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**BENEFITS FOR SURVIVORS OF
RETIRED MILITARY PERSONNEL**

S. 91

HEARINGS

BEFORE THE

MILITARY COMPENSATION SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES

HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

JULY 2 AND AUGUST 21, 1980

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(II)

BENEFITS FOR SURVIVORS OF RETIRED MILITARY PERSONNEL

TUESDAY, JULY 22, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
MILITARY COMPENSATION SUBCOMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2116, Rayburn House Office Building, Hon. William Nichols (chairman of the subcommittee) presiding.

Mr. NICHOLS. The subcommittee will come to order.

The subcommittee is meeting today to consider the matter of benefits for survivors of retired military personnel.

As the members know, the House, during both the 94th and 95th Congresses, enacted bills that would have substantially revised and liberalized the survivor benefit plan. The Senate, however, did not accept the major portions of those bills.

The principal issues addressed in those bills were the formula for computing the deductions from the retired pay of SBP participants and the social security offset. The Senate this year enacted S. 91, which will amend the survivor benefit plan. Although that bill does not address all of those issues in the same way that the House bills did in the 94th and 95th Congresses, it at least reflects an understanding that some changes in the plan are needed.

We are going to hear testimony this afternoon from the Department of Defense and from witnesses representing the interests of the individual service members and the survivors of retired personnel.

I hope that as a result of these hearings the subcommittee will be able to report legislation to the full committee and to the House as expediently as possible that corrects some of the major problems being experienced today in the survivor benefit plan.

[S. 91 is as follows:]

96TH CONGRESS
2D SESSION

S. 91

IN THE HOUSE OF REPRESENTATIVES

MAY 30, 1980

Referred to the Committee on Armed Services

AN ACT

To amend title 10, United States Code, to remove certain inequities in the Survivor Benefit Plan provided for under chapter 73 of such title, and for other purposes.

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

3 That section 1451(a) of title 10, United States Code, is
4 amended to read as follows:

5 “(a) The monthly annuity payable to a widow, widower,
6 or dependent child who is entitled under section 1450(a) of
7 this title to an annuity shall be—

1 “(1) 55 percent of the base amount, if the annuity
2 is provided by virtue of eligibility under section
3 1448(a)(1)(A) of this title, or

4 “(2) a lesser percentage (determined by the Secre-
5 tary of Defense in accordance with subsection (d)) of
6 the base amount, if the annuity is provided by virtue of
7 eligibility under section 1448(a)(1)(B) of this title.

8 However, when the widow has one dependent child, the
9 monthly annuity shall be reduced by the lesser of (A) an
10 amount equal to the mother's benefit, if any, to which the
11 widow would be entitled under subchapter II of chapter 7 of
12 title 42 based solely upon service by the person concerned as
13 described in section 410(l)(1) of title 42 and calculated as-
14 suming that the person concerned lived to age 65, or (B) an
15 amount equal to 40 percent of the monthly annuity. When
16 the widow or widower reaches age 62, or there is no longer a
17 dependent child, whichever occurs later, the monthly annuity
18 shall be reduced by the lesser of (i) an amount equal to the
19 amount of the survivor benefit, if any, to which the widow or
20 widower would be entitled under subchapter II of chapter 7
21 of title 42 based solely upon service by the person concerned
22 as described in section 410(l)(1) of title 42 and calculated
23 assuming that the person concerned lives to age 65, or (ii) an
24 amount equal to 40 percent of the monthly annuity. For the
25 purpose of the preceding sentence, a widow or widower shall

1 not be considered as entitled to a benefit under subchapter II
2 of chapter 7 of title 42 to the extent that such benefit has
3 been offset by deductions under section 403 of title 42 on
4 account of work. No reduction shall be made under the
5 second or third sentence of this subsection if the only service
6 by the person concerned as described in section 410(l)(1) of
7 title 42 involved periods of service of less than 30 continuous
8 days for which the person concerned is entitled to receive a
9 refund under section 6413(c) of title 26 of the social security
10 tax which he had paid and such periods of service were per-
11 formed after the effective date of this sentence.”.

12 SEC. 2. Section 1452 of title 10, United States Code, is
13 amended by adding at the end thereof the following new
14 subsections:

15 “(g)(1) Notwithstanding any other provision of this sub-
16 chapter and subject to the provisions of paragraphs (2) and
17 (3) of this subsection, any person who has elected to partici-
18 pate in the Plan and who is suffering from a service-
19 connected disability rated by the Veterans’ Administration as
20 totally disabling and has suffered from such disability while
21 so rated for a continuous period of 10 or more years or, if so
22 rated for a lesser period, has suffered from such disability
23 while so rated for a continuous period of not less than 5 years
24 from the date of such person’s last discharge or release from
25 active duty, may discontinue his or her participation in the

1 Plan by submitting to the Secretary concerned a request in
2 such form and containing such information as the Secretary
3 concerned may require by regulation. Upon receipt of such
4 request, the Secretary concerned shall, effective on the first
5 day of the first month following the month in which such
6 request is received, discontinue the reduction being made in
7 such person's retired or retainer pay on account of participa-
8 tion in the Plan (or if such person has been required to make
9 deposits in the Treasury on account of such participation,
10 such member may discontinue making such deposits effective
11 on such date).

12 “(2) A person described in paragraph (1) of this subsec-
13 tion may not discontinue his or her participation in the Plan
14 without the written consent of the beneficiary or beneficiaries
15 under the Plan.

16 “(3) The Secretary concerned shall furnish promptly to
17 each person who files a request to discontinue participation in
18 the Plan a written statement of the advantages of participat-
19 ing in the Plan and the possible disadvantages of discontinu-
20 ing participation. A person may withdraw the request made
21 under paragraph (1) of this subsection if it is withdrawn
22 within 30 days after having been submitted to the Secretary
23 concerned.

24 “(4) Any person described in paragraph (1) of this sub-
25 section who has discontinued his or her participation in the

1 Plan may again elect to participate in the Plan if (A) at any
2 time after having discontinued participation in the Plan the
3 Veterans' Administration reduces such person's service-
4 connected disability rating to less than total, and (B) such
5 person makes application to the Secretary concerned, within
6 such period of time after the reduction in such person's serv-
7 ice-connected disability rating has been made as the Secre-
8 tary concerned may prescribe, to again participate in the
9 Plan and includes in such application such information as the
10 Secretary concerned may require. The Secretary concerned
11 shall begin making reductions in such person's retired or re-
12 tainer pay, or require such person to make deposits in the
13 Treasury under subsection (d) of this section, as appropriate,
14 effective beginning with the month in which the Secretary
15 concerned receives the application for resuming participation
16 in the Plan.

