemaker results in a financial hardship for the family, especially if there are young children. At the death of the homemaker, the lost childcare and homemaker services may be costly to replace.

#### ISSUES RELATED TO EQUITY

The second category, addressing concerns of equity, is highlighted by the rapid increase in the number and proportion of married women who work in paid jobs. The present system of dependent spouse's benefits works well for a married couple when one spouse is a lifelong homemaker and the other is a lifelong paid worker—a situation which was much more typical in the 1930's when the social security program was established than it is today. Today many married women are employed throughout their lifetime.

9. *Duplication of protection.*—Women may find that the social security protection they earn as workers duplicates the protection they already have as spouses. Under the dual entitlement provision, a woman's benefit as a spouse or surviving spouse is reduced by the amount of her worker's benefit. The protection she receives based on the years she was a paid worker cannot be added to the protection based on the

years she was an unpaid homemaker. As a result, an employed woman may get no, or only slightly higher, benefits than she would have received as a dependent if she had never worked.<sup>3</sup>

*10. One- and two-earner couples.*—The treatment of two-earner couples compared to one-earner couples is viewed by some as unfair. This issue arises due to the payment of dependent's benefits to spouses who never worked in covered jobs (or had very low earnings). Since spouse's benefits are not payable to two-earner couples (unless one spouse has low average indexed monthly earnings (AIME)), a two-earner couple generally receives lower total benefits than a one-earner couple with the same total AIME. Benefits for two-earner couples with the same AIME can also vary depending on the proportion of the total AIME earned by each spouse within the couple.

For example, a one-earner couple each age 62 in 1980 with AIME of \$1,000 would have a benefit of \$648 (a worker's benefit of \$432 plus a spouse's benefit of \$216). If each spouse had one-half of the earnings, the benefit would be \$544. (Each would receive a worker's benefit of \$272.) The initial benefits and replacement rates (benefits as a percentage of AIME) for couples with the same total AIME by the proportion of the earnings that each spouse has are shown in Table 4.

TABLE 4.—TOTAL MONTHLY BENEFITS FOR MARRIED COUPLES UNDER PRESENT LAW AND COUPLE'S BENEFITS AS A PERCENTAGE OF COUPLE'S AIME BY PROPORTION OF AIME EARNED BY EACH SPOUSE <sup>1</sup>

Total AIME	Couple's benefits by proportion of AIME earned by each spouse				Couple's benefits as a percentage of couple's AIME by proportion of AIME earned by each spouse			
	1-0	5/6-1/6	2/3-1/3	1/2-1/2	1-0	5/6-1/6	2/3-1/3	1/2-1/2
\$250.....	\$288	\$300	\$272	\$244	115	120	109	98
\$500.....	408	368	368	384	82	74	74	77
\$750.....	528	468	464	464	70	62	62	62
\$1,000.....	648	568	544	544	65	57	54	54
\$1,250 <sup>2</sup> .....	746	668	624	624	60	53	50	50
\$1,500 <sup>2</sup> .....	802	746	704	704	53	50	47	47
\$1,750 <sup>2</sup> .....	859	794	784	784	49	45	45	45
\$2,000 <sup>2</sup> .....	915	840	835	864	46	42	42	43

<sup>1</sup> Unless otherwise stated, all charts, graphs, tables, or examples used in this report show PIA's for January 1980 based on wage-indexed earnings for workers age 62 in 1980. Married couple's benefits are computed on the assumption of a lifelong marriage of two people both age 62 in 1980. The 1978 Trustees' Report alternative II economic assumptions were used in computing the benefits (without regard to any transitional guarantees provided under the 1977 amendments). The amounts actually paid in 1980 will depend on changes in the economy between now and then.

<sup>2</sup> AIME and benefits at these levels are not possible for one worker reaching age 62 in 1980. (The AIME for a maximum earner age 62 in 1980 is projected to be \$1,189.)

However, even if the spouse's benefit were eliminated, there would still be differences in benefit amounts for two-earner couples when the spouses earn different proportions of the couple's total earnings because of the effects of the weighted benefit formula which provides higher replacement rates for workers with low average earnings and because of the existence of the minimum benefit.<sup>4</sup>

*11. Aged survivors of one- and two-earner couples.*—The payment of widow's and widower's benefits equal to 100 percent of the basic benefit (PIA) of the spouse with the higher AIME leads to situations that may be regarded as unfair. The larger the proportion of the couple's earnings that was earned by one spouse, the higher the benefit for the aged survivor. As in the case of couples, the survivor of a two-earner couple generally gets a lower benefit than the survivor of a one-earner couple with the same total AIME. For example, at AIME of \$1,000, the aged survivor's benefit is \$432 if only one spouse was a paid worker and only \$272—\$160 less—if each spouse had AIME of \$500 for a total of \$1,000. (See Table 5 for additional examples.)

In addition, the surviving spouse of a one-earner retired couple gets as much as two-thirds of the total benefits that the couple was receiving, while the survivor of a two-earner couple gets as little as 50 percent when the spouses had equal earnings. This result occurs regardless of which spouse dies—the low paid (or unpaid) spouse

<sup>3</sup> Married women who are insured for benefits in their own right have survivorship and disability protection not available to unpaid homemakers.

<sup>4</sup> The initial minimum benefit is \$122. It is payable to workers whose AIME are less than \$136. Once a person starts receiving a minimum benefit, it is automatically increased based on increases in the Consumer Price Index.

or the higher earner. The 50-percent benefit cut can create a financial hardship for the survivor since basic living expenses (such as housing and utilities) do not necessarily decrease when one spouse dies.

TABLE 5.—MONTHLY BENEFITS FOR SURVIVORS OF RETIRED COUPLES UNDER PRESENT LAW AND SURVIVOR'S BENEFITS AS A PERCENTAGE OF THE COUPLE'S BENEFIT BY PROPORTION OF AIME EARNED BY EACH SPOUSE

Total AIME	Survivor's benefits by proportion of AIME earned by each spouse <sup>1</sup>				Survivor's benefits as a percentage of couple's benefits by proportion of AIME earned by each spouse			
	1/0	5/6-1/6	2/3-1/3	1/2-1/2	1/0	5/6-1/6	2/3-1/3	1/2-1/2
\$250.....	\$192	\$178	\$149	\$122	67	67	55	50
\$500.....	272	245	218	192	67	67	59	50
\$750.....	352	312	272	232	67	67	59	50
\$1,000.....	432	378	325	272	67	67	60	50
\$1,250 <sup>2</sup> .....	497	445	378	312	67	67	61	50
\$1,500 <sup>2</sup> .....	535	497	432	352	67	67	61	50
\$1,750 <sup>2</sup> .....	572	529	485	392	67	67	62	50
\$2,000 <sup>2</sup> .....	610	560	510	432	67	67	61	50

<sup>1</sup> The benefit amount is the same regardless of whether the high or low earner dies.

<sup>2</sup> AIME and benefits at these levels are not possible for 1 worker reaching age 62 in 1980.

The survivor probably needs more than 50 percent of the income of the couple to maintain a similar standard of living. Therefore, the benefit for the survivor of a two-earner couple can be viewed as less adequate than the benefit for the survivor of a one-earner couple.

12. *Married and single workers.*—The social security system provides greater protection for married couples where one spouse is not a paid worker, or is low paid, than for single workers, although all workers pay social security taxes at the same rate. Because of the spouse's benefit, a one-earner couple gets benefits that are one and one-half times the benefit of a single worker, all other things being equal.

Dependent's benefits were originally provided for unpaid spouses because it was recognized that the cost of living is greater for two persons than for one. Some have contended that the 50 percent increment for a spouse is more than is necessary to support a second person or that the additional amount for the second person should not necessarily rise as the worker's earnings rise. There is no consensus as to what would constitute an appropriate increment.

Although spouse's benefits were originally provided as a supplement for workers who had dependent spouses, this benefit could be supported on the grounds that the homemaker services performed by nonpaid spouses have an economic value. However, since the spouse's benefit is provided without any additional tax payment, it nevertheless results in differential treatment between married and single workers.

Ms. OAKAR. You are in the same department, education notwithstanding. The Advisory Council, the majority of the members believed the social security system should be taxed. So their credibility in terms of their recommendations, in terms of a good part of that report, I have a very, very negative reaction. My point is, why waste the taxpayers' money on a report which has been rejected in terms of response to things like taxing the system, which I am sure you do not agree with.

Mr. DRIVER. No; and I think very few people do.

Ms. OAKAR. When your own umbrella agency cites the ways it discriminates, I would say, we would like you to, really like legislation introduced or say "Here is our package."

Mr. DRIVER. That is what we want to do, say, "Here is our package."

Ms. OAKAR. You are not going to restudy this?

Mr. DRIVER. You would not want your package unless we knew for instance, what will change in terms of the entitlement ground, also—

Ms. OAKAR. I am not trying to make this a one-on-one debate, but you did say you are using as your point of departure the Advisory Council's recommendation. Some of their recommendations would cause a great deal of negative reaction from older Americans who have contributed to the system and see, all of a sudden, individuals who are appointees making some very disparaging comments on the system.

Mr. DRIVER. It is created by statute. Many of the recommendations that have been made over the years and are now in the statute, I think we all could agree are good and maybe landmarks. They came out of Advisory Council recommendations.

Ms. OAKAR. HEW's report was based on statute, also.

Mr. DRIVER. The major things that are negative for women and need correction were discussed, but the report did not identify solutions. Finding the solutions is much more difficult than identifying the problem, I must say, and this is where we are having the difficulty and where we need to work with you.

Ms. OAKAR. They did not cite the double-decker model in the earning sharing program.

Mr. DRIVER. The analysis that went into that report was not sufficient for us to make a legislative recommendation.

Ms. OAKAR. Well, I certainly do not think it was the "end all," but neither was the Advisory Council's report that you have cited, and I know members of your staffs have disagreed. Unfortunately, the people who are very much in favor of changing the system to make it equitable no longer work for the Social Security Commission, and I think that is a shame. They were the ones who were assisting Commissioner Ross, before you. When you get a change in philosophy based on the staff's recommendations and all the in-depth work that so many of those marvelous people have done, then all of a sudden you are going to start all over. I tell you, women and men who contribute to the system, who form this economic partnership, at least in terms of one of the disparities, they do not want to wait any longer. Why should women pay into a system and be victimized when they are 72 percent of the elderly poor we are talking about?

Mr. DRIVER. I assure you, the people who did the analysis in this whole area before are in large measure still doing this analysis. Sure, people are coming and going, and that will continue to be true. But I would like to continue to think all they have done has not gone. We are continuing to work on the same course we were working on before. All I can say in all good faith is we want to come forward with you with a recommendation for change that we can stand on and help to defend, and that is the thing we are concentrating on today and promise to bring to you.

Ms. OAKAR. Let me just lastly cite one point in the letter from Secretary Pat Harris who says that she expects an early delivery of a package in the next term, early on, one of her major priorities.

Mr. DRIVER. Yes.

Ms. OAKAR. I think it is unfortunate we cannot do something in this term, but I understand the realities of the session.

Mr. DRIVER. This is what we are aiming for. We hope certainly before the end of this calendar year we will have everything cleaned up in terms of the analysis and the decisions, and there

can be a legislative proposal that we will come forward with in the beginning of the new year, the new Congress.

Ms. OAKAR. Our task force and I know this whole Aging Committee stands ready to give you all of our data that we spent a year in developing.

Mr. DRIVER. Fine.

Ms. OAKAR. Thank you.

The CHAIRMAN. Mrs. Ferraro.

Ms. FERRARO. Thank you.

I want to associate myself with Congresswoman Oakar's remarks. I am a member of the task force and I share her deep concern about the inequities in the system as they relate to women. I think that the social security system is not only a broken promise, I think it is a cruel hoax.

In your testimony you said on page 4 there are two distinct objectives, providing adequate earnings replacement and providing adequate incomes. Then you cite how many people who retire at age 65 replace 57 percent of earnings when they actually require 80 percent in order to maintain a standard of living commensurate with what they had prior to the retirement. I think the problem is that social security is being considered a pension plan, and I think that that has got to stop. I think it has to stop; the Social Security Administration should stop pretending it is. When I go talk to my senior citizens who are already stuck in the system, I tell them, "Tell your friends who are close to 62 not to retire if they can possibly avoid it until they are 65. Do me a favor, go home and call up your kids, tell them to start thinking about what is going to happen in 30 years, to start planning for a supplement to SSI. The trust fund will be there, but if they do not have something else they will have a really tough time."

That message has to get out to the American public. This social security system, I am delighted the trust fund will last, that we will be able to look into other ways of keeping it viable by going to general revenue. I am pleased this committee and others will look into the inequities of social security as related to women, but that is not adequate. I think we have to tell people that is not going to be sufficient to retire and live with dignity, because you cannot do it on social security.

Thank you.

Mr. DRIVER. I agree with you. No disagreement.

The CHAIRMAN. Mr. Mica.

Mr. Mica, if you would put any opening statement into the record we would be pleased to receive it.