17 “(h) The amount of the reduction required to be made
18 by this section in the retired or retainer pay of any person
19 shall be increased at the same time and by the same percent
20 as retired or retainer pay is increased under section 1401a of
21 this title.”.

22 SEC. 3. (a) Notwithstanding any other provision of law,
23 any individual who on or before September 20, 1972, was a
24 widow of a person who (1) was entitled at the time of his
25 death to retired or retainer pay because of service in the

1 uniformed services, and (2) was serving on active duty at the
2 time of his death and had served on active duty in the uni-
3 formed services for a period of not less than 20 years, shall
4 be paid an annuity by the Secretary concerned in the amount
5 prescribed in subsection (b) unless such widow is eligible to
6 receive an annuity under subchapter II of chapter 73 of title
7 10, United States Code.

8 (b)(1) Subject to the provisions of paragraphs (2) and (3),
9 the amount of the annuity payable to any widow under this
10 section shall be an amount equal to 55 percent of the amount
11 of the retired or retainer pay to which her husband would
12 have been entitled to receive at the time of his death had he
13 become entitled to retired pay on such date—

14 (A) adjusted by the same percentage increases,
15 consecutively compounded, that were made in retired
16 and retainer pay under section 1401a of title 10,
17 United States Code (or under any prior provisions of
18 law), between the date of his death and September 20,
19 1972; and

20 (B) further adjusted by the same percentage
21 increases, consecutively compounded, that were made
22 in survivor benefit annuities under section 1451(c) of
23 title 10, United States Code, between October 1,
24 1972, and the day before the effective date of this Act.

1 However, when the widow has one dependent child, the
2 monthly annuity shall be reduced by the lesser of (i) an
3 amount equal to the mother's benefit, if any, to which the
4 widow would be entitled under subchapter II of chapter 7 of
5 title 42 based solely upon service by the person concerned as
6 described in section 410(l)(1) of title 42 and calculated as-
7 suming that the person concerned lived to age 65, or (ii) an
8 amount equal to 40 percent of the annuity. When the widow
9 or widower reaches age 62, or there is no longer a dependent
10 child, whichever occurs later, the monthly annuity shall be
11 reduced by the lesser of (I) an amount equal to the amount of
12 the survivor benefit, if any, to which the widow or widower
13 would be entitled under subchapter II of chapter 7 of title 42
14 based solely upon service by the person concerned as
15 described in section 410(l)(1) of title 42 and calculated as-
16 suming that the person concerned lives to age 65, or (II) an
17 amount equal to 40 percent of the annuity. For the purpose
18 of the preceding sentence, a widow or widower shall not be
19 considered as entitled to a benefit under subchapter II of
20 chapter 7 of title 42 to the extent that such benefit has been
21 offset by deductions under section 403 of title 42 on account
22 of work.

23 (2) Whenever there is an increase in retired and
24 retainer pay under section 1401a of title 10, United States
25 Code, each annuity payable under this section on the day

1 before the effective date of that increase shall be increased by
2 the same percentage as the percentage of that increase, effec-
3 tive on the effective date of the increase.

4 (3) The annuity paid to any widow under this section
5 shall be reduced by any amount such widow is entitled to
6 receive as an annuity under subchapter I of chapter 73 of
7 title 10, United States Code; or dependency and indemnity
8 compensation under section 411(a) of title 38, United States
9 Code (or under any prior corresponding provision of law).

10 (c) In no case shall the total amount of benefits payable
11 to any widow as a result of the enactment of this section be
12 less than the total amount of benefits which would have been
13 payable to such widow had this section not been enacted.

14 (d) As used in this section the term "uniformed serv-
15 ices" has the same meaning ascribed to it in section 1072(1)
16 of title 10, United States Code.

17 SEC. 4. The provisions of this Act and the amendments
18 made by this Act shall be effective on the first day of the
19 second calendar month following the month in which this Act
20 is enacted, or on October 1, 1980, whichever is later, and
21 shall apply to annuities payable by virtue of such amend-
22 ments for months beginning on or after such date. No bene-
23 fits shall accrue to any person by virtue of the enactment of

1 this Act for any period before the date of enactment of this
2 Act.

Passed the Senate May 28 (legislative day, January 3),
1980.

Attest:

J. S. KIMMITT,

Secretary.

Mr. NICHOLS. The first witness is our colleague on the Armed Services Committee, a gentleman who has had a long time interest in this subject, the Honorable Bob Wilson from California.

Bob, we're delighted to hear from you at this time.

**STATEMENT OF HON. BOB WILSON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. BOB WILSON. Thank you, Mr. Chairman.

I want to ask Karen Heath to sit here with me so in case you ask me the really tough questions I'll have some help, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I want to congratulate you for holding hearings on this subject, which has been of major interest to this side of the Capitol for a long time.

As you pointed out, the House has passed legislation in two previous Congresses and the Senate has failed to act. Now that the Senate has taken some action, I think it's commendable of you to hold these hearings at a rather late date in the second session of this Congress in an attempt to try to finally get some kind of legislation that will show that Congress does have concern about the survivor benefit plan.

I have a rather lengthy statement. I'm not going to read the entire statement, but there are some points that I would like to cover, with your permission.

Under the SBP, the retiree, as you know, may elect to cover up to 55 percent of his retired pay. He is charged 2½ percent of the minimum amount of coverage which may be designated, or \$300. Additional coverage is paid for at a rate of 10 percent of the retired pay elected. For the base coverage of \$300, the widow is entitled to 55 percent, or \$165 per month. Like retired pay, the amount of the survivor annuity and the reduction from retired pay increase with the semiannual cost-of-living adjustments.

Additionally, the survivor benefit plan is integrated with the Social Security System. As presently constituted, when a widow reaches age 62 her SBP annuity is reduced on a dollar-for-dollar basis by the social security to which she is entitled as a result of her late husband's military service.

When we first considered this legislation in the late sixty's and the early seventy's several of us were concerned that this 100 percent, or dollar-for-dollar, reduction in the SBP annuity would be unfair to many future widows, and we, therefore, advocated that the reduction be 50 percent, rather than 100 percent. Unfortunately, our position did not prevail and the consequences for many widows of the 100 percent offset have proved to be far more dire than anticipated. According to the figures of both the Department of Defense and the Congressional Budget Office, the average retiree—both officer and enlisted—this year will pay substantially more than the value of the ultimate annuity received by the survivor, and this situation will become worse over the next two decades.

There is no one easy or simple way to deal with this situation—at least one that will get any consideration in the Senate Armed Services Committee. As you know, in 1976 our committee approved my bill to reduce the social security offset from 100 percent to 50 percent. This

was viewed as an interim solution to the problem until Congress had an opportunity to deal with the overall question of the integration of social security benefits with military retirement. This legislation passed the House under Suspension of Rules with only a few dissenting votes in September 1976 and was subsequently repassed unanimously in 1977. Unfortunately, it has bogged down since that time in the Senate Armed Services Committee. The Senate has picked up some of the other smaller provisions which were incorporated in our House-passed bills, but has not, until this year, addressed head on the question of the social security offset.

I had begun to despair that we would ever get any offset change out of the Senate. This compromise has the support of the great majority of the military associations, but that position is not unanimous. The gist of the Senate-passed measure is that we keep the 100 percent social security offset, but limit the amount that the survivor will lose when she reaches age 62 and begins receiving social security benefits. Under present law, many survivors will never receive any payment from the survivor benefit plan annuity for which their late spouses paid because their social security offset is greater than the SBP. As a result, a substantial number are not electing coverage. Unless we change the SBP and make it more attractive and more financially viable for the individual, we are going to face the same type of situation that we did with RSFPP in terms of another large group of unprotected widows.

The Senate-passed bill provides that the widow will receive her social security entitlement; further, it says that she can lose no more than 40 percent of the SBP annuity for which her husband paid. In other words, she is guaranteed at least 60 percent of the SBP benefit. What this means to specific individuals in the future depends on the economic assumptions used; the projected offset vis-a-vis the ultimate annuity is very sensitive to a half-percentage or a percentage point change in real wage growth, inflation, or the discount rate. I am attaching two charts prepared by the Congressional Budget Office which show their projections. If you will take a moment to look at these, you will see that they give you the year of retirement, pay grade, years of service, and the projected social security offset, using CBO's economic assumptions. The final section shows what the SBP annuity will be—were there to be no offset at all, under current law, and under the bill passed by the Senate, S. 91. The chart also shows the difference between the Senate-passed bill and the 100 percent offset under current law—in other words, the additional money in the widow's pocket as a result of placing a 40 percent cap on the reduction in the SBP annuity. Although it is hard to generalize, this program grants the greatest relief, in comparison to current law, to those in the lower pay grades and to those retiring in the future, when the social security offset will be much higher. If you will look at the last column—Minimum Coverage—you will note that those electing the minimum benefit will now receive some SBP entitlement. Under the current 100 percent offset, the minimum, and in some cases larger, benefits will be completely eaten up by the social security offset.

You will probably hear more before this hearing is over on the question of cost-sharing. It was felt that the original 1972 SBP law would establish a cost-sharing ratio of 60 percent for the individual

and 40 percent for the Government. I am including as a part of my testimony a portion of a chart prepared by the Congressional Budget Office which shows the actual cost-sharing relationship under current law and under S. 91 as passed by the Senate. A figure of 1.0 means that the individual is paying for the cost of the annuity. When the number is over 1, the Government is, in effect, making money off the retiree. When lower than 1.0, it means that the Government is contributing a portion of the cost of the ultimate annuity. For the overall group of those retiring in 1981, the average cost-sharing ratio is projected to be about 70 percent for the individual and 30 percent, for the Government. If you look immediately above this on the chart, you will see that this is a substantial improvement over the current law.

This proposal certainly isn't perfect, but I doubt that there is a made-in-heaven way to integrate social security with other Federal programs. Social security is a very complex system which is heavily weighted toward those at the lower end of the earnings scale. Additionally, Congress has a predilection to change social security on a regular basis. Since SBP was established in September 1972, Congress subsequently enacted the Social Security Amendments of 1972 and the Social Security Amendments of 1977. The latter law made major revisions in the procedures used to calculate future benefits. With the problems besetting the social security trust fund—and this is likely to become much more severe by the turn of the century with the decline in the birth rate and the aging of our population—it appears unlikely that social security will not face additional substantial revisions in the future. By guaranteeing the retiree that he can assure his widow her social security benefit plus a specific percentage of the SBP he elects, we will bring some much-needed stability to the survivor benefit plan. It will also be possible for the individual to ascertain, at the time of retirement, that regardless of what happens to social security, his widow will receive a specific percentage of the SBP annuity for which he paid.

I would like to turn very briefly to several amendments which I would urge you to look at. I do this with a great deal of reluctance, however, since I am of the opinion that the Senate is unlikely to go for too much more than currently approved. Since it may be several years before SBP is thoroughly reviewed again, I feel that it's important to structure the system in the best way possible. If you look back at the cost-sharing chart, you will notice that by the time an individual retires in the year 2000 he or she will be paying almost the full cost of the annuity. This is due primarily to the effect of inflation on the \$300 minimum base which can be elected at a cost of 2½ percent. Since 1972, when SBP was enacted, the consumer price index has gone up almost 100 percent, thus drastically decreasing the value of this minimum coverage. In the next two decades it will become increasingly meaningless. If we want to stabilize the cost-sharing ratio as it is for the 1981 retiree, we should begin indexing the CPI base. This will keep the cost-sharing relationships as outlined for the 1981 retiree as long as the overall SBP program isn't changed. It will, however, add slightly to the long-term cost, particularly in the inflated dollars which the Senate likes to use, but I personally think we should include it in our House bill and argue the merits with the Senate.

Aside from the added cost, I would add one additional caveat. The \$300 minimum base of coverage is patterned on the civil service plan and it is possible that an increase could bring similar requests for CPI indexing in the civil service program. Despite our efforts to model the military on the civilian, however, the two programs continue to have many, many dissimilarities. First, the cost-sharing ratio under the civil service plan is quite favorable to the individual, unlike the military program. Second, civil service is not integrated with social security. Third, it is likely that we will enact a slightly higher pay raise this year for the military than for civil servants, and I think we can apply a similar argument to making the distinction with respect to the \$300 basic coverage.

Two additional offset changes were included in my original bill as passed by the House, and again, I feel that equity demands that they be incorporated in any overall revision. Under current law, a widow with one child who is receiving a mother's benefit is subject to the social security offset. This offset does not apply, however, to a widow with two or more children. This distinction was made in the 1972 law to keep the payments to the individual similar to those received by civil service widows, but again the logic has long since been lost. I, frankly, don't think we should take money from a widow because she has only one child rather than two or three.

Additionally, we will have the situation where a widow is offset even though she is not receiving any social security based on her late husband's military service. The most common example is the case of a woman who has worked sufficient years to receive social security based on her own earnings. As you know, under the social security law, a widow will receive either her widow's benefit or her own worker's benefit, whichever is higher, but not both. Because she is entitled to her late husband's social security, even though she is not receiving it, she is subject to the offset. I, frankly, think this is ridiculous and feel that the offset should be eliminated unless the widow is actually receiving social security payment from her husband's account. Although this particular situation is not terribly severe at the present time, with increasing numbers of women working now, more and more widows will be faced with this type of offset in the future. As you know from testimony you have heard on the Forsaken Spouses bill, it's particularly difficult for a military wife to establish a career on her own and the retirement and/or social security eligibility which goes with it. They often work at low-paying jobs as a result of frequent transfers. If a military wife is able to earn her own social security, I don't think she should be subject to an offset.