Mr. MICA. Thank you. Let me say I think Congresswoman Ferraro saw my notes. I totally agree with what she said. The SSI is the biggest single hoax on the American people, public we have going. I spent 12 years as an aide in a congressional office, and day after day after day retired people would come in and hand me a check and say, "How do you expect me to live on this?" I cannot tell them that "Hey, you misunderstood the system." That is a message we need to get to everyone, everyone in the United States. Social security is not a retirement program. It was meant to be, the charter indicates that it was supposed to be an assistance to the money that people put away, to help them along with other assets

that they may have. They do not know that; they do not believe it. In fact, I am not sure that we can change it. So my feeling as I think Hubert Humphrey said in a speech here in the Capitol shortly before he died, that in some of our programs the present generation may be a lost generation, and our duty is to do the best we can for them, but to revamp, rewrite, and revitalize, and start from scratch with the lessons that we have learned, with the lessons that we have learned, for new programs for the needs of the present society and for the future society. I think that is what we need to do here. I think we need to patch up social security, do the best we can. We have had some lessons. You never hear Federal retirees complaining, because they have got good benefits. The only complaint they had was the cost-of-living benefit, cutting a promise that they had. When a person knows he can put away a certain percentage of his salary—and I went around and talked to seniors. Senator Pepper's and my districts have some of the largest concentrations of senior citizens in the United States, over 36 percent. I said, "If we ask you now if we had asked you to over your lifetime to put 2, 3, 4 percent away and forced you to do it so that you could then retire respectfully, would you do it?" I would go to the young worker and ask him, if he was forced to pay an extra percent or 2 or 3 percent—and that is what the disparity was for nearly 20 or 30 years—"Will you pay an extra percentage point or 2 so you can then have a retirement benefit program, maybe not as good, but similar to what the Federal employees have?" In fact I think that is the biggest joke I have heard in political talk these days, to put all the Federal people into the social security system. If anything, we ought to put all the people on social security into the Federal system. So I hope that our committee can patch up, can take the technical actions that have been talked about, can make life comfortable for those who have been stuck in the system, but at the same time have the foresight to change the whole system so that those who are in it are not maintained, as the report says, maintained at the poverty level.

So that is my 2 cents. I do not have the technical knowledge, but I know what people have been saying, because that has been my life for the last 13 years. I hope we can change it.

Ms. OAKAR. Will the gentleman yield? What do you do with the people who did not quite do that? You know we did not have a lot of people in this country under another pension plan. I mean, it is just recently that unions have been able to bargain, so forth; Federal employees have always been under their own pension plan. I must say as somebody on a subcommittee with respect to Federal pensions also that in some areas social security benefits are somewhat better. Let us not kid ourselves. There are some aspects of social security that cover things that the Federal plan does not cover, and vice versa. But it is the pension plan for most older Americans today, whether we like to call it that or not. I know you were talking about the future, but I think it is important to note that the realities are with us. We have to do something about the immediate problem, and it probably will not be for another 20 years that we will have the kinds of projections of having everybody covered by a pension plan and getting the benefits of social

security and having that \$1 or \$2 to save or whatever it happens to be. So I think the immediacy is here.

Mr. MICA. I could not agree more with the gentlelady's comments. It is the pension plan for most Americans. That is the tragedy of the situation. Now I am new here, but for 13 years I have heard about the type of changes we need to make to make it an appropriate plan and to make it indeed a pension plan if we have to do it. And that is the point of my whole comment here. I think we need to scrap the whole thing and start all over, and in the meantime take care of those who have been stuck with it.

I think that looking to patch it for generations to come may be one of our bigger mistakes; maybe we should try to patch it and build it up and make it substantial for those who have been stuck with it because that is where they are, stuck. But look at a whole new approach that if this Nation and in the wisdom of Congress if we feel there is a required pension plan, then we move in that direction and do what has to be done. But as long as we continue to just try to patch and plug and "borry" from Mary to pay Henry I think you continue to have these problems. But I do agree with your statement.

The CHAIRMAN. Just in conclusion, Mr. Driver: We all know that the conception of social security was as an insurance program. It was a means by which people could personally contribute into a fund which would be matched in one way or another by the other funds that would be provided by law to make available to them when they retire, benefits that would be a sustenance, be an aid at least to them in their retirement years.

Whatever may have been the original technical concept, we know that as a practical matter social security has become the basic means by which Americans may provide or continue to provide for themselves a substantial sum of money upon their retirement. As my colleagues and others have so clearly pointed out, there were defects in its conception. Some have remained; some have been eliminated. I remember very well one afternoon a good many years ago I happened to be reading the Miami News on the plane coming up early one afternoon from Miami back here. There was a feature story by an enterprising young reporter about people on Miami Beach, elderly people living in sin because if they married they would lose—the wife would lose the benefits, maybe, that were considerable, which she had been receiving from a deceased husband. For that reason, for economic reasons, people had no alternative except to live together without marriage if they were going to enjoy companionship of another person and all it would mean to them, enjoy it for the rest of their lives.

Well, I went to work on that right away. They kidded me a lot here on the Hill. They said "that is Claude Pepper's living-in-sin bill." Well, finally the Congress improved the system so that the wife could receive half the benefits she previously received. I believe now if she had been married 5 years to her deceased husband and she marries again she can continue to receive the same social security benefits she would have received had she not remarried. That is certainly an aid to romance and perhaps a contribution toward elderly happiness.

So those are some of the improvements, and there are many others. Undoubtedly as the distinguished lady members here pointed out there have been discriminations against women in the bill. We must try to correct those. We must try to build around this very formidable and very meaningful base that the American people have become accustomed to and, as you say, support. As a recent poll prepared for the National Commission on Social Security found, workers would even pay more taxes to improve benefits.

We have to make it better; we have to find a way to make a larger income possible for the retired elderly people of this country, to realize the hope that we have that they can live in their retirement period in some decency and with some degree of satisfaction.

Now you have said that you are going to make recommendations out of your superior knowledge in this field before the end of the year. Some have been pointed out here today, some alternatives, some options that are available. We could possibly fund the disability insurance program out of general revenues, which would free up about \$16 billion. If we did the same thing with medicare, the total would save about \$40 billion, you say, for the trust fund; it would make \$40 billion more available for distribution to the retirees. That is a very meaningful suggestion. Maybe there are going to be alterations in the tax structure as to how it is going to be. Already consideration has been given, as they announced in the press and said to me in the Rules Committee, by the chairman, Mr. Ullman, of the Ways and Means Committee, and the ranking Republican on the committee, they have already discussed if not seriously considered the possibility of some other kind of a tax, taking a part of the load off the trust fund. But built around this great institution that was started by leaders of great wisdom and great compassion for the people of this country. Congress and the country have built upon it in the intervening years to where we have a magnificent structure. It only needs to be improved and bettered to make it even better serve the elderly people of the country.

So we appreciate very much your being here, Mr. Driver. We would appreciate it if you would remain at the panel table while we go ahead with the other panelists here.

Our next witness will be Mr. Binstock.

Dr. BINSTOCK. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am sorely tempted to comment—

The CHAIRMAN. Wait one moment, please.

Apparently we have got a quorum call, a live quorum call, and then there will be a vote immediately following that. So they have told us they thought we should come over right away. If you will excuse us and indulge us a little further, we will be back just the minute we finish voting.

[A short recess was taken.]

The CHAIRMAN. The committee will come to order.

I apologize, but we had some important votes over on the floor. I just simply could not get away, nor could the other members, until these votes were concluded.

I am advised that the Commissioner has other demands upon his time, and would like to be excused. Mr. Driver, we appreciate your

being with us. Thank you for giving us a good morning and a fine statement.

Mr. DRIVER. Thank you very much, sir.

The CHAIRMAN. We appreciate you being with us. And we look forward to working with you, because you do have the knowledge of the subject that I think is superior to almost any other in the country, to see what we could do to make things better for the elderly people.

We had just started with Mr. Binstock. We are delighted to have you.

Dr. BINSTOCK. Thank you, Mr. Chairman.

The CHAIRMAN. You are going to summarize your statement. Would you wish to put your statement in the record in full?

Dr. BINSTOCK. Indeed, and I will be reasonably brief.

The CHAIRMAN. Without objection, it will be received in full in the record.

#### STATEMENT OF DR. ROBERT BINSTOCK

Dr. BINSTOCK. Thank you. I think this hearing is most timely, Mr. Chairman. The American public has been flooded with media stories and social policy analysis during the last several years that have portrayed older Americans as economically secure. We are constantly being told that the elderly have been lifted up out of poverty by Government programs, private pensions, so forth. Just this month the cover story in U.S. News & World Report proclaimed:

Stereotypes die hard, but few are as stubborn as America's outmoded images of older people: The impoverished widow, the decrepit man banished to a nursing home.

Those situations still exist, but they have become increasingly rare—retirees are not too badly off.

A Congressional Budget Office study estimates that only 6 percent of the elderly can be classified as poor when Government benefits are taken into account—compared with 33 percent who were officially poor 30 years ago.

This portrayal, Mr. Chairman, and dozens like it I submit have presented a gross distortion to the American public.

The CHAIRMAN. May I interrupt you? The able and distinguished Secretary of HEW not long ago achieved somewhat the same effect by calling attention to the large amount of money being spent on the elderly in this country, giving the impression they were rolling in luxury at the expense of the taxpayers of this country. We pointed out at the time that that was a twisted portrayal of the whole situation. So I am glad you are emphasizing of these things. This misinformation should be reevaluated and better understood by the people.

Dr. BINSTOCK. As we know, official poverty statistics are often the product of statistical manipulation, definitions, and purpose of interpretation. For the millions of Americans, older Americans who are "unofficially poor", unable to retire with security and dignity, it is a small comfort to them that the CBO or any other auspice proclaims that older Americans have been lifted out of poverty. So first of all I sincerely hope that this hearing will refocus national attention upon a realistic portrayal of poverty among the elderly, as well as legislative proposals that can enable Government programs to bring about genuine economic security.

To further those ends I would briefly just like to address three questions: First, what are the seeds of the spreading and distorted image that the elderly are now financially secure? Because I think they have to be confronted.

Second, what may be some of the side effects of that distortion if it is not confronted?

Third, what are the kinds of measures that can be taken to eliminate poverty among the elderly?

The distorted image begins with the use of aggregate statistics, grouping together all older persons. Even if only 6 percent of the elderly are classified poor, that 6 percent is comprised of 1½ million human beings. For them the supposedly tolerable situation of the other 94 percent is of small solace. It is analogous to a surgical operation in which the odds of fatality are only 1 percent, but for the one person in 100 who dies from that operation the matter is a total failure.

Another source of distortion can be found in the interpretations that underlie this frequently quoted 6-percent classification. We know the official poverty line, using the money transfers from the Government, puts poverty among the elderly at 14 percent or about 3½ million persons. What the CBO does is add in the in-kind transfers, medicare, medicaid, some of the other programs, and then they get the proportion of elderly down to 6 percent who are officially poor.

There are some faulty assumptions in this analysis. Let me take one example. Let us consider the fact that medicare and medicaid benefits are really comprising the bulk of the nonmoney benefits used in the CBO analysis. According to the components of the official poverty indexes, an elderly couple that had made it up to the poverty line, that had gotten there, would only have \$50 per person per month for clothing, utilities, transportation, furniture, et cetera, et cetera, and medical and dental expenses.

Now it is clear the assumption of the CBO is that medical and dental expenditures are minimal, out of pocket. Yet in the year that the CBO did that analysis, the average expenditure for each elderly individual on medical and dental expenses out of pocket, not covered by medicare or medicaid, was \$50 a month. Now obviously many couples and individuals had virtually nothing left for all these other items based on the assumption of the poverty indexes. That is why I want to underline the faulty assumption.

Still other sources of distortion have been effectively identified by the published work of this committee, the components that make up the poverty indexes, the problems with the Consumer Price Index which we discussed briefly earlier in this hearing. And one consequence is that the poverty line, as you know, imposes, in itself, an exceedingly harsh judgment. Even if you make it. In addition to that \$50 we talked about, what you would have left under its assumptions are \$13.83 a week for food per person for an elderly couple, and \$120 for your monthly rent or mortgage, tax payments, home payment.

So, Mr. Chairman, I think that the recommendation of many policy analysts that we begin thinking about the near-poor line, 125 percent of the poverty level, as the survival level, is a well-taken recommendation. Here we are talking about getting people

up to the poverty line, and even if we do it we are talking about their living in squalor, quite frankly, because that index is so pathetic.

What about the side effects of the distorted notion that the elderly have achieved some measure of economic security? As we know and as you have just pointed out, now we have the policy analysts talking about the graying of the budget, how much the elderly are costing the country. Well, in this climate we have a deflection of attention from the problem to which this hearing is addressed; the attention has been changed over to "my goodness, what are the elderly costing us?" rather than, "how are we going to lick the problem?"

The second difficulty though is that in addition to people feeling we do not have to do anything for the elderly, that they are all being taken care of, only 6 percent live in poverty. I find this very disturbing because that the elderly might become a scapegoat for the economic frustrations that people are feeling in this country: unemployment, inflation, rising rates of taxation. If on the one hand we have people saying the elderly are busting the budget, and on the other hand we have U.S. News & World Report and all these other people saying the elderly are all taken care of, and people have earmarked deductions from their payroll taxes rising higher and higher, I am very alarmed about the situation we may confront. I think we must deal with these distortions.

Finally, what kinds of measures can be taken to make our array of governmental programs work more effectively together to eliminate poverty among the aged? One basic approach would be to modify existing provisions that lead our programs to work at cross purposes with one another. As you were indicating earlier today, many provisions of the SSI program discourage older persons from accumulating assets, undertaking economical living arrangements, or acquiring a greater number of credits under the old age survivors insurance. Moving in with relatives reduces your SSI benefits. Accumulating eligibility for greater OASI benefits is offset in SSI reductions. And maintaining liquid assets of any size worth noting cuts off your SSI completely. So these and other similar features can be identified and modified constructively to enable older persons to move up a step on the ladder.