This brings me to my final note. The survivor benefit plan has been subject to a great deal of criticism, much of it very well deserved in recent years. Many of those who counsel individuals at the time of retirement do not understand the program, and there has certainly been a lack of any coordinated explanatory material from the services and the Department. With the changes projected in S. 91, it will be possible to give the individual some idea of what his widow is likely to receive and allow him to make an educated decision on the degree of coverage elected. This will only be the case, however, if comprehensive instructions are put out—hopefully, written in clear, concise, nontechnical language. I would urge the subcommittee to instruct the

Department of Defense to prepare such a booklet and to send it to our committee for review. It is important to insure that this is done swiftly and that this information is made available in sufficient time to allow those affected by the open enrollment period an opportunity to understand what these changes embody.

Although there are several other minor revisions, such as tailoring SBP to meet one additional change made in the civil service program during the 95th Congress, I won't take more time at this point. I would hope you would, at a future date, also pursue the dire economic plight of the Forgotten Widows—those whose husbands died prior to 1972 and did not participate in the old plan.

I want to thank you again for holding this hearing, and will be happy to do everything I can to help get this legislation passed by the full committee and by the House. I strongly support all of the amendments I have discussed, but realize that we may not be able to sell them to our counterparts on the other side.

WRITTEN STATEMENT OF HON. BOB WILSON

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I want to thank you for scheduling this morning's hearing on the Survivor Benefit Plan and I must say that it's a distinct personal pleasure to be back before my own Committee on this subject.

I want to trace very briefly the history of the Survivor Benefit Plan. Congress established a survivor plan in the early 1950's which was initially called the Contingency Option Plan and subsequently renamed the Retired Serviceman's Family Protection Plan. Under this program, the retiree could elect to take a reduction in his retired pay in order to provide an annuity for a surviving spouse. The program was designed to be actuarially neutral, that is, deductions from retired pay were to offset the future cost of the annuity. No government subsidy was involved. Unfortunately, the charges for RSFPP were quite high in comparison to the annuity payable and, by the early 1970's, participation was less than 15%. As a result, our Committee initiated a new survivor program which was modeled closely on the survivor plan for Civil Service retirees in terms of both the costs and benefits payable. Like the Civil Service plan, it was envisioned that the individual would pay the majority of the cost of the benefit for the survivor, with the government also sharing a portion. We hoped that this program would be attractive enough to retirees to encourage them to participate in large numbers, as was the case with the Civil Service System, and thereby eliminate the specter of a large number of widows subsisting below the poverty level. This is currently the case for many of those whose husbands did not opt coverage under the Retired Serviceman's Family Protection Plan.

Under SBP, the retiree may elect to cover up to 55% of his retired pay. He is charged 2½% of the minimum amount of coverage which may be designated---\$300. Additional coverage is paid for at a rate of 10% of the retired pay elected. For the base coverage of \$300, the widow is entitled to 55% or \$165 per month. Like retired pay, the amount of the survivor annuity and the reduction from retired pay increase with the semiannual cost-of-living adjustments.

Additionally, the Survivor Benefit Plan is integrated with the Social Security System. As presently constituted, when the widow reaches age 62, her SBP annuity is reduced on a dollar-for-dollar basis by the Social Security to which she is entitled as a result of her late husband's military service.

When we considered this legislation in the late 60's and early 70's, several of us were concerned that this 100% or dollar-for-dollar reduction in the SBP annuity would be unfair to many future widows and we, therefore, advocated that the reduction be 50%, rather than 100%. Unfortunately, our position did not prevail and the consequences for many widows of the 100% offset have proved to be far more dire than anticipated. According to the figures of both the Department of Defense and the Congressional Budget Office, the average retiree---both officer and enlisted---this year will pay substantially more than the value of the ultimate annuity received by the survivor. This situation will become much worse over the next two decades. This is due to the fact that those retiring now and in the future will have a full career covered by Social Security, which became applicable to the military on January 1, 1957, and also to the fact that the Social Security Amendments of 1977 substantially increase the taxable wage base upon which Social Security benefits are based, resulting in higher Social Security payments and higher offsets down the road.

There is no one easy or simple way to deal with this situation---at least one that will get any consideration in the Senate Armed Services Committee. In 1976, our Committee approved my bill to reduce the Social Security offset from 100% to 50%. This was viewed as an interim solution to the problem, until Congress had an opportunity to deal with the overall question of the integration of Social Security benefits with military retirement. This legislation passed the House under Suspension of Rules with only a few dissenting votes in September of 1976 and was subsequently repassed unanimously in 1977. Unfortunately, it has bogged down since that time in the Senate Armed Services Committee. The Senate has picked up some of the other smaller provisions which were incorporated in our House-passed bills, but has not, until this year, addressed head-on the question of the Social Security offset.

I had begun to despair that we would ever get any offset change out of the Senate. This compromise has the support of the great majority of the military associations, but that position is not unanimous. The gist of the Senate-passed measure is that we keep the 100% Social Security offset, but limit the amount that the survivor will lose when she reaches age 62 and begins receiving Social Security benefits. Under present law, many survivors will never receive any payment from the Survivor Benefit Plan annuity for which their late spouses paid because their Social Security offset is greater than the SBP. As a result, a substantial number are

not electing coverage. Unless we change SBP and make it more attractive and more financially viable for the individual, we are going to face the same type of situation that we did with RSFPP in terms of another large group of unprotected widows.

The Senate-passed bill provides that the widow will receive her Social Security entitlement; further, it says that she can lose no more than 40% of the SBP annuity for which her husband paid. In other words, she is guaranteed at least 60% of the SBP benefit. What this means to specific individuals in the future depends on the economic assumptions used; the projected offset vis-a-vis the ultimate annuity is very sensitive to a half percentage or a percentage point change in real wage growth, inflation, or the discount rate. I'm attaching two charts prepared by the Congressional Budget Office which show their projections. If you will take a moment to look at these, you'll see that they give you the year of retirement, pay grade, years of service, and the projected Social Security offset, using CBO's economic assumptions. The final section shows what the SBP annuity will be---were there to be no offset at all, under current law, and under the bill passed by the Senate (S. 91). The handwritten figure shows you the difference between the Senate-passed bill and the 100% offset under current law---in other words, the additional money in the widow's pocket as a result of placing a 40% cap on the reduction in the SBP annuity. Although it is hard to generalize, this program grants the greatest relief, in comparison to current law, to those in the lower pay grades and to those retiring in the future, when the Social Security offset will be much higher. If you will look at the last column---Minimum Coverage---you will note that those electing the minimum benefit will now receive some SBP entitlement. Under the current 100% offset, the minimum, and in some cases larger benefits will be completely eaten up by the Social Security offset.

You will probably hear more before this hearing is over on the question of cost sharing. It was felt that the original 1972 SBP law would establish a cost-sharing ratio of 60% for the individual and 40% for the government. I'm including as a part of my testimony a portion of a chart prepared by the Congressional Budget Office which shows the actual cost-sharing relationship under current law and under S. 91 as passed by the Senate. A figure of 1.0 means that the individual is paying for the cost of the annuity. When the number is over 1, the government is, in effect, making money off the retiree. When lower than 1.0, it means that the government is contributing a portion of the cost of the ultimate annuity. For the overall group of those retiring

in 1981, the average cost-sharing ratio is projected to be about 70% for the individual and 30% for the government. If you look immediately above this on the chart, you will see this is a substantial improvement over the current law situation.

		Fraction of Cost Paid By Nondisability Retiree Who Covers Typical amount of retired pay		
		1965 retiree	1981 retiree	2000 retiree
Current law	Officer	0.74	2.94	4.62
	Enlisted	1.23	3.21	3.68
	Force-wide	1.10	3.14	3.93
S. 91, as passed by the Senate	Officer	0.64	0.88	1.04
	Enlisted	0.43	0.64	0.95
	Force-wide	0.49	0.70	0.97

This proposal certainly isn't perfect, but I doubt that there is a "made-in-heaven" way to integrate Social Security with other Federal programs. Social Security is a very complex system which is heavily weighted toward those at the lower end of the earnings scale. Additionally, Congress has a predilection to change Social Security on a regular basis. Since SBP was established in September of 1972, Congress subsequently enacted the Social Security Amendments of 1972 and the Social Security Amendments of 1977. The latter law made major revisions in the procedures used to calculate future benefits. With the problems besetting the Social Security Trust Fund, and this is likely to become much more severe by the turn of the century with the decline in the birth rate and the aging of our population, it appears unlikely that Social Security will not face additional substantial revisions in the future. By guaranteeing the retiree that he can assure his widow her Social Security benefit plus a specific percentage of the SBP he elects, we will bring some much-needed stability to the Survivor Benefit Plan. It will also be possible for the individual to ascertain, at the time of retirement, that regardless of what happens to Social Security, his widow will receive a specific percentage of the SBP annuity for which he paid.

I'd like to turn very briefly to several amendments which I would urge you to look at. I do this with a great deal of reluctance, however, since I am of the opinion that the Senate is unlikely to go for too much more than currently approved. Since it may be several years before SBP is thoroughly reviewed again, I feel that it's important to structure the

system in the best way possible. If you look back at the cost-sharing chart, you will notice that by the time an individual retires in the year 2000, he or she will be paying almost the full cost of the annuity. This is due primarily to the effect of inflation on the \$300 minimum base which can be elected at a cost of 2½%. Since 1972, when SBP was enacted, the Consumer Price Index has gone up almost 100%, thus drastically decreasing the value of this minimum coverage. In the next two decades, it will become increasingly meaningless. If we want to stabilize the cost-sharing ratio as it is for the 1981 retiree, we should begin indexing the CPI base. This will keep the cost-sharing relationships as outlined for the 1981 retiree as long as the overall SBP program isn't changed. It will, however, add slightly to the long-term cost, particularly in the inflated dollars which the Senate likes to use, but I personally think we should include it in our House bill and argue the merits with the Senate.

Aside from the added cost, I would add one additional caveat. The \$300 minimum base of coverage is patterned on the Civil Service plan and it is possible that an increase could bring similar requests for CPI indexing in the Civil Service program. Despite our efforts to model the military on the civilian, however, the two programs continue to have many dissimilarities. First, the cost-sharing ratio under the Civil Service plan is quite favorable to the individual, unlike the military program. Secondly, Civil Service is not integrated with Social Security. Thirdly, it is likely that we will enact a slightly higher pay raise this year for the military than for Civil Servants, and I think we can apply a similar argument to making the distinction with respect to the \$300 basic coverage.

Two additional offset changes were included in my original bill as passed by the House and again I feel that equity demands that they be incorporated in any overall revision. Under current law, a widow with one child who is receiving a mother's benefit is subject to the Social Security offset. This offset does not apply, however, to a widow with two or more children. This distinction was made in the 1972 law to keep the payments to the individual similar to those received by Civil Service widows, but again the logic has long since been lost. I, frankly, don't think we should take money from a widow because she has only one child rather than two or three.

Additionally, we will have the situation where a widow is offset even though she is not receiving any Social Security based on her late husband's

military service. The most common example is the case of a woman who has worked sufficient years to receive Social Security based on her own earnings. As you know, under the Social Security law, a widow will receive either her widow's benefit or her own worker's benefit, whichever is higher, but not both. Because she is "entitled" to her late husband's Social Security, even though she is not receiving it, she is subject to the offset. I, frankly, think this is ridiculous and feel that the offset should be eliminated unless the widow is actually receiving Social Security payment from the husband's account. Although this particular situation is not terribly severe at the present time, with increasing numbers of women working now, more and more widows will be faced with this type of offset in the future. As you know from testimony you've heard on the "Forsaken House Bill," it's particularly difficult for a military wife to establish a career of her own and the retirement and/or Social Security eligibility which goes with it. They often work at low-paying jobs as a result of frequent transfers. If a military wife is able to earn her own Social Security, I don't think she should be subject to an offset.

It is my understanding that the Subcommittee will be considering a possible reopening of the Survivor Benefit Plan to allow those not currently participating to join. I have proposed such an open enrollment in the past and feel it has merit. I would suggest that it be subject to at least a one-year waiting period and perhaps some additional financial penalty in fairness to those who did join despite the shortcomings of the program. If we are going to provide an opportunity to join for those who did not do so initially, I think it is also incumbent on us to add a provision permitting those currently in the plan to increase their participation. Because of the problems in the system, many individuals retiring in recent years have opted for minimum coverage. In fact, I believe the Fleet Reserve Association found that approximately half of Navy enlisted personnel retiring in the past few years have taken the minimum. With the improvements envisioned in S. 91, some of these individuals would opt to increase their coverage, if it is properly explained to them.