The CHAIRMAN. Excuse me. My recollection is that under the SSI regulations if you have assets of as much as \$1,500 you are not eligible for those SSI benefits.

Dr. BINSTOCK. Yes, sir.

The CHAIRMAN. That includes your home, automobile, clothes, every asset you have.

Dr. BINSTOCK. I believe the home and automobile are treated differently, but liquid assets are \$1,500.

The CHAIRMAN. Leave out the home.

Dr. BINSTOCK. Yes. But even there on the home, the automobile, the same basic problem does exist.

And of course the least we could do, aside from the modifications to make these programs stop working at cross purposes, is to at least raise the Federal SSI benefits to a level that would bring each older person up to the poverty line.

I will not go into many of the other issues that we could get into about social security, private pensions, employment, savings, inflation; they are endless. Clearly there are innumerable avenues we could take to more economical and humane provision for older Americans. My main message is that the first step, essential step is to push offstage the notion that the aging have been provided for adequately, and to refocus national attention on the job that still remains: to enable all older Americans, the unofficial poor as well as the official poor, to retire with at least minimum economic security and dignity.

Thank you.

[The prepared statement of Dr. Binstock follows:]

PREPARED STATEMENT OF DR. ROBERT H. BINSTOCK, EXECUTIVE DIRECTOR, NATIONAL AGING POLICY CENTER ON INCOME MAINTENANCE, BRANDEIS UNIVERSITY, WALTHAM, MASS.

Mr. Chairman and Members of the Committee: My name is Robert H. Binstock. I serve as Executive Director of the National Aging Policy Center on Income Maintenance at Brandeis University, recently established by an award from the Administration on Aging. I am testifying before you today, however, as an individual. My views do not necessarily represent the Policy Center.

Mr. Chairman, these hearings are most timely. For several years the American public has been flooded with media stories and social policy analyses that have portrayed older Americans as economically secure. We are constantly being told that the elderly have been "lifted out of poverty" by government programs, private pensions, savings, and employment opportunities. Just this month a "cover story" in *U.S. News and World Report* proclaimed:

Stereotypes die hard, but few are as stubborn as America's outmoded images of older people: The impoverished widow, the decrepit man banished to a nursing home.

Those situations still exist, but they have become *increasingly rare* (italics added). . . . retirees are not too badly off.

A Congressional Budget Office study estimates that only 6 percent of the elderly can be classified as poor when government benefits are taken into account—compared with 33 percent who were officially poor 30 years ago.<sup>1</sup>

This portrayal, and dozens like it this year, have presented a gross distortion to the American public. As we know, Mr. Chairman, so-called official poverty is the product of definitions, statistical manipulations, and purposive interpretations. For the millions of older Americans who are "unofficially poor," unable to retire with security and dignity, it is small comfort that a magazine, the CBO, or any other auspice proclaims that they have been officially lifted out of poverty. I sincerely hope that these hearings will serve to refocus national attention upon a realistic portrayal of poverty among the elderly, and upon legislative proposals that can enable government programs to bring about genuine economic security to all older Americans.

To further those ends I will address briefly three questions. First, what are the seeds of the spreading and distorted image that the elderly are now financially secure? Second, what may be some of the side effects of that distortion if is not directly confronted? And third, what are the kinds of measures that can be taken to make the vast array of governmental programs work more effectively to eliminate poverty among the elderly?

The distorted image begins with the use of aggregate statistics, grouping together all older persons. Even if "only" 6 percent of the elderly are properly classified as poor, that 6 percent is comprised of one and one half million human beings. For them, the supposedly tolerable situation of the other 94 percent is of little solace. While the aggregate picture may serve to comfort the American public, the severe plight of these 1.5 million persons does not get addressed seriously. The situation is somewhat analogous to that posed by a major surgical procedure for which the fatality rate is only 1 percent. For the 1 person in 100 who dies from the operation the result is a failure.

Another source of distortion can be found in interpretation that underlie the frequently quoted 6 percent classification. The official poverty line used by the

<sup>1</sup> *U.S. News and World Report* (Sept. 1, 1980), p. 50.

federal government classifies 14 percent or some 3.5 million older persons as poor, even after they have received governmental money benefits. The CBO reduces the proportion of elderly poor to 6 percent by taking into account the non-money or in-kind government benefits which older persons receive. Some of this analysis is based upon faulty assumptions. For example, let us consider the fact that Medicare and Medicaid in-kind transfers comprise the bulk of non-money benefits included in this analysis. According to the components of the official poverty indices, even an elderly couple that had made it up to the poverty line in the year that the CBO conducted its analysis would have had \$50 per month per person for clothing, transportation, utilities, furniture, taxes, personal and property insurance, and medical and dental care. The average expenditures for medical and dental care are clearly assumed to be minimal. Yet, in that same year, out-of-pocket medical and dental expenses, alone, averaged over \$50 a month for each elderly person.<sup>2</sup> So even with extensive Medicare and Medicaid benefits, many couples that had made it up to the poverty line, or even exceeded it, would have had little or nothing left for clothing, transportation, utilities, and all the other items. In short, receiving in-kind benefits from the government may change the category in which one is officially classified by government economists, but it does not necessarily lift one out of poverty in a functional sense.

Still other sources of distortion, which have been effectively identified in analyses published by this Committee,<sup>3</sup> lie in the assumptions used to construct the poverty line and the Consumer Price Index used for adjustments in Old Age Survivors Insurance (OASI) benefits. One consequence is that the poverty line imposes an exceedingly harsh measure of economic security. In addition to the \$50 a month per person, mentioned earlier, it leaves an elderly couple with \$120 per month for rent, or for mortgage, property taxes, and maintenance costs; and \$13.86 per person for food each week. Not surprisingly, many analysts suggest that 125 percent of the poverty line, the so-called "near poor" line would be a more appropriate standard for measuring the economic security of older persons.

Meanwhile, what may be some of the side effects of the distorted notion that the elderly have achieved some reasonable measure of economic security? As we know, many policy analysts have been concerned about "the graying of the budget,"<sup>4</sup> the growing costs of existing programs for the elderly as the number and proportion of older Americans increases. We seem to have a climate of budgetary restraint, and a slow-growth to no-growth economy. In this context I fear that the fashion of portraying the elderly as having been "lifted out of poverty" may contribute to two reactions in American society which I would view with considerable alarm. One would be a popular impression that nothing more needs to be done to provide economic security for older persons. A second would be the disturbing possibility that the elderly might become a scapegoat for a variety of economic frustrations in our Nation—unemployment, rising taxes, and inflation. These hearings can perform a most valuable service by refocusing attention on the true financial plight of older Americans.

Finally, what kinds of measures can be taken to make our array of governmental programs work more effectively to eliminate poverty among the aged? One basic approach would be to modify existing provisions that lead our programs to work at cross purposes with one another. Many provisions of the Supplemental Security Income (SSI) program, for example, discourage older persons from accumulating assets, undertaking economical living arrangements, or acquiring a greater number of credits for OASI eligibility. Maintaining liquid assets of any size worth nothing cuts off SSI payments. Moving in with relatives or friends reduces SSI benefits. Accumulating eligibility for greater OASI benefits is offset in SSI reductions. These and similar features can be modified to enable older persons to move up a step in their struggles to reach a minimally adequate standard of living. And, of course, the least we could do is to raise Federal SSI benefits to a level that would bring each older person up to the official poverty line.

Many other issues of adequacy and equity need to be dealt with as well in the areas of OASI, other public pensions, private pensions, food stamps, Medicare and Medicaid, and incentives to save and to work. These myriad matters are clearly beyond the scope of my brief opportunity to appear before you today. There are innumerable avenues to more humane and economical provision of income security for all older Americans.

<sup>2</sup> U.S. Senate Special Committee on Aging, *Developments in Aging: 1978* (Washington: U.S. Government Printing Office, 1979), Part I, p. 42.

<sup>3</sup> U.S. House of Representatives Select Committee on Aging, *Poverty Among America's Aged* (Washington: U.S. Government Printing Office, 1978).

<sup>4</sup> See Robert B. Hudson, "The 'Graying' of the Federal Budget and Its Consequences for Old-Age Policy," *The Gerontologist*, Vol. 18 (1978), No. 5, pp. 428-440.

My main message is that the first, essential step is to push off stage the notion that the aging have been provided for adequately, and to refocus attention on the job that still remains—to enable all older Americans, the unofficial poor as well as the official poor, to retire with at least minimum financial security and dignity.

The CHAIRMAN. That is an excellent statement, Mr. Binstock. I certainly want to emphasize what you say, that we need to let the American people know the truth. I heard a story one time, I will not go into detail with it, about a pullman porter and a country boy who had never been on the train before. Somebody told the boy to give the porter \$5 for a tip, which would be the average; so when the fellow handed him the \$5 bill the porter fingered it a little bit and then said, "Thank you very much, sir." The fellow said, "What is the matter, didn't I give you what is average?" "Well", he said, "I think I ought to tell you that you are the first man that has lived up to the average."

We talk too much about averages, collectively; not enough about individuals and how they are actually affected.

Dr. BINSTOCK. Right.

The CHAIRMAN. Thank you very much.

Now, Dr. Binstock, it is suggested I ask you this question: Some experts claim that the elderly people you call poverty stricken are really not poor if in-kind income from sources such as medicaid are counted. Do you feel that persons below the poverty line are no longer poor if they receive a medicaid benefit that pushes them over the line?

Dr. BINSTOCK. As I indicated, Mr. Chairman, the out-of-pocket expenses—you can get out of poverty status if you have open-heart surgery and you get \$30,000 in coverage from medicare and medicaid, and some economists here in Washington may say that individual has an income of \$40,000 in benefits. But in functional terms, that will not help at all. I do not care what the Government economists call it.

The CHAIRMAN. Now, Mr. Grubbs, we will hear from you.

#### STATEMENT OF DONALD GRUBBS

Mr. GRUBBS. I am Donald Grubbs, I manage the office of George S. Buck Co., consultant to employers who maintain pension plans. My opinions are my own and do not necessarily represent those of my employer.

My starting board is a fundamental belief that every American worker should receive an adequate retirement income derived from social security, private pensions, or individual savings. We have had a good bit of discussion here about social security. The average worker last year, the median worker, earned about \$12,000. In today's dollars, he will receive a pension from social security of around \$5,000. On the one hand, that is very valuable. It may meet the very bare minimum essentials of survival, but it does not provide an income that most of us consider as adequate. We need to look at the other two legs of the stool.

Individual savings do help many people, but not most. The record shows that very few individuals among the elderly have substantial savings. The average worker, particularly lower paid workers, spend every dollar they get for groceries with nothing left over for individual savings. I do not think any amount of exhortations to save or additional tax incentives will help most of them.

Let us look at the pension plans. Since personal savings are not adequate, we have to have private pension plans. For many people, private pension plus social security are providing adequate incomes. Last year they provided \$25 billions of dollars. Although this is of enormous help to many, it has to be said the majority of retired people do not receive any private pension. Only one in four of our retired people are receiving a pension. It is very valuable for some, nothing for others. We need to examine why the present pension system does not meet the needs.

There are two primary reasons for the problem. One is coverage. The other is vesting. In terms of coverage, about 50 percent of nongovernmental workers are covered by a pension plan. This has not changed much in recent years. Although we might make steps which might encourage pensions by additional tax incentives or try to remove some of the administrative burden which has derived from IRS and the Department of Labor, still with these steps we will not get the majority of those uncovered workers covered. The only way is to require that every employer provide a pension for every employee.

We have to think about what minimum level of contributions or benefits should be required; no absolute right or wrong here, we are dealing with the relative allocation between active people and retired people. I have suggested that contributions of 3 percent of pay would be a significant help and still not be so burdensome as to be too great a burden for employers.

I would suggest moving up to this 3-percent-of-pay level over a 3-year period so we could phase into it to ease the burden. If an employer decides to have a defined-benefit plan rather than a defined contribution plan, it should have equivalent benefits.

This proposal would only gradually solve the problem, but many employers would provide many benefits which are greater than minimal.

Coverage is just one of the two reasons why people are not getting benefits. The other is vesting. They pay in and leave before 10 years and get nothing from the program. For this program to be effective, it has to carry with it full and immediate vesting. The cost of this proposal would of course be 3 percent of pay for those workers not now receiving any pension, little or no cost for individuals already receiving pensions under private plans.

The CHAIRMAN. Excuse me, what is the ordinary, or the average payment, made to private pension plans by the employer and employee?

Mr. GRUBBS. They vary greatly, but I would guess it would be about 8 percent.

The CHAIRMAN. Eight percent by the employee and 8 percent by the employer, or 4 by each?

Mr. GRUBBS. That is an employer cost.

Portability is related to vesting but separate from it. In 1974 the Senate version of ERISA included an establishment of a portability program which was dropped in conference. Some argue that portability does not matter if we have vesting. What difference, they say, does it matter if someone gets four little pensions from four employers or whether you bring them together into one?

In some cases it affects the amount of the pension. For one reason, the practical administrative problem an employer has in administering small pensions. If a person quits at age 30, the cost of meeting burdensome reporting requirements from the Department of Labor, trying to keep track of that individual for 35 years, and eventually paying him the pension becomes disproportionate. For that reason, most employers pay off the vested pension in a lump sum on the day the individual quits. That individual usually spends that money and it is not retained for the purpose of retirement income.

The second reason why portability can help provide more pensions is that without portability, employers are discouraged from voluntarily providing earlier vesting. If I am an employer interested in providing pensions to my employees, what good does it do to provide for very early vesting if I have to pay these off in a lump sum. So we need a portable pension system to gather together the small pensions in providing income for people at an older age.