This brings me to my final note. The Survivor Benefit Plan has been subject to a great deal of criticism, much of it very well-deserved in recent years. Many of those who counsel individuals at the time of retirement do not understand the program and there has certainly been a lack of any coordinated, explanatory material from the Services and the Department. With the changes projected in S. 91, it will be possible to

give the individual some idea of what his widow is likely to receive and allow him to make an educated decision on the degree of coverage elected. This will only be the case, however, if comprehensive instructions are put out---hopefully written in clear, concise, non-technical language. I would urge the Subcommittee to instruct the Department of Defense to prepare such a booklet and to send it to our Committee for review. It is important to insure that this is done swiftly and that this information is made available in sufficient time to allow those affected by the open enrollment period an opportunity to understand what these changes embody.

Although there are several other minor revisions, such as tailoring SBP to meet one additional change made in the Civil Service program during the 95th Congress, I won't take more time at this point but will pursue the matter further with the Subcommittee staff. I would hope you will at a future date also pursue the dire economic plight of the "Forgotten Widows"---those whose husbands died prior to 1972 and did not participate in the old plan.

I want to thank you again for holding this hearing and will be happy to do everything I can to get this legislation passed by the full Committee and by the House. I strongly support all of the amendments I have discussed, but realize that we may not be able to sell them to our counterparts on the other side.

EXAMPLES OF SURVIVOR BENEFITS

Survivor Benefits, in constant 1980 dollars

Year of Retirement	Paygrade at Retirement	Years of Service at Retirement	Social Security Offset ^{a/}	100 Percent Coverage				Average Coverage				Minimum Coverage			
				Current		S. 91		Current		S. 91		Current		S. 91	
				No Offset	Offset	No Offset	Offset	No Offset	Offset	No Offset	Offset	No Offset	Offset	No Offset	Offset
1965	E-7	20	210	324	114	195	81	261	51	157	06	340	130	204	74
	E-8	25	218	493	275	296	21	397	179	238	54	340	122	204	82
	E-9	30	203	736	533	533	0	592	389	389	0	340	137	204	67
	O-5	20	216	695	479	479	0	517	301	310	4	340	124	204	80
	O-5	25	231	1046	815	815	0	779	548	548	0	340	109	204	45
	O-6	30	223	1362	1139	1139	0	1015	791	791	0	340	117	204	87
1980	E-7	20	315	307	0	184	184	247	0	148	148	165	0	99	44
	E-8	25	365	466	101	279	178	375	10	225	215	165	0	99	44
	E-9	30	400	695	295	417	133	559	159	336	171	165	0	99	44
	O-5	20	398	656	258	394	136	489	91	293	202	165	0	99	44
	O-5	25	424	988	564	593	34	736	312	442	130	165	0	99	44
	O-6	30	423	1286	863	863	0	958	535	575	40	165	0	99	44
1990	E-7	20	330	304	0	182	182	244	0	147	147	165	0	99	44
	E-8	25	386	461	75	277	202	371	0	223	223	165	0	99	44
	E-9	30	455	689	234	413	174	555	100	333	233	165	0	99	44
	O-5	20	514	650	136	390	254	484	0	291	241	165	0	99	44
	O-5	25	577	978	401	587	186	729	152	437	283	165	0	99	44
	O-6	30	591	1274	683	764	81	949	358	569	411	165	0	99	44

^{a/} These offsets are expressed in constant 1980 dollars, but assume wage and price growth until the retiree reaches age 62. They also assume that the spouse is eligible for social security at age 62 (that is, they equal 82.9 percent of the principal insurance amount attributable to military service). The offsets are calculated assuming the person is at the median paygrade during each year of his service.

Survivor Benefits, in constant 1980 dollars

Year of Retirement	Paygrade at Retirement	Years of Service at Retirement	Social Security Offset	100 Percent Coverage			Average Coverage			Minimum Coverage		
				No Offset	Law Offset	S. 91 Offset	No Offset	Law Offset	S. 91 Offset	No Offset	Law Offset	S. 91 Offset
1975	E-7	20	301	321	20	193	257	0	154	248	0	149
	E-8	25	323	408	165	293	390	67	234	248	0	149
	E-9	30	337	728	391	437	582	245	349	248	0	149
	O-5	20	340	687	347	412	515	175	309	248	0	149
	O-5	25	338	1034	696	696	776	438	465	248	0	149
	O-6	30	357	1346	989	989	1010	653	653	248	0	149
2000	E-7	20	353	325	0	195	260	0	156	165	0	99
	E-8	25	409	493	84	296	394	0	237	165	0	99
	E-9	30	483	737	254	442	590	107	354	165	0	99
	O-5	20	548	695	147	417	521	0	313	165	0	99
	O-5	25	649	1047	390	628	785	136	471	165	0	99
	O-6	30	687	1363	676	818	1022	335	613	165	0	99

Mr. NICHOLS. Thank you, Congressman Wilson.

I want to take this opportunity to commend you in your diligent continued interest in this problem—it is a problem—over the years. You have certainly persevered, and I am one who is very hopeful that some sort of a bill can be passed and signed before you hang up your blue suit.

Mr. BOB WILSON. I would be very happy, and I want you to know if we can get it through, I'll certainly help all I can.

Mr. NICHOLS. I just have one question, and that relates to the timeframe that you understand as well as anybody on the committee.

We passed this bill in two Congresses with your diligent efforts on it, and now we have a Senate bill. It's not everything that we would like to have, but, recognizing the time constraints that we are faced with, I am wondering what would be your judgment as the ranking minority member of the full committee on taking this and going with it vis-a-vis trying to amend it and risk the chance of not getting the bill passed at all. I know you're not happy with it.

Mr. BOB WILSON. No.

Mr. NICHOLS. You've stated some amendments are badly needed.

Mr. BOB WILSON. That's a tough question. I think the climate is good for improved compensation, both for active duty and retired right now, or will be next year and the following years. I have a feeling it will be after this year, too, because we recognize finally that the military has been underpaid, and this has created the major problem in the military today.

I am not a gambler, Mr. Chairman, and I never have been. I would be inclined, if you asked me flatly, as you have, whether I would try to amend it and then run the risk of having this thing hung up in the logjam that generally comes at this period of time. Realizing that we have a lot of money bills that we haven't passed yet, the fact that we haven't any legislative changes that we can slip in, in this period of time between now and when we adjourn, I should think that it would be the better part of valor to accept the Senate's language and, therefore, guarantee the passage, and avoid having to worry about a conference and going back again to both the House and the Senate in these critical closing days of the Congress.

I then hope that once we get that, we can open the subject again next year and you can make the added changes. I think it is somewhat of a watershed to get the Senate to go as far as they have on this 60 percent guarantee on the SBP annuity. It's not perfect by any means, as I pointed out, but again, if you ask me directly and if I were sitting on this subcommittee as I used to in the past and if I had to vote, I think I would vote to accept it as it is and run with it.