Although a portable pension fund would be of help under present law, it would be essential if Congress were to adopt my proposals with immediate vesting, which would produce lots of small pensions; or if Congress were to minimize the vesting requirements for instance from 10 years to 5 years, a portable system would be important to preserve them.

My testimony before this committee on April 6, 1978, provided great detail as to how a portable pension fund could be operated effectively.

Apart from whether we have universal coverage by vesting, consideration should be given as to whether all pension plans should have earlier vesting than we have now. I do not think this should be considered as a substitute for the concept of universal coverage, because it would not help that 50 percent of the workers not covered at all. But if earlier vesting is to be required, I would recommend the standard of 100-percent vesting after 5 years of service, no vesting prior to 5 years. Some people have programs with graduated vesting. Whatever the theoretical justification for this, it is difficult to administer and it is difficult for employees to understand. A single standard of 100-percent 5-year vesting would be easier to understand and administer.

In 1972 and 1973, I did extensive studies for a Senate committee and the Joint Committee on Taxation. On the basis of those studies, I estimated the range of increase in costs, and it would vary from employer to employer, but that range to change from present vesting provisions to full vesting after 5 years would be a 0- to 5-percent increase in costs; as an increase in payroll, I estimate the increase would be from 0 percent to 0.2 percent of payroll.

The basis for these studies is described in detail in "Study of the Cost of Mandatory Vesting Provisions Proposed for Private Plans," printed by the Government Printing Office—88-6100—for the Senate Committee on Labor and Public Welfare in February 1973.

If Congress creates a standard of 100 percent 5-year vesting for all plans, at the same time it should delete section 411(d)(1)(B) of the Internal Revenue Code. This provision allows the IRS to require more rapid vesting than the basic standards in order to prevent discrimination in favor of highly compensated employees.

IRS administration of this section of the Code together with waivering publications which ignore congressional intent have created confusion and uncertainty in this area. On August 19, the House passed an amendment to H.R. 7583, to block proposed IRS regulations in this field.

If we went to 100-percent, 5-year vesting, it would substantially reduce the potential for discrimination in any event. Therefore I believe this section should be deleted, creating a certain understandable rule for all plans, ending IRS discrimination, particularly against small employers.

In conclusion, I would say the need for more adequate pensions is clear. Greater coverage, portability, and vesting are essential if the problems are to be solved. Thank you.

[The prepared statement of Donald Grubbs follows:]

PREPARED STATEMENT OF DONALD GRUBBS, CONSULTING ACTUARY, GEORGE S. BUCK CO., WASHINGTON, D.C.

#### INTRODUCTION

My views are my own, and do not necessarily represent those of my employer. My underlying premise is that every American worker should receive an adequate retirement income. It has been stated that such an income rests upon a three-legged stool of Social Security, individual savings, and employer pension plans.

Millions of our nation's retired workers are currently receiving an adequate retirement income from the combination of these sources. But an even greater number of retired workers do not receive adequate incomes. We need to examine the causes of this problem, and explore ways of solving it.

#### SOCIAL SECURITY

Almost all non-governmental employees are covered under Social Security. The median worker earned approximately \$12,000 last year. The Social Security Administration projects that this median worker retiring at age 65 will receive a monthly social security pension of 41.5% of his rate of compensation during the last year before retirement, or about \$5,000 per year in today's dollars. This serves the vital function of enabling the elderly to have at least the bare minimum essentials of food, clothing, and shelter. But by itself it does not provide a level of income which is adequate. If the average worker has no other source of income, he will be forced to live on a standard far beneath the very modest scale he enjoyed before retirement.

#### INDIVIDUAL SAVINGS

For some individuals personal savings provide an important source of income to supplement Social Security. But it is unrealistic to assume that individual savings will amount to much for most people. Many workers, particularly the lower paid, are forced to spend every dollar of wages to meet their current needs, with little or no margin for savings. No amount of exhortation or encouragement to people to save will alter this situation for the majority. Tax incentives for employees to start their own plans may stimulate savings plans among the higher paid, but will be meaningless to most lower paid employees.

#### EMPLOYER PENSION PLAN

Since social security benefits by themselves are inadequate, and since private savings are not significant for most workers, private employer pensions are essential if an adequate income is to be provided.

Many Americans are covered under pension plans sponsored by their employers. This year private pension plans will pay an estimated twenty-five billion dollars in benefits. Many retired Americans will receive a private pension which, together with social security, will assure them an adequate retirement income.

Despite the enormous help that private pension plans are providing to millions of Americans, only one retired private sector worker in four receives any private pension. Why do so many workers receive no private pensions? There are two reasons, coverage and vesting.

Only about 50% of non-governmental workers are covered under a private pension plan. This percentage has changed little in recent years. Unnecessary and

unreasonable administrative burdens imposed by IRS and the Department of Labor has discouraged small employers from establishing plans, but even a substantial lessening of those burdens would probably extend pensions to only a small part of those not now covered. Additional tax incentives may also encourage more plans, but are unlikely to extend coverage to most of those now without pensions.

The only way we are going to get the other 50% of American workers covered under a pension plan is to require that every employer provide at least minimum pensions for every worker.

Employers could choose to meet their obligation with either of the two types of plans already in use—defined contribution plans or defined benefit plans.

There is no clear-cut right or wrong about what the minimum level of pensions should be. One consideration in setting the minimum level of pensions is the allocation of resources between pensions and wages. Many of the uncovered workers are at low wage levels, and have pressing needs for more current income as well as for income in their old age. For defined contribution plans, I recommend minimum required contributions of 3% of pay, advancing to this level in steps over a three year period. Alternatively the employer could provide a defined benefit plan with minimum benefits equivalent to what the 3% contribution level would provide.

While this proposal would only gradually solve the problem for those following the minimum standard, many employers would, as now, provide benefits related to past service and have benefits on a higher level than the minimum standard.

But coverage is only one of the two reasons employees do not receive pensions. The other reason is vesting. Most workers are covered under plans that provide vested benefits if the worker terminates employment after ten years of service. But many workers change jobs before they become vested and before becoming eligible for retirement, and these receive nothing. The worker who changes jobs every few years during his working career has a great need for retirement income at age 65 as one who works for the same company for 40 years, although he will probably end up with little or nothing. Many workers either receive no pension because of nonvested termination or receive an inadequate pension based only on a few years of service with their last employer.

If the proposal for universal pension coverage is to be fully effective in providing all workers with an adequate retirement income, the minimum required pensions must be fully and immediately vested. A less liberal vesting requirement might still apply to any pensions an employer provides in excess of the minimum required pensions.

The cost of this proposal would be 3% of pay for employees who now receive no pension benefits, and little or no cost for employees who now receive benefits. The cost could be phased in over three years. The existence of a Federal Pension Portability Fund could minimize the administrative work for employers.

#### PORTABILITY

Portability is related to vesting, but is distinct from it. Portability is the ability to transfer an individual's *vested* pension credits to a succeeding plan or a central clearinghouse upon termination of employment. Unless the participant has a vested right in his pension credits, he would have nothing to take with him, nor would he be entitled to anything at retirement. Thus, vesting is the ultimate legal protection against forfeiture of accumulated benefits because of a break in service. Portability is a way to administer benefits that have been preserved by vesting.

In 1974 the Senate version of ERISA would have established a Pension Benefit Portability Fund. The House version had no such provision, and it was dropped in conference, with instructions for the Joint Pension Task Force to study portability. Those studies have not been done, but the Department of Labor is now in the process of conducting portability studies.

Some argue that portability does not really matter if vesting provisions are adequate. They argue that it does not really matter if a worker receives four small vested pensions from four employers instead of receiving one combined pension from a single source. But there are several reasons why lack of portability often causes the individual to receive less retirement income.

First, there is the practical problem the employer faces in trying to administer small vested pensions for the terminated employee. The problems of keeping records of the small pension, of keeping track of the former employee over many years, and of administering the small amount when it becomes payable, make the administrative costs high in relation to the amount of the benefit. Department of Labor regulations make the administrative burden worse by requiring employers to send the terminated vested employees a summary annual report and notices about plan changes which could not possibly affect him. To solve the administrative problem, employers usually "cash-out" small vested benefits by paying the employee a lump

sum distribution when he terminates employment. Most individuals receiving lump-sum distributions spend these amounts rather than saving them for retirement income purposes. This is particularly true of lower income workers with the greatest need for a pension in their later years. The pensions are destroyed.

If a portable pension fund were available into which these amounts could be channeled, the pensions could be preserved for the employee, while still avoiding the administrative burden upon the employer. But in the absence of a central portability fund, many employers very naturally pay the vested amounts in a lump sum directly to the terminating employee.

Second, in addition to this direct defeat of pensions, the lack of portability discourages employers from liberalizing their vesting provisions beyond ERISA's minimum requirements. An employer whose objective is to provide a retirement income for employees has no incentive to move to earlier vesting if the result is small pensions vested after a few short years, which must be cashed out to solve the practical problems of administering small vested pensions. Such earlier vesting does not provide the retirement income the employer intends. If a central clearinghouse were established to accept and administer small pension amounts, it might make earlier vesting feasible from a cost-benefit standpoint for additional employers.

A Pension Portability Fund would be of great help under present law, but it would be an absolute essential if the law is changed to provide immediate or very early vesting. My proposal for universal pension coverage with immediate vesting would produce very small vested pensions for short service employees. Allowing these pensions to be cashed out in a lump sum would defeat the purpose of providing adequate retirement incomes. Allowing the employer to transfer the pension obligation to a Pension Portability Fund would preserve the pensions with little administrative work for the employer. The fund would combine the small pensions earned from a series of employers to provide a single pension that could substantially aid in meeting retirement needs.

In addition, under the universal pension proposal, employers could choose to meet their pension obligation by direct contributions of 3% of pay to the Pension Portability Fund, rather than establishing their own plan. Other employers that maintain their own pension plan might choose to use the Pension Portability Fund to fund pensions directly for employees not yet eligible for participation in their own plan. Meeting the pension obligation in this way would be as simple as paying the Social Security Tax for these employees.

My testimony before the House Select Committee on Aging on April 6, 1978 contained a detailed discussion of how a Pension Portability Fund would be designed to operate efficiently and effectively.

#### VESTING

Consideration should be given to requiring earlier vesting for *all* pensions. This would assist in providing pensions for those who terminate employment in less than the ten years required for most pensions.

This should not be considered as a substitute for requiring all employers to provide pensions for all employees. Providing earlier vesting for those already covered would be of no help at all to the 50% of non-governmental workers who are not covered under a pension plan.

If earlier vesting is to be required, I recommend a single minimum standard of 100 percent vesting after five years of service and no vesting prior to five years. None of the three alternative existing standards is as liberal as this, and none provides vesting earlier than five years. Whatever the theoretical justification for graded vesting, it is difficult and expensive to administer, and difficult for employees to understand. A single standard of 100 percent five year vesting would be easy to understand and administer.

In 1972 and 1973 I made extensive studies of vesting costs for the Senate Subcommittee on Labor and for the Joint Committee on Internal Revenue Taxation. On the basis of those studies, I estimate that the range of increase in costs for most pension plans to change from their present vesting provisions to 100 percent vesting after five years, would be from 0 percent to 7 percent of present plan costs. As a percentage of payroll, I estimate that the increase in cost for most plans would be from 0.0 percent to 0.2 percent of payroll. The basis for these studies is described in detail in "Study of the Cost of Mandatory Vesting Provisions Proposed for Private Plans," printed by the Government Printing Office (88-6100) for the Senate Committee on Labor and Public Welfare in February 1973. In my judgment comparable studies made today would show little change in these costs.

If Congress creates a standard of 100 percent five-year vesting for all plans, at the same time it should delete section 411(d)(1)(B) of the Internal Revenue Code. This provision deals with when the Internal Revenue Service can require more rapid

vesting than the basic standards in order to prevent discrimination in favor of highly compensated employees. IRS administration of this section, together with wavering publications which ignore congressional intent, have created confusion and uncertainty in this area. On August 19 the House of Representatives showed its displeasure with IRS action by voting 310 to 86 to amend H.R. 7583 to block proposed regulations. 100 percent vesting after five years of service would substantially reduce the potential for discrimination. If 100 percent five year vesting is adopted, section 411(d)(1)(B) should be deleted, creating a single, certain, understandable rule for all plans. This would eliminate the uncertainty and confusion, and end discrimination against small employers by IRS. It would still allow IRS to require more rapid vesting in any case of actual abuse, such as firing employees to prevent their becoming vested.

#### CONCLUSION

The need for more adequate pensions is clear. Greater coverage, portability, and vesting are essential if the problems are to be solved.

The CHAIRMAN. Thank you very much, Mr. Grubbs.

My sister is a retired schoolteacher. She complains that the majority of her income is from her pension as a schoolteacher. She has to pay about 16 to 20 percent of her income derived from pension in taxes, and she thinks that cuts very heavily into the amount of money available. She has a total of about \$1,100 a month from pension and social security after teaching 38 years.

In the first place, do you think there should be any amount that people could receive as pension without paying income tax on it?

Mr. GRUBBS. I think the answer would be in providing for adequate income rather than reducing taxes for the elderly. The real problem is they do not have enough income.

The CHAIRMAN. How many Americans are receiving benefits under a pension plan, and what is the median benefit being paid?

Mr. GRUBBS. I regret I do not have the statistics with me. I will get that and get it to your staff.

The CHAIRMAN. On the basis of these statistics, would you characterize the American pension system at present as a success or failure?