Mr. NICHOLS. I thank the gentleman for that counsel.

Mr. MITCHELL, do you have questions?

Mr. MITCHELL. Thank you, Mr. Chairman.

I thank my friend and colleague, too, for his comprehensive statement.

I know through the years you've been a very strong champion of this program and of others with very similar objectives, and I know the committee will thoroughly evaluate your recommendations. You've raised several significant issues.

I was trying to find a very tough question so I could challenge the expertise of your assistant, but the statement was so comprehensive that I'll have to pass. I have no questions, Mr. Chairman.

Mr. NICHOLS. Mr. Hutto?

Mr. HUTTO. No questions, Mr. Chairman. Thank you.

Mr. NICHOLS. Dr. Evans?

Mr. EVANS. Thank you, Mr. Chairman.

I want to commend my colleague, Bob Wilson, for a very comprehensive statement, and I'm afraid I must agree with his conclusion that we ought to play for a sure thing and try next year.

Mr. NICHOLS. Mr. Wyatt?

Mr. WYATT. No questions, Mr. Chairman.

Mr. NICHOLS. Thank you.

Mr. BOB WILSON. Thank you, Mr. Chairman. I appreciate it.

Mr. NICHOLS. Thank you. We appreciate your testimony.

Our next witness is the Honorable Leon E. Panetta from California.

We're pleased to have you with us, Mr. Panetta.

STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE FROM CALIFORNIA

Mr. PANETTA. Thank you, Mr. Chairman.

Mr. Chairman, I am here to testify in favor of title II of the legislation that is before the subcommittee, S. 91. The bill, as you know, passed the Senate on May 28. I want to extend my thanks to the subcommittee for holding these hearings today on this bill.

Earlier this year, I cooperated with Senator Humphrey on the Senate side in developing legislation to permit survivor benefit plan enrollees to suspend payments into SBP if they also qualify for benefits under the dependency and indemnity compensation program, the DIC program, which is run by the Veterans' Administration. Senator Humphrey introduced S. 2463, which became title II of S. 91. My bill, H.R. 7026, is identical to that legislation and also has been referred to this subcommittee for your consideration. I want to strongly urge this subcommittee to include this legislation in any kind of comprehensive reform of the survivor benefit plan, and if you decide to proceed with S. 91 to certainly retain title II, that section relating to the legislation I just mentioned.

Very briefly, let me say that this legislation is needed to correct an inequity in the survivor benefit plan which affects about 12,570 totally disabled veterans. The inequity arises from the fact that these disabled veterans who retired from the military as enrollees in the SBP plan were made eligible for the dependency and indemnity compensation program as well. Public Law 94-579 liberalized the definition of service-connected deaths, thereby expanding the population of eligible DIC beneficiaries to include those whose spouses had previously been covered by the SBP program.

Those who chose to enroll in the SBP when DIC benefits were not available should not now be required to continue making payments into SBP for benefits they will never receive. As it happens, DIC benefits are much more advantageous to the survivors of totally disabled veterans than are the expected benefits associated with SBP.

Thus, most of those affected by this legislation would certainly opt to suspend their enrollment in SBP in favor of the DIC program.

Basically then, Mr. Chairman, what we're talking about is not putting the additional burden, particularly in the inflationary period, of forcing these individuals to pay into SPB when indeed they'll opt to receive DIC benefits.

The legislation I think is really more in the form of a technical amendment to bring SBP in line with current programs affecting a relatively small group of SBP enrollees.

I would urge the House Armed Services Committee to adopt this legislation, either as an independent measure or certainly as a part of the reforms that you're now dealing with.

As you know a number of, I guess almost all, the military retiree groups have voiced their approval of this legislation. The list is in my testimony.

I want to thank you and the members of the subcommittee for the opportunity to address you on this issue.

[The prepared statement of Hon. Leon E. Panetta follows:]

PREPARED STATEMENT OF HON. LEON E. PANETTA

Mr. Chairman: I am pleased to be able to testify this morning in favor specifically of Title II of the legislation before the Subcommittee (S.91). That bill, as you know, passed the Senate on May 28, I want to extend my thanks to the Subcommittee for deciding to hold these hearings today on this bill.

Earlier this year, I cooperated with Senator Humphrey in developing legislation to permit survivor benefit plan enrollees to suspend payments into SBP if they also qualify for benefits under the dependency and indemnity compensation (DIC) program, which is run by the Veterans Administration. Senator Humphrey introduced S. 2463, the bill which was subsequently incorporated as Title II of S. 91. My bill, H.R. 7026 is identical to S. 2463 and has been referred to this subcommittee for consideration. I want to strongly urge this Subcommittee to include my legislation in any comprehensive reform of the survivor benefit plan.

Very briefly, let me say that this legislation is needed to correct an inequity in SBP which affects some 12,570 totally disabled veterans. The inequity arises from the fact that these disabled veterans who retired from the military as enrollees in the SBP plan were made eligible for dependency and indemnity compensation (DIC). Public Law 94-579 liberalized the definition of service-connected deaths, thereby expanding the population of eligible DIC beneficiaries to include those whose spouses had previously been covered by the SBP program.

Those who chose to enroll in SBP when DIC benefits were not available should not be required to continue making payments into SBP for benefits they will never received. As it happens, DIC benefits are much more advantageous to the survivors of totally disabled veterans than are the expected benefits associated with SBP. Thus, most of those affected by this legislation would opt to suspend their enrollment in SBP in favor of the DIC program.

It is interesting that the SBP payments which the enrollee makes over the years are returnable in one lump sum to the survivor. While that provision is, of course, useful, it amounts to a forced savings account for those eligible to receive the higher DIC benefits—a savings account without interest. During periods of high inflation, it is truly punitive to require that SBP enrollees continue making monthly payments for no reason. My bill would suspend those payments, while permitting the enrollee to reenter SBP in the event that the Veterans' Administration, at some later date, revises downward the individual's disability rating.

This legislation is nothing more than a technical amendment which will bring SBP in line with current programs affecting a relatively small group of SBP enrollees. I sincerely hope that the House Armed Services Committee will adopt this legislation, either as an independent piece of legislation or as a part of broader reforms of the SBP plan. A close look at the provisions of the bill will suffice to assure my colleagues of its merits.

The following military retiree groups have already voiced their approval of this legislation:

Air Force Sergeants Association;
 American Legion;
 Amvets;
 Association of the United States Army;
 Chief Petty Officers Association, U.S. Coast Guard;
 Chief Warrant and Warrant Officers Association, U.S. Coast Guard;
 Fleet Reserve Association;
 Marine Corps League;
 National Association for Uniformed Services;
 Naval Reserve Association;
 Noncommissioned Officers Association;
 Reserve Officers Association;
 The Retired Officers Association; and
 Veterans of Foreign Wars.