Mr. GRUBBS. It is a success for some individuals and a failure for many others. If you have worked 30 years for a major employer in this country, you are probably receiving a good pension which together with social security is probably doing a pretty fair job for you. But that large proportion who are not covered or who may have been covered but not given the benefit because they were not vested, it is not meeting their needs.

The CHAIRMAN. Your conclusion would be somewhat similar to our conclusion about social security. It is rendering a valuable service, it needs to be improved, and some phases of it need to be made very much better. You say the same thing about the pension system. How many billion dollars did you say were paid out?

Mr. GRUBBS. \$25 billion.

The CHAIRMAN. That is a very important amount, but on the other hand you point out only one out of every four is covered by a pension system. So that is obviously not an adequate safeguard for people who retire.

Thank you very much, Mr. Grubbs.

Now, then, Mrs. Brussell, you will conclude the panel with your statement. Would you like to put your statement in the record?

## STATEMENT OF SHIRLEY BRUSSELL

Mrs. BRUSSELL. I would like to thank you, Mr. Chairman and members of the committee, for inviting me to address what is one of the most important topics we face today: the employment needs, opportunities, and problems of older Americans.

As executive director of Operation ABLE, a coordinated network of 32 senior employment agencies serving the Chicago metropolitan area [see appendix for a more detailed description], I am personally aware of the vast needs of older persons for work opportunities and the obstacles they face when seeking employment. We hear constantly when individuals call us for employment, some of the stories we have been hearing in this hearing. We frequently hear "I cannot make it on my pension or my social security; I am desperate."

The CHAIRMAN. I get several letters almost every day of that character.

Mrs. BRUSSELL. Last year we had 16,000 referrals for jobs, and many have said "I simply cannot make it on a pension. I will not necessarily do what I did before, but make it possible for me to go to a funeral"—one man, an elderly preacher, said "Get me a job in a cleaning establishment so I can keep my clothes in shape in order to preach on the weekend." Things are tight. We hear this so often, and our role is to find meaningful jobs. With the aid of a community-based service located in their neighborhoods, we are able to be responsive to these needs.

We also hear the psychological statements. One gentleman of 79 said "I get up in the morning, I have no place to go, I get dressed, I sit in my chair, but I have to have a reason, a purpose to my life." We placed him in a LaSalle Street brokerage firm. He is 81, is not working part time, but full time, and loving every minute of it. He may be an extreme example, but not really, because every day we find people with a deep emotional need to feel they are important and that they are part of the mainstream, working with younger people, keeping their minds alert and their bodies in good shape.

We found and the AMA has backed this statement up, that there is great deterioration when people do not feel needed and useful.

In addition, we find that many people want to work just to keep social connections, to be with other people, not to have a feeling of isolation, standing apart. The kind of people that we meet every day are not the people who go to the senior centers for recreation, they are people who have worked all their life and whose identity is tied up with working. They have worked and then at 65 they are retired, and people say "What do you do" and they say "I am retired," and their whole sense of identity is disturbed.

So the volume we get, 16,000 people asking for jobs indicates how desperately this particular segment wants to get involved.

I would like to talk about some of the problems older people face.

The CHAIRMAN. Other than the ordinary employment offices, is there any Federal or State program which helps you materially to find jobs for these people?

Mrs. BRUSSELL. Yes, sir, we are funded by over 30 private foundations and corporations, but the largest partner of our network is the State employment service. We work closely with the Illinois State Employment Service, and we work with agencies in almost

every segment in Chicago which is part of our network. We have signed letters of agreement. When an employer lists a job, these jobs are circulated throughout the network just like a multi real estate listing. As a result, the employer and older worker are always impressed with the variety of opportunities. The job seeker is not given one referral. He is told to go to two or three places.

The CHAIRMAN. There is a professor or Dr. Joe Hyde, who has approached me and discussed with me and the staff several times an idea that he has of somehow developing a sort of sense of who the elderly retired are and their skills and experience so the people wishing to employ them will have a great reservoir from which to draw.

The unemployment service I suppose gets that information. Otherwise we might have the census include that information in its inquiry and have an enormous reservoir of competent people in the country performing many useful tasks.

Mrs. BRUSSELL. We are compiling that type of information, just what kinds of jobs employers are asking for and the kinds of opportunities that are available.

The CHAIRMAN. Your organization is Operation ABLE and you are the executive director in Chicago. Is it a State, Federal, or private agency?

Mrs. BRUSSELL. It is a private not-for-profit agency. It has funds from private corporations, and also a large CETA grant from the Cook County office and a title V grant. So we have commingled the projects.

The CHAIRMAN. Is there any Federal or State project which would obtain that information and make it available for distribution?

Mrs. BRUSSELL. Only the State Employment Service. We hope to have that within a very short time. We have been collecting that kind of data.

The CHAIRMAN. That is an area it looks to me like where valuable public service can be performed, getting that data and making it available to people looking for work.

Mrs. BRUSSELL. Wonderful, we feel the same way.

Each day the older workers tell us about some of the problems. One of the greatest problems they face in going back into the labor market is that there is a lack of community-based systems where they can apply for work. They like to apply in their own neighborhood and stay in their own area. Our system addresses the neighborhoods.

They also complain about the social security limitations on their earnings. They can only work up to a certain point.

They tell us that they are frequently being confronted by employers saying "we are sorry, but you are overqualified." Anyone at the age of 55 and over has done many things in their life, and this question of being overqualified is one which is constantly used to reject them.

They also face problems of obsolete skills. If they work in an organization, they are frequently not the first to be given a chance to upgrade their skills.

These are some of the problems that we face every day.

The CHAIRMAN. May I interrupt you once more. For the benefit of those not familiar with all the details of this matter, I remember the amount you could earn without having a deduction in your social security payments was \$1,750 a year. Gradually many of us pushing over the years have got it up to the point now where you can earn \$5,000 a year without any reduction in your social security benefits. Now within 2 years, it will go up to \$6,000 a year. The limit is now \$5,000, but within 2 years it will be \$6,000, and will increase afterward by the cost of living. In addition, soon the limit will no longer apply for workers aged 70 and over. In other words, when you get to be 70, you can earn all you are able, without any reduction in your social security benefits. So we are moving up—that will be about 2 years from now before we get to that figure. I have seen it go from \$1,750 a year up to \$5,000, and now an anticipated \$6,000, and no limit at all for workers over 70 in 2 years.

Mrs. BRUSSELL. Splendid.

In addition, we face the problem that many older workers face a lack of self-confidence. In addition, the problem of lack of self-confidence of older people who have been rebuffed is one we face every day. The problem of reentering the labor market when you have been out of it every day, we face that by giving them classes on back-to-work skills and prepare them for reentering the labor market. We receive great enthusiasm from people who have profited by this, particularly the CETA applicants who are at a poverty level.

In addition, we work closely with employers, and I would like to share some of the experiences we have had with a wide variety of employers. The employers in the Chicago area have given us great support for this program. They call our hotline with a wide variety of jobs for older persons. The jobs range from sales managers to executives, TV commercial actors, pipefitters, and an innumerable variety of jobs, professional, blue-collar, a wide, wide variety. They tell us when they call us, "send us someone just like the last one." The reasons they give us for hiring older workers are that they are tired of turnover, tired of people who come and use them and move on. They like the dependability of the older worker. They know if the weather is cold and the situation is rough, they can count on that person coming. These are stories we hear daily, and we are pleased to do it. They respond to us because we have a TV commercial on the air which says "Experience Works." We have wide media coverage, and this is how we reach our employers.

One very large bank in Chicago, the Continental Bank, has recently placed an order with us for 100 workers, all part-time, for a whole section. These jobs are entry-level jobs for people who have been out of the market for a while.

The CHAIRMAN. Do you think we should try to get legislation for the Federal Government to give some sort of financial aid to make this kind of service you are talking about available all over the country?

Mrs. BRUSSELL. I think it would be extremely helpful. The kind of interest focused on our program indicates the interest. We work with a wide variety of banks and the Federal Government in Chicago. For instance, we placed an order for 40 older people to

call on defunct school loans for the Department of HEW. We work with the electronic industry, the food industry, the catering industry. In addition to that, we work with employers doing preretirement seminars where they call us in and ask us about employment options for individuals at post retirement. That has become an interesting trend.

Another interesting trend is working with the Equal Employment Advisory council, where in a week or two we will address Fortune's 500 companies on how to use older workers. Now the focus of industry is beginning to draw attention to the use of older workers.

Very recently NBC came to us and asked us to do a giant fair for older workers, and a giant fair was held, bringing together over 30 employers. Six hundred older workers came, and the day resulted in many jobs. We had to turn them away. We worked double shifts, but it was an exciting event, and the most exciting was that a major network came to us and focused on the idea. McDonald's did all the food, and much attention was given. The plan is to do more of these fairs around the country, to focus attention.

We work closely with private industry. We work with an employer and tell him how to restructure a job into a part-time job, into a flexitime job. When he phones us and says "I want to list my job," we say, "Have you ever thought of sharing this job," and very often they have not thought about it, but they are willing to do it.

To demonstrate the interest, one channel made a brief mention on a TV program, which resulted in 400 calls within a few days.

All those things are to demonstrate that industry is recognizing the value.

The CHAIRMAN. Where do you get your funds?

Mrs. BRUSSELL. Our funds, and it is a constant problem, come from basically a private foundation which started us, the Chicago Community Trust, then a host of banks and corporations. Sears is one that funds us, the various banks in Chicago, and then we have a large grant from CETA that comes through the Department of Labor.

In our CETA program we have a waiting list, because in Chicago there are about 34,000 older people who are CETA-eligible. We have found there is a real problem with CETA funds because unlike Chicago or Cook County which recognizes the need for placing CETA funds for older persons, most of the funds go to younger people in the distribution of the CETA funds. We have an aging committee and we advocate aging committees in other prime sponsors. There are always youth committees, but seldom is there an aging committee to recommend the use of funds.

The CHAIRMAN. What has been your experience with respect to the desire of the elderly? Do they desire to work and contribute something useful, or do they prefer to be idle?

Mrs. BRUSSELL. I cannot emphasize enough the desire to work and to demonstrate how deep and heavy that response is. Again, I reiterate, the people who phone us are not the persons who go to the senior centers. They are the healthy population, people who have a sense of wanting to be a part of the mainstream and wanting to have a place to go to. Most of the jobs, however, are part time.

The CHAIRMAN. I want to give my colleagues here an opportunity to ask some questions. Have you completed your summary?

Mrs. BRUSSELL. Basically, yes. I would simply like to recommend some legislation.

Based on our experience, we would like to recommend the liberalization of the social security ceilings. CETA, I already mentioned, expenditure of these funds commensurate with older persons in poverty, which is about 14 percent, some private industry incentives for hiring older workers, and a stricter enforcement of the idea. And thank you very much.

[The prepared statement of Shirley Brussell follows:]

PREPARED STATEMENT OF SHIRLEY BRUSSELL, EXECUTIVE DIRECTOR, OPERATION ABLE, INC.

I would like to thank you, Mr. Chairman and Members of the Committee for inviting me to address what is one of the most important topics we face today: the employment needs, opportunities and problems of older Americans.

As Executive Director of Operation ABLE, a coordinated network of 32 senior employment agencies serving the Chicago Metropolitan Area (see Appendix for a more detailed description), I am personally aware of the vast needs of older persons for work opportunities and the obstacles they face when seeking employment. We believe that an increased emphasis on employment and employment services is the best single way to address the question of how our government can most efficiently and most humanely provide for the well-being of an ever-growing and increasingly healthy older population. Inflation is forcing ever greater numbers of retirees to return to work just to survive. Others choose to work because they wish to remain active and vital citizens in their communities.

My testimony provides an overview of the great need for employment among seniors, the problems they encounter as they seek jobs, employer attitudes toward older workers, and, finally, several policy recommendations which could improve the employment picture for older persons. My testimony is backed not only by three years of experience with Operation ABLE, but also by my own personal experiences and difficulties in rejoining the labor force after a long hiatus while I raised a family. I, too, am an older worker.

THE NEED FOR EMPLOYMENT

Seniors come to us seeking jobs for one of two reasons: they *want* to work to remain active, or they *must* work for financial reasons. Those who want to work are often financially secure, but feel lost or unproductive if they are not working. Many bring skills that are in great demand; others are willing to learn new skills. Most do not wish to return to the high-pressured "rat race" from which they retired, but rather would like a job that is challenging and not overwhelming.

The second category of job seeker—those who *must* work—is of much greater importance to our discussion here today. Those who *must* work are often desperate about their present financial status. For example, one 70 year old gentleman began seeking a job late in life when he realized he could not even afford to attend his closest friend's funeral. After retiring, this man had thought he could get along on his Social Security check and his private pension. After five years of watching his pension be devastated by inflation, he realized he had been mistaken. Work was the only solution.

The Bureau of Labor Statistics predicts a continuing decline of older persons in the labor force through 1990, but our experience suggests something different. We deal daily with a number of forces that may alter the early retirement trend. Some of these forces have been enumerated in "The Future of Older Workers in America" (a 1980 Work in America Institute publication Scarsdale, New York). They include: increased life expectancy and better health; inflationary pressures which increase the economic necessity of extended working years; abolishment of mandatory retirement, or a retirement age rise beyond 70; a larger proportion of single older persons living alone and seeking their social connections through work; and a gradual displacement of outdated stereotypes about the work capacity of older people. In addition, the 1979 Louis Harris Survey showed that 46% of present retirees would prefer to be working, while 53% would have preferred to continue working rather than retire.

## EMPLOYMENT OBSTACLES

The evidence is clear that increasing numbers of older persons are seeking employment opportunities. Unfortunately, many are thwarted in their attempts to find a job by a myriad of obstacles. Some of these obstacles can be addressed by Congress or by the various Federal programs serving the elderly. But we know that government measures alone cannot simulate a demand for older workers, or create job opportunities for them, or eliminate negative stereotypes about their value. The simultaneous existence of a community-wide support system which draws upon public and private sector resources, is also essential.

One problem older job seekers face is inadequate job placement, counseling, and training assistance, which results from insufficient resources provided under the various government-sponsored employment programs. Money from CETA can be used for older workers, but because the income restrictions for eligibility are so severe, many seniors who need to work cannot qualify. ABLE presently operates a CETA project which is assisting over 100 "disadvantaged" older workers, but the majority of those using our services are disadvantaged *only in that they cannot currently find suitable employment*. They do not meet income or other guidelines for CETA eligibility.

Another deficiency in our Federal employment programs lies within the network of services to the elderly. Employment services receive very little of the funds under Title III of the Older Americans Act. This results, in part, from the inexperience of many Area Agencies on Aging with employment matters. More importantly, though, it reflects the fact that employment is currently ranked 11th in the list of services to be provided under Title III.

We recognize the need to help the "frail elderly" with a variety of services. But employment, especially for those who are not able to make ends meet, is a necessary service. Furthermore, it is a program for the "well elderly" which helps to keep them from deteriorating physically and mentally and then later falling into the category of the frail elderly.

Another placement and counseling-related problem facing older persons pertains to the geographical location of employment services. We have learned that most seniors would like to work in or near the neighborhoods in which they live; for many, this is a practical consideration reflecting the inadequacies of public transportation. Yet, employment agencies, if they exist at all for seniors, are often located in only one part of the city. Operation ABLE has pioneered a network approach, which coordinates employment services in all parts of the Chicago Metropolitan area. Such a program could be financed in other communities by funds from CETA or Title III of the OAA.

Negative stereotypes held by employers about older workers is a second major problem facing older persons seeking work. We have encountered a wide range of excuses from employers as to why they are not interested in hiring older workers. The problem, in many cases, stems from a lack of information on the part of the employer, either about the work-related attributes of older workers or their interest in returning to the labor force. It is essential that educational programs for employers be expanded to break down stereotypes and to inform employers of the positive benefits of utilizing older workers.

ABLE has had very positive experiences with a growing number of private sector employers. The key to this success is a strong educational program, which begins with a media campaign to alert employers of the abilities and availability of older workers. ABLE staff also consult with employers on the suitability of jobs for older workers, assist in restructuring jobs into new forms appropriate for older workers and conduct pre-retirement seminars during which employment opportunities are presented as a viable post-retirement option.

We have learned that the older worker is a marketable resource, and that many employers are happy to meet older workers' needs, when doing so is also productive and profitable for them. Business and industry want these workers, and the reliability they represent, in a wide range of jobs—from unskilled openings in the food service field to factory work, sales positions, and the chance to model on TV. Recently, ABLE's collaborative efforts with a major Chicago bank opened 100 new part-time clerical positions for older workers.

While some employers are receptive to older workers, others are less so because of general economic problems, inflexible personnel policies, and union contracts or pension policies that restrict their ability to rehire their own retirees. It may be necessary to develop incentives for these employers to hire older workers. Tax credits or other subsidies could be provided to spark an interest among those employers who are reluctant to hire the elderly.

Furthermore, we have learned in our three years of assisting with the employment needs of older persons that greater numbers of seniors would work if there

were greater flexibility in employment opportunities. We encourage employers to think creatively about the jobs they have to offer. For example, employers have hired two part-time older persons by splitting one full-time job; others have used flex-time, which gives older workers the freedom they need to take care of personal needs as well as work. It is important to encourage innovative job models suitable for older workers *today*, because America's population is aging at a rate that will assure an increase of both number and proportion of older persons in the work force with every passing year.

A third problem confronting the elderly is the limitations on earnings under Social Security. While most seniors would like to work part-time, many are forced to limit their paid work hours because of the earnings test. If the earnings test was raised, many older persons would be able to increase their work with no attendant loss of Social Security benefits.

Last, seniors often need some retraining to give them the confidence to return to the labor force. While ABLE does not do direct service with individuals it does design and test new services for older workers before arranging implementation on the neighborhood level. For example, ABLE this year, conducted pilot sessions of "Job Club," a program which trains hard-to-place older individuals in job-seeking methods. It is now seeking funding to decentralize this program throughout the Network.

#### POLICY RECOMMENDATIONS

I would like to recommend several policy changes which could significantly improve the employment prospects of older persons. The highest priority issues are:

(1) *Liberalize the earnings test for Social Security recipients.* The present limitations keep many able, willing workers from taking jobs or from working up to their maximum capacities.

(2) *Provide incentives to private sector employers for hiring older workers.* These might include tax credits for added expenses in insurance, pension fund contributions, Workmen's Compensation and health care; incentives for the development of new part-time and flexible work configurations, or a mechanism to make pre-retirement planning an integral part of the benefits provided by employers for their employees. It might be possible to add "older workers" to the Targeted Jobs Tax Credit Plan, which presently provides employers with tax credits for employing disadvantaged youth, ex-offenders, handicapped individuals and other hard to employ individuals.

(3) *Remove disincentives for work in retirement,* including those allowed by ERISA for multiemployer pension plans and those which restrict the desirability of part-time and other work options.

(4) *More stringent enforcement of the Age Discrimination in Employment Act (ADEA)* to protect older workers and to educate employers about the work abilities of older workers as well as the provisions of the ADEA.

A second set of recommendations focuses on employment programs, employer practices and training programs:

(1) We support efforts which *stimulate the development of non-profit employment service systems for older persons* throughout the United States. ABLE's network of neighborhood employment services is sorely lacking in funds. The limited government dollars presently available for such services under CETA and Title V (Department of Labor) should be expanded. Further, the interpretation of the Older American's Act by local area agencies on aging should make employment a higher priority.

(2) We support legislative remedies to *lift the present income limitations set by CETA*, whose guidelines now restrict service eligibility to older persons with incomes below \$3,800 per year. The vast number of seniors just above this limit who are virtually in poverty could be counseled, retrained, and placed in jobs through the existing CETA program if the income guidelines were broadened for older persons.

(3) *Employers should be encouraged to develop age-neutral appraisal systems* to determine the quality of a person's work independent of his/her age. Such assistance could be part of a larger educational initiative under the Higher Education Act.

In conclusion, Operation ABLE, Inc. supports this Committee's initiatives to provide expanded employment opportunities for older workers through hiring incentives to the private sector and the development of a coordinated *system* of employment services that will provide older persons with access to an increasing number of work options.

## DESCRIPTION OF OPERATION ABLE, INC.

Operation ABLE, Inc. (Ability Based on Long Experience) was founded in 1977 to improve and expand employment options for older workers throughout metropolitan Chicago. Initial funding came from the Chicago Community Trust, a community foundation which recognized the need for collaborative approaches to job development, training, counseling and placement services for older persons. ABLE now receives broad support from more than 25 private and corporate foundations. In addition, ABLE operates a major CETA program for 100 disadvantaged older workers. A non-profit organization, ABLE is governed by a Board of Directors which includes representatives of government, business and industry, trade unions, senior employment agencies and service consumers.

Operation ABLE, Inc. supports and coordinates the direct senior employment service efforts of more than 30 non-profit agencies that are members of its Network; it develops new services and helps create new agencies where none exist; it works with business and industry to develop jobs and new work arrangements suitable for older adults; and it conducts an ongoing campaign of public education, awareness and advocacy on behalf of older persons and their right to work.

ABLE's approach is three-pronged, with services to employers, to older job applicants, and to non-profit senior employment agencies. ABLE's philosophy is that when older people can work and want to work, but are denied the opportunity simply because they have had too many birthdays, everyone loses: the economy loses experienced manpower and the financial stimulation of an employed population; employers lose their most experienced and conscientious labor pool, and older people lose dollars and dignity.

Here are some of the important things we have learned in our three years of existence. First, most seniors would like to work in or near the neighborhoods in which they live. For many, this is a practical consideration based on the difficulties of public transportation. Second, most seniors would like to work part-time rather than full-time. This may be due to the limitations placed on earnings by Social Security, the need to supplement a pension or other fixed income source, or the desire to retain some time or leisure pursuits in the later years. Third, most seniors are not looking for careers; they are looking for *jobs*, which are not necessarily in competition with the career patterns of younger employees.

As an organization in the business of recycling talent, ABLE is confronting some of our country's major socio-economic concerns. The Bureau of Labor Statistics predicts a continuing decline of older persons in the labor force through 1990, but we deal daily with a number of forces that may alter this trend. Some of these have been enumerated in "The Future of Older Workers in America" (a 1980 Work in America Institute Policy Study from the Work in America Institute of Scarsdale, N.Y.) increased life expectancy and better health; inflationary pressures which increase the economic necessity of extended working years; abolishment of mandatory retirement, or a retirement age rise beyond 70; a larger proportion of single older persons living alone and seeking their social connections through work; and a gradual displacement of outdated stereotypes about the work capacity of older people. In addition, the 1979 Louis Harris Survey showed that 46% of present retirees would prefer to be working, while 53% would have preferred to continue working rather than retire.

ABLE knows that in this decade there will be millions of older persons either working or seeking reentry into the work force. This calls for a redesign of current policies and practices, and we have placed ourself in the forefront of redesign efforts. We have been encouraging employers to think creatively about the jobs they have to offer, and have had success in these areas, splitting one full-time job into two or more part-time ones, for example; using "flex-time," which gives workers the freedom of flexible hours; a "payrolling" system which enables employers to hire back their own retirees without concern about the handling of benefits and insurance. It is important to encourage innovative job models suitable for older workers *today*, because America's population is aging at a rate that will assure an increase of both number and proportion of older persons in the work force with every passing year.

ABLE and its Network agencies also stress that older persons are not out to take career opportunities away from young people, but are looking for productive, income-producing job opportunities for themselves. Such jobs maintain independence in older adults while putting dollars back into the U.S. economy, adding to its strength rather than draining it. For example, one of our Network agencies, a small senior employment center in Evanston, Illinois, has filled 637 jobs in the past three

years—and the income generated for those employed totals three-quarters of a million dollars! These people are tax *payers* rather than tax *users*.

#### HOW ABLE'S SYSTEM SERVES OLDER WORKERS

Operation ABLE has organized its strong Network of public and private non-profit senior employment organizations, many with multiple branches, into a metropolitan service delivery system which reaches all populations throughout the greater Chicago area, with its diverse ethnic and minority groups. The Network ranges from large employment agencies such as the state employment service which offers services for seniors to small, local senior centers which include an employment component in their work. In 1979, the ABLE Network of autonomous agencies provided such services as outreach, job development, work retraining and counseling for more than 16,000 older persons—and placed more than 3,000 of them in jobs.

For its Network agencies, ABLE maintains a central Job Hotline/Clearinghouse, which receives both requests from potential job applicants and job orders from employers—the latter at the rate of approximately 100 per month. ABLE offers individual consultations and training workshops to its Network agencies' staffs, handles joint data collection on older adult employment, and makes available the latest in legislative information plus speedy access to public officials. The ABLE model, an "umbrella" for the planning and delivery of services, elevates the concerns of older workers to a more major public forum than any individual agency could do alone, yet still insures responsiveness to the unique needs of older persons in their diverse neighborhoods.

In addition to providing such services as job resource sharing and technical assistance, ABLE assists its Network agencies with widespread public relations efforts. In June, for example, ABLE was joined by NBC-TV in Chicago and the Chicago Public Library in sponsorship of a Fair for Older Workers. This event brought almost 600 senior job-seekers together with employers, counselors and ABLE's agency representatives who could provide further assistance afterward at the neighborhood level. A 30-second commercial, used on television and shown in movie theaters as a public service, was produced for ABLE as the contribution of a large Chicago advertising agency and has won five major film awards.

For employers, ABLE offers services that stimulate the hiring of older workers. The Hotline efficiently processes employer's job requests through the Network in order to assure repeat orders. ABLE staff consult with employers on the suitability of jobs for older workers, assist in restructuring existing jobs into new forms appropriate for older workers, and conduct pre-retirement seminars during which employment opportunities are presented as a viable post-retirement option. Through these experiences, ABLE has learned that the older worker is a marketable resource, and that many employers are happy to meet older workers' needs when doing so is also productive and profitable for them. Business and industry want these workers, and the reliability they represent, in a wide range of jobs from unskilled openings in the food service field to factory work, sales positions and the chance to model on TV. Recently, ABLE's collaborative efforts with a major Chicago bank opened 100 new part-time clerical positions for older workers.

As an "umbrella" organization, ABLE does not do direct services with individuals, but it does design and test new services for older workers before arranging implementation on the neighborhood level. For example, ABLE this year, conducted pilot sessions of "Job Club," a program which trains hard-to-place older individuals in job-seeking methods. It is now seeking funding to decentralize this program throughout the Network. And, of course, the Hotline operates as a referral service, putting job-hunting individuals in immediate touch with the Network agencies closest to them.

In 1978, ABLE was designated by the White House as a national model program suitable for nationwide replication. Requests for technical assistance in adapting this model have already been received by ABLE from organizations in eight other States. ABLE is now preparing replication materials and stands ready to provide the help needed to make an ABLE-type system work in other geographical areas.

#### ABLE'S UNIQUE FEATURES

ABLE has a number of unique features which have contributed to its effectiveness. They include:

*Flexibility for Broad Area Service:* Crossing the boundaries of Area Agencies on Aging, city, townships and villages, ABLE brings together the talents, experience and resources of urban, exurban and suburban areas to better meet the needs of older workers.

*Non-restrictive Approach to Age:* "Older Worker" is defined differently (40,55,65) by various governmental programs. ABLE's Network can serve persons of varying ages and take flexible approaches because its private funding sources have not placed undue restrictions on its services. Public funding should follow this same course.

*Promotion of Shared Resources/Avoidance of Duplication:* Independent service agencies are encouraged to work cooperatively and participate in resource sharing through a coordinative "umbrella" system. ABLE's system avoids overlapping and closes service gaps where these exist.

*Capacity To Test and Decentralize New Service Models:* ABLE routinely designs and tests new approaches to job training, placement, counseling and development. Successful models can be replicated and adapted to individual community needs because of ABLE's ongoing working relationship with the neighborhood-based employment centers in its Network.

*Responsiveness to the Private Sector:* ABLE is not in an adversary position with business, labor, or any segment of the work force. Representation of these groups on ABLE's Board of Directors creates entry to the business community and promotes cooperative efforts toward improving opportunities for older workers.

*Responsiveness to the Public Sector:* ABLE works with Government at all levels and, as spokesman for the Network, has addressed national policy makers on several occasions. On the State level, ABLE works with the Illinois Job Service, its largest Network agency, to provide supervision to its Older Worker Specialists through a Title V (RENEW) program, and with branch directors to insure that the older worker receives a fair share of services. On the Federal level, ABLE also works to broaden public responsiveness to older workers. For example, a recent pilot program resulted in decentralized Civil Service testing at neighborhood Network agencies, making testing and job possibilities more available to older persons.

*Broad Perspective on the Diverse Needs of Older Workers:* Because ABLE's Network cuts across various communities and all socio-economic levels, it understands and responds to *all* older workers: the economically disadvantaged, the minimum wage earners, mid and executive level management persons, displaced homemakers, and skilled professionals.

*Outreach to Older Persons Not Mobilized by Other Support Systems:* ABLE's system finds and serves those older persons who are not affiliated with senior centers, church groups and civic organizations. ABLE's public information programs and the Network agencies' field efforts reach many seniors who consider themselves "unemployed" rather than "retired," but who are uncoun- cted in statistics because of their gray-area position as "discouraged workers."

The CHAIRMAN. Thank you very much.

Father Drinan, would you like to put any statement in the record?

Mr. DRINAN. Yes, I would.

I wonder if the very good witness would give us a ballpark figure as to how liberal the earnings test should be. It is now at \$4,000 and it goes up to \$5,000 a year. Do you have any statistics that if it were made at \$10,000, this would make a significant difference in the lives of people?

Mrs. BRUSSELL. I do not have that data, sir. I believe it is up to \$5,000 at this time. We feel a liberalization or perhaps a removal of it is necessary because the test works at cross-purposes with work incentives. We encourage people to work, then we give them a limitation on how much they can earn. I would favor liberalization.

Mr. DRINAN. I think that is a good argument. Since the Congress is not going to move precipitously, I would hope for another test. It seems to me, we should think about this: Is it constitutional to deny the persons the right to work and then confiscate the money?

As to CETA, if you have additional information on that it would be helpful. The vast number of seniors below \$3,800 are just below poverty and they could be helped if they were beyond that \$3,800.

How many resent the idea of mandatory retirement, and how many say, "I just want to go on working full time"? If they did not have the ceiling under social security would a significant number say, "I want to keep working in my chosen profession"?

Mrs. BRUSSELL. We hear people do not want to stop working but are forced to. They come to us and say they have to retire. They say, "I am tired" perhaps "of the degree of responsibility I have had, but I must be involved. So help me finding something creative to keep on working." Again, I talk of only a special segment.

The blue-collar worker very often welcomes retirement. He is bored with what he has been doing all his life. But the professional person and the clerical personnel want to keep on working.

In reference to CETA, we feel that one of the great problems is the population that is just above that income level for eligibility. They just do not make it, and yet they are one of the gaps not being met. Each day we find they are part of the poverty group that you have been addressing. It is a very difficult problem.

Mr. DRINAN. Thank you for your comments.

I like very much your recommendation on page 8, that we develop an age-neutral appraisal system. I would like to see people evaluate records without seeing the date of birth on the record. The minute they see 1910 on the record, I am certain that there is a bias which comes in.

You are such a good witness, I am sure Dr. Binstock and Mr. Grubbs would like to have you as a consultant.

Ms. Ferraro.

Ms. FERRARO. I missed your testimony, but in reviewing it, you say there are two reasons why people seek employment: to keep active and to feel useful. They feel at a loss or unproductive if they are not working.

Do you do anything with volunteer work?

Mrs. BRUSSELL. Yes, we have about seven volunteers who are retired executives, male and female. We also work with a volunteer group, Executive Service Corps of Chicago, retired businessmen who do consulting for not-for-profits.

Very often because of lack of funding, we have to get an agency started with a volunteer, and we start an employment effort in a community where there is great need using volunteers.

Ms. FERRARO. In New York, our hospital system and emergency system would be a disaster without the help of volunteers. We also have a lot of seniors who go into the public schools and assist with small students, and they have a lot of patience and can sit with those kids and work with them. There are so many State and city agencies who use volunteers.

Is there outreach done in those institutions?

Mrs. BRUSSELL. Yes, there is considerable. Our program, however, addresses itself only to paid employment. Our sole goal is to provide employment for adults. There are fine programs which address themselves to volunteers, but the people coming to us for jobs are not content to become volunteers, they need the identification with the work force, and we address ourselves to that group.

Ms. FERRARO. What I am trying to suggest I think perhaps is that those people who come in, you have indicated they come in for one of two reasons, if they come in merely because they want to

feel productive, I do not say that merely with any sort of demeaning, but if they do not need the money perhaps it might be a function of agencies such as yours to funnel them.

Mrs. BRUSSELL. We do.

Ms. FERRARO. Since there are so few jobs available for seniors and since you indicate that in many instances it is difficult to get jobs, perhaps those might be saved for those people who have financial need for it as well?

Mrs. BRUSSELL. Our experience has shown and this is ironic that we have more jobs almost than applicants. The problem is that the individual wants to work in one area, possibly, in a wide urban center and the job may be in another part of the city. The transportation is not convenient to connect him with that job. But in all cases we funnel our volunteer applicants to three organizations that are doing wonderful programs in volunteer work.

Ms. FERRARO. Thank you very much.

The CHAIRMAN. Thank you very much. Well Mrs. Brussell, Mr. Grubbs, Dr. Binstock, you have given us extremely valuable testimony. We appreciate it very much. Thank you for coming. Now then we have our concluding panel, Mrs. Alice Green of Washington, D.C., and Mr. Reubin Ostrowski, Mr. Fred Rhoads, and Miss Frances Rogers.

If all of you will have a seat please, we will be glad to hear you. Mr. Rhoads, will you please give us your statement, we would like you to begin.

PANEL CONSISTING OF ALICE GREEN, WASHINGTON, D.C.; REUBIN OSTROWSKI, ALEXANDRIA, VA.; FRED RHOADS, TUCSON, ARIZ.; AND FRANCES ROGERS, ALEXANDRIA, VA.

#### STATEMENT OF FRED RHOADS

Mr. RHOADS. Mr. Chairman, members of the committee, I want to express my appreciation to you for granting me the privilege of appearing before this committee to make you aware of the circumstances surrounding my present situation of being unemployed and without the benefit of any retirement funds or unemployment benefits to assist me in meeting the monthly expenses of my very modest and meager standard of living.

At a very young age I demonstrated a desire to try and make people laugh by telling jokes or drawing small characters to reflect funny situations. This early aptitude continued to motivate me, and after graduating from high school, I seriously pursued the serious schooling and training to perfect my craft, which I have continued to practice and devote my life to until the present time. I married my wife Mattie on October 18, 1947, and we are the proud parents of two children, Fred H., age 31, and Cathy, age 29. During World War II, I served in the U.S. Marine Corps, and after my basic training and advanced training at New River, N.C., I was sent to the Leatherneck magazine, where I created the comic strip Gizmo and Eight-Ball.

I was sent to the Pacific Theatre as a combat correspondent to gather material in cartoon form with the men in combat for the Leatherneck magazine. I covered many islands throughout the vast Pacific with men of the fleet Marine Force from aircraft carriers to

dive bomber raids. Throughout the vast Pacific we roamed from island to island, always looking to find ideas and background material to put more authenticity into my work. My drawings and cartoons were put in the top secret priority mail pouch and flown back to the Leatherneck magazine located in Washington, D.C.

After the war I returned to civilian life and collaborated with Fred Lasswell for 3 years on the famous strip of Snuffy Smith and for 1 year on Mort Walker's Beetle Bailey, writing gags, drawing backgrounds and helping to produce the strip. While still living in Connecticut, I heard that Harvey Publications was looking for some employees to work on various cartoon strips which they were producing and publishing. I pursued that lead, and after some discussions and negotiations, Alfred Harvey hired me to write, draw, ink and letter the Sad Sack comic book.

I have written and drawn the Sad Sack for Harvey Comics for 24 years, beginning in January of 1954. I have created about 65 new characters in the Sad Sack series with no additional compensation for my cartoon and new creations. In 24 years I have written and drawn about 98,000 picture panels for all of the different titled comic books in the Sad Sack series. My work appears in every State in America and in many foreign countries. Researching all my old comic books I have matched up newer books with the earlier books totaling over 650 million reprinted pages, and I am still counting. All during the many years of loyal service that I gave to the Harvey Publications, they continued to advise me that I was a trusted and cherished employee, and in an effort to show their appreciation would send me a \$200 savings bond at the end of each year, along with putting me on a Blue Cross/Blue Shield hospitalization carried by the Harvey Publications with the premium being deducted out of my salary each month. The benefits that they bestowed upon us as employees included paid vacation. In January of 1954 when I started with Harvey Comics my rate per page was \$35. The rate for which they paid me until they no longer had work for me in 1977 continued to be still \$35 per page and you talk about inflation, except when it was decided to pay me a periodic bonus, over which I had no control. This was never more than \$5 a page. Although the rate paid to me by Harvey Publications remained the same, the comic book has risen in price over the years from 10 cents a copy to 50 cents a copy. That represents a 500 percent increase to Harvey Publications over the past 24 years, and it represents no increase to me of any kind for my work.

Harvey Publications started reprinting my work about one year after I was hired. They ordered new characters to be originated by me, and unbeknownst to me at the time, they were taking these new characters and putting them into inventory for future use. During the 24 years that I created the books for Harvey Publications, I never received any compensation for the new characters. For the past 23 years they have been reprinting the works that I have done for them through the years with no remuneration to me. I was drawing the first half of the book with newly created material, and they were reprinting the second half of the book with my old creative pages.

For the past 3½ years they have been reprinting the entire monthly comic book with returns and not paying me in any way

whatsoever. I have received correspondence from comic book fans and buyers who have indicated they feel defrauded by Harvey Publications since they are buying Sad Sack comic books with new covers thinking they are purchasing new material, and when they open the cover they find all of the stories between the covers are old reprinted materials that have appeared once before.

I was given vacation pay, Blue Cross/Blue Shield coverage on Harvey's hospitalization plan, and some Christmas bonuses. Alfred Harvey told me personally he was the president, that I was one of their best employees and that the company would take care of me.

It is true that George Baker was the originator of the Sad Sack concept in early 1942. However, since that time the fame and fortunes of Sad Sack have been directly because of my efforts and ability through my work and devotion. The books became very popular with such high sales, many new titled Sad Sack books were made up. The work load expanded with all the characters I created. Many characters like General Rockjaw were featured in their own books with Rockjaw on the covers. Yes, other artists have worked on the Sad Sack books when the output was too heavy for me to produce, but I wrote, drew and penciled in the stories and characters for many of these artists to follow. All this time George Baker's name was pasted in as the creator of all my work for 24 years.

Even for the short period of time that George Baker was involved in the Sad Sack strip after the war, I was behind the scenes, the singularly most important person involved in the Sad Sack cartoon strip. George Baker had created about 500 Sad Sack strips, while I have created over 9,000.

Many of the stories and gags that I have created for the Sad Sack have been rerun, some more than five times. All the Sad Sack comic books that have been printed since I became unemployed by the Harveys in 1977 are reruns. The Harveys feel that a whole new generation of kids will now be reading comics and the old material will be fresh to them and with a minimum of cost and efforts so the Harveys can once again reap the untold profits from the labors and efforts of others without compensation to these creators and artists for their efforts.

The day they stopped assigning me work, I was confused and without any source of income. The first time I found out I was not an employee was when I applied for unemployment compensation in the State of Arizona, and they advised me that I was not eligible for any compensation whatsoever. I was told by the State authorities in Arizona that the Harveys just never paid any unemployment insurance for me or any FICA. For 3 years now I have had no regular income, and I think I deserve better treatment than that. My work has made the Harvey Publication a great deal of money, and I feel I have a right to be compensated for my work, my art and my original creations.

The Sad Sack comic strip and legend that I have created for the Harvey Publications can be propagated for an indefinite number of years making money for Harvey Publications, the principals of the company, their estates and their heirs. It is painful to me to realize that unless justice is done, all of these benefits in perpetuity will go to certain people other than myself or the interests of my family.

The fortunes of Sad Sack are not limited to the comic book itself. Various Sad Sack merchandise has been issued over the years include ash trays, jewelry, glasses, records, dolls, a movie entitled "Sad Sack," starring Jerry Lewis, plus something called Sad Sack's funny money and Sad Sack transfers. Items like these definitely show that the character is very popular, and the revenues received from such merchandise must be substantial.

My problem is now being taken to the courts of this land for adjudication to determine whether or not the story that I have just told you is fair and equitable or should be changed to compensate me for my lifetime of work.

As Joe Desris stated in a recent story appearing in a comic book collectors newsletter, "Whether you decide to collect Sad Sack or not is up to you, of course, but, if for nothing else, it is nice to own a Sad Sack comic just to have a piece of Americana."

After working all those years with days of long hours, it was shattering to be cut out of all my work. A person feels useless, unneeded, unwanted and very depressed. I feel I deserved better treatment as an American and a human being, but to the Harvey comic organization of New York City, this is considered a smart business deal. Human feelings and human rights are not part of their world, only bigger profits are their concern.

So, it all adds up to this. After 24 years of writing and drawing Sad Sack for the Harvey Comics Co. of New York City, at age 59, I can now go out and look for another job, while they reprint all my work.

The CHAIRMAN. Well, that is a very sad story, Mr. Rhoads. I guess you have consulted lawyers?

Mr. RHOADS. Yes.

The CHAIRMAN. And they told you you could not collect on their use of your material after you left there?

Mr. RHOADS. Yes; it is in the courts now, sir.

The CHAIRMAN. Well, it seems to me you involve somewhat the same principle as is involved in the actors and actresses strike in California.

Mr. RHOADS. Yes. It is similar in some ways, and it is not. In my case it actually goes deeper than that.

The CHAIRMAN. If course you did not have enough economic strength behind your effort at that time to justify you putting enough pressure on them to get them to change their policy towards you?

Mr. RHOADS. Yes.

The CHAIRMAN. But your case is a very sad, and it seems to me, unfair one.

Mr. RHOADS. I think I did the right thing by going to the courts.

The CHAIRMAN. You have given us a great deal of food for thought. I hope somebody, maybe people engaged in your business or the unions themselves—were you a member of a union?

Mr. RHOADS. No, sir, I was not.

The CHAIRMAN. Anyway, we certainly will note and see if there is anything we can contribute toward the solution of your problem on a fair basis. Certainly, your case highlights the problems of inadequate pension protection. Now I understand you are willing to

do some drawing for us, to "sketch out" some of the problems faced by today's retirees.

Mr. RHOADS. Fine.

The CHAIRMAN. If so, we would be pleased to have you do so. So you go on and work and we will have some of these other witnesses testify. We will start off with Mrs. Green. Mrs. Green, we welcome your statement. If you have a prepared statement, Mrs. Green, we would be pleased to put that in the record and then you may summarize for us what the statement contains, what you would like to say to us.

#### STATEMENT OF ALICE GREEN

Mrs. GREEN. Well, Honorable Chairman and your colleagues, it is a pleasure for me to come again to be with you. I was with you in Philadelphia at the National Caucus on Black Aged Conference.

The CHAIRMAN. Yes, I remember very well.

Mrs. GREEN. And we did have such a wonderful time there. As you know, social security is my priority. If you do not mind, I would like to read my statement because it is sort of close to my heart.

The CHAIRMAN. All right. You go right ahead.

Mrs. GREEN. All right. My name is Alice Green and I am a resident of Washington, D.C. I am 78 years old.

I receive a social security and a Veterans' Administration check from my deceased husband. They total less than \$300 per month, yet I cannot get medicaid, which I think is causing the elderly to suffer from a lack of medical care. I would like to see medicaid available to all social security recipients.

I have worked at many jobs during my life. I graduated from high school in 1920. I then attended the University of Wisconsin for 2½ years. After college, I returned to live with my parents, who were ill at that time. I opened up a private school in my home and earned my living as a teacher.

I then married, and my husband worked for General Motors in Detroit. He worked there for 5 years, but then it closed because of the Depression. He was not eligible for any pension benefits. We then moved to Washington. Andy, my husband, found work as a chauffeur. At that time I was at home raising our children. My husband then became ill and was not able to return to work. His disability, 20 years later, was declared service connected from his tour during World War I. Because I had small children, I went on welfare for a time.

When my children went to school, I went to work again. During the Second World War, I was able to find jobs that normally were filled by men. For instance, I worked as a janitor for 6 months. Luckily, I was able to go back and finish school to become a practical nurse. I worked as an orthopedic nurse until 1959, when back problems forced me to quit nursing.

Although I worked for many years, I lived from hand to mouth and was not able to save. Fortunately, I have always been a good manager and have been able to live simply and within my means. My family has also been of great assistance to me.

I presently live in public housing, the Sibley Plaza, but do not receive food stamps. I find that the cost of food is the biggest

problem in these inflationary times. Meat, especially, has become so expensive that I and others do not buy it often.

Many of the seniors I know are unable to work because of their poor health. They are forced to exist on social security, SSI, or their pensions, which are not sufficient for their needs. I feel that adequate medical care is extremely important for our elderly citizens.

Thank you.

The CHAIRMAN. That is an excellent statement, Mrs. Green. We will let all the panel speak before we start questioning them. Next is Mr. Ostrowski. We are glad to have your statement. You can either put it in the record or summarize it.

#### STATEMENT OF REUBIN OSTROWSKI

Mr. OSTROWSKI. I will read it. My name is Reubin Ostrowski. I have been a Virginia resident for the past 30 years, 21 of which have been spent in the city of Alexandria. I am between 73 and 74 years of age by chronology, but possess a very enthusiastic wonder and interest in this world of ours.

At the present time, I am retired and have been since 1972. My wife, on the other hand, worked with the Department of the Army until she died in 1976, after 19 years with that agency. I was rather inexperienced in professional or industrial work but I was able to send two children to college. One received a scholarship for 8 years in theoretical physics and the other received scholarships that took him into the Boston College Law School in 1968, all on scholarships. I have held many different jobs during my adult life. As I lived through these years, and held several different jobs, I never heard of such things as "pensions." It was only in my final job, which I held for about 7 or 8 years, that I discovered that I was entitled to a pension. I never saw a written contract, but I heard from others the bits and pieces of what its contents were. When I retired in 1972, to undergo a spinal operation, I received about \$50 in a lump sum as my entire pension.

Gentlemen, there are more of us now, since life expectancy has increased remarkably. It means that we are becoming, percentage-wise, an older population. Older people need food, shelter, clothing, and even entertainment, just as the younger people do. We do not wait in rocking chairs anymore for death to come with his invitation. We prefer to live, to learn more of what the world is all about, but we would like to do this in a serene, peaceful environment and not fear what the next day or year will bring.

The biggest concern to us elderly is the present unmanageable inflation. We senior citizens, living on fixed incomes, and many without the benefit of pensions, find the going rough. The food basket that used to be filled with \$10, is now getting thinner and thinner even with \$50! Our savings have been deflated as to their monetary value. And those who thought to save for their old age have discovered to their horror that the money tucked away will no longer suffice. We have come to know as they did in earlier years, the meaning of the term "over the hill to the poorhouse" for those unfortunate enough not to be entitled to pensions. The self-image of many seniors has been destroyed.

Social security does not seem to cover all needs. Nor do savings, in many cases. But if the existence of pensions were more widespread, perhaps more munificent, then the future would not look as grim as it does. We elderly have offered our hearts, our strengths, our will, our interest during a productive life. We have worked many years to produce what I think is a more advanced society than when we came into it. We feel that we deserve as much from society. A pension, at the end of the road, would look good, and more safe than an end of the road without it. A pension will not be a panacea, but progress comes not in yards and miles, but in inches; it comes not in bunches, but in small drops; it comes, as it must, in any democratic society, at the terminal point of discussion and compromise. There is and must be a give and take in human dealings. In terms of a compromise I would like to say we should not have a negative compromise we are forced to accept, what a minority, fighting for their minority right, forces upon a majority. But please, gentlemen of the committee, may we have a little more of the giving so that we may take a bit more of a sense of security when our years add up to seventy plus?

Gentlemen, I would like to thank all of you for your attention.

Mr. DRINAN. I want to thank this gentleman for his testimony. I remember very well your son at Boston College Law School. I would like to say as dean I gave him a scholarship and he is just as bright as his father.

The CHAIRMAN. Did you? We are pleased to hear that. Now we will hear Miss Rogers. Delighted to have you here, Miss Rogers.

#### STATEMENT OF FRANCES ROGERS

Miss ROGERS. It is nice to be here. My name is Frances Rogers and I presently reside in Alexandria, Virginia.

I have worked all of my adult life, and I am proud of the independence I have obtained. I started out doing secretarial work for various private firms. None of them offered any type of private pension. I then went to Australia, where I worked on and off for 15 years, also with no pension plan. During my later years, I worked for the Federal Government doing intelligence work as a civilian for the Army. I was mandatorily retired in 1977, and I was devastated by the experience. My 16 years with the Federal Government allowed me to become vested in the retirement plan, and that is my major source of income. I was able to put some money away in mutual funds, but the economy and inflation is decreasing their value.

My standard of living has changed dramatically since my retirement. I now live in subsidized housing, which is quite a change from the apartment I had lived in before my retirement. I also found that my annuity was not adequate, so I have held part-time jobs, at which I have earned minimum wage. I have worked as gardener, a desk clerk in a motel and in the school cafeterias of the Fairfax County Public Schools. Although I would like to work full time, a regulation in Fairfax County prohibits it.

The CHAIRMAN. Why does the regulation prohibit your working?

Miss ROGERS. After you are 72 you cannot work full time. You may be more able than a lot of younger people.

The CHAIRMAN. You cannot work for the county?

Miss ROGERS. For them at least, yes.

The CHAIRMAN. Fairfax County?

Miss ROGERS. Yes.

The CHAIRMAN. They do not forbid you from working for other people.

Miss ROGERS. Other places, no. I could interject here one reason why I have done the things I have done since I have been retired was because it is such a hassle to get any place, as a matter of transportation. I have a car but I really cannot afford to drive it very much and also my experience coming in here today just made me realize how much it would mean to me if I did have a job in Washington to try to get to it every day. So that little thing makes you try to get some sort of work near where you live.

I am trying to become eligible for social security benefits. That is why I have been doing these part-time jobs, which might increase my income by approximately \$100 per month. I am a very active person, and I enjoy working. Fortunately, I have been able to find part-time work, because I have skills which I gained from working all my life. And I am willing to do whatever there is I can find to do. It is much more difficult for women who have been out of the work force raising children. I strongly feel that everyone who wants to work should have that opportunity. I do stress, I know what Mrs. Ferraro means by volunteer work, you do some and I have all my life. It does make a difference if you get paid for it. I suppose the older you get it is sort of a status thing to you that you still can command an income rather than just being a volunteer. I know there is lots to be said on that. But I appreciate this opportunity to speak to you and I have here, sir, a thing that I did last night, Mr. Pepper, that just has some suggestions that I feel perhaps the committee might be interested in seeing.

The CHAIRMAN. We would welcome them.

Miss ROGERS. I think I will just put them in for your use.

The CHAIRMAN. If you wish to say them now we would be glad to have them, have you given them in your statement?

Miss ROGERS. Well, I sort of put it under the heading of problems of the aged. I began with the financial. I said I think we should have sufficient money for sustenance. I am not a person that feels our Government owes us anything. We are the Government. We should do our part and make a contribution for whatever we get. The need to have some freedom of choice in spending is necessary. But we should be responsible for the judicious use of whatever funds we get and appreciate what we do get. In the way of housing—these are not complete but they are just a few thoughts. Most prefer individual to communal living as long as they are able to take care of themselves. I just love being able to go home and be by myself because I can go out and be with other people. It is not that much fun to live with anybody.

The CHAIRMAN. I want my colleagues to have a chance, but I want to tell all three of you what a wonderful example you are of what we generally call the elderly people. All of you are over 70 years of age. You all appear to be vigorous in mind and body. Anybody would be fortunate to have any of you working in any area in which you are experienced. You would be extremely valuable persons. You are a good example of what people above 65 years

of age have to offer to the people of this country. So, we are extremely grateful to you for being here today.

Ms. FERRARO. Mr. Chairman, if I might just make one comment, because I am unable to come back after the vote.

Mr. Rhoads, I am a fan of Sad Sack. It is a tremendous cartoon, and you have said a lot. Were you an independent contractor? Is that the basis of your statement?

Mr. RHOADS. That is the problem. The man I worked under, the president, said I am an employee to this day. The girl in the accounting department says no, I am a free lance agent. So they cannot make up their minds what they want me to be.

Ms. FERRARO. I am delighted you went to the court.

The problems faced by Mrs. Green are those faced by many women. It is part of the inequities Congresswoman Oakar was discussing before, and hopefully we will be able to address that, if not in this session, maybe in the next one.

I do not want you to get the impression, Miss Rogers, that older people are only good for volunteer work. My point is, if it is not financial, then perhaps the need to work, the need to participate, can be satisfied by volunteer work in services which need the talents of so many people who are retired.

Congratulations, Mr. Ostrowsky, you have done a tremendous job.

The CHAIRMAN. Now, Mr. Rhoads, will you give us an example of your work.

[Recess.]

The CHAIRMAN. Mr. Rhoads is going to give me a cartoon I can display in my office, and I will be very proud to have it there.

Thank you all very much. The hearing is concluded. You made valuable contributions. Thank you all very much.

[Whereupon, at 2:35 p.m., the hearing was adjourned.]