Again, my thanks to the Subcommittee, especially Chairman Nichols for addressing this important matter.

Mr. NICHOLS. Thank you, Mr. Panetta.

I have no questions.

Mr. Mitchell?

Mr. MITCHELL. Thank you, Mr. Chairman.

I thank the gentleman for his statement, too, and I am familiar with his deep interest in this problem. I have no questions either. Thank you.

Mr. NICHOLS. Are there any other questions from other members of the subcommittee?

[No response.]

Mr. NICHOLS. Thank you very much.

Mr. PANETTA. Thank you, Mr. Chairman.

Mr. NICHOLS. Our next witness is Mr. William Amis, Assistant Director of Compensation for the Office of Assistant Secretary of Defense, Military Personnel Policy, and with him is Colonel Schrader.

Mr. AMIS. This is Col. Frederick Schrader, who has recently joined our office as the Director of Compensation.

Mr. NICHOLS. You may proceed, sir.

**STATEMENT OF WILLIAM R. AMIS, ASSISTANT DIRECTOR OF
 COMPENSATION, OFFICE OF THE ASSISTANT SECRETARY OF
 DEFENSE FOR MANPOWER, RESERVE AFFAIRS AND LOGISTICS**

Mr. AMIS. Mr. Chairman, I'm William R. Amis, the Assistant Director of Compensation in the Office of the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics.

Maj. Gen. R. Dean Tice, the Deputy Assistant Secretary for Military Personnel Policy, was scheduled to appear today. Unfortunately, he was called out of town to deal with an emergency situation. He extends his apologies to the committee and has asked that I appear in his place.

As I mentioned before, I am accompanied today by Col. Frederick A. Schrader, and would like to take this opportunity to introduce Colonel Schrader, who joined our staff last week as the Director of Compensation. In that position he and his colleagues will be formulating many of the views of the Department on the legislative items considered by the committee.

Mr. NICHOLS. Mr. Amis, I understand you're here to present the views of General Tice.

Mr. AMIS. That's right.

Mr. NICHOLS. Who would have been here, but I understand his wife is sick.

Mr. AMIS. She is suffering, yes, sir.

Mr. NICHOLS. You may submit this for the record if you want to.

Mr. AMIS. If I may, Mr. Chairman, I would like to do that. The statement of General Tice is lengthy, and in the interest of conserving the committee's time, if you have no objection, I would like to submit it for the record and summarize the portions of the bill for the committee.

S. 91 would make several changes to the survivor benefit plan. It would:

Change the formula for calculating retired member's cost for participation;

Limit the reduction in the SBP annuity to 40 percent as a result of the social security offset;

Eliminate the social security offset for survivors of certain reservists;

Provide SBP coverage for survivors of members who died on active duty prior to September 21, 1972, and were retirement eligible at their death; and

Suspend the reductions in retired or retainer pay for totally disabled members.

Mr. Chairman, the Department of Defense generally supports the amendments proposed in S. 91. Our support is tempered, however, by our view that an actuarially neutral survivor program should be established for future participants. Such a view is compatible with the administration's proposal to reduce Government subsidies to the survivor plans. That principle is embodied in the administration's legislative proposal on total compensation comparability for Federal civilian employees that would also serve to eliminate future Government survivor benefit costs for Federal workers.

Against that background, Mr. Chairman, I would like to discuss each of the features of the bill.

Changing the formula for calculating reductions in retired pay to a method identical to that applicable to the Federal civilian employee survivor program has been identified as an item that should be changed. When the SBP was established it was intended that the plans be similarly structured. Unfortunately, the cost calculations for participation are different. Costs for military participation are totally recalculated with each adjustment in retired or retainer pay. By contrast, civilian costs are calculated at time of retirement, the retired pension is reduced, and any percentage increases are applied to the reduced pension amount. As a result of this difference, military members are paying more for the same amount of coverage than retired civilian employees. We believe the situation should be corrected for our participating members. The proposal would accomplish that change.

The Senate bill has retained the social security offset provision for survivors with one dependent child entitled to the mother's benefit and for those reaching age 62 entitled to social security benefits. The amount of the offset is based solely on the military service

of the member and does not include any social security benefits flowing from other sources of covered employment. Social security benefits are not reduced. The Senate bill limits the amount of the offset applicable to the SBP annuity to a maximum of 40 percent. Consequently, survivors would always be entitled to receive at least 60 percent of the SBP annuity. While it will help protect the survivors of all retirees, this will mainly concern survivors of enlisted members and more junior officers who often face an offset that eliminates or drastically reduces the SBP annuity amount. We believe that limiting the offset to a maximum of 40 percent of the social security benefit solely attributable to military service will improve the attractiveness of the plan for our participating members.

Eliminating the social security offset for certain Reserve component members is logical. In many instances, the majority of an individual's military affiliation is in the Reserves through drills and active duty for training. Most are working in the private sector and are covered by social security in their primary employment. They pay the social security tax in their civilian employment and also pay that tax on the amounts of military pay received. If the tax on their civilian earnings exceeds the maximum rate, they may claim a tax refund on that amount paid from military pay. As a consequence, no social security benefits flow from military service. S. 91 would eliminate the social security offset for reservists if they serve continuously on active duty for 30 days or less and receive a tax refund on the social security taxes paid on military income in that year. In determining the social security offset, only those years not excluded by the bill would be considered. Such an amendment is reasonable for participating members, since their military service is not contributing to the social security benefit for survivors under the plan.

SBP entitlement would be extended to a survivor whose member spouse died on active duty prior to September 21, 1972, if that member was entitled to retired or retainer pay at the time of death. The amount of the annuity would be 55 percent of the retired pay to which the member would have been entitled adjusted by increases in retired pay that occurred from the date of death to September 20, 1972, and further adjusted by increases in annuities between October 1, 1972, and the effective date. Mr. Chairman, we defer to the committee on this item, but we recommend that the annuity adjustment relating from the date of death to September 20, 1972 be deleted. When cost-of-living adjustments were extended to certain retired serviceman's family protection plan annuities, they applied only from September 21, 1972, through the present. We believe the same consideration should be extended to this category of survivors. Additionally, we note that there is no offset for amounts of minimum income payments made under section 4 of Public Law 96-425, the original SBP law. The bill is also silent concerning the remarriage of such survivors prior to age 60. Under current law, remarriage prior to age 60 terminates SBP eligibility, and we believe that such restrictions should be included in this proposal.

Mr. Chairman, the last feature of the bill I want to cover concerns discontinuing participation in the plan for members who are rated totally disabled by the Veterans' Administration and have been so rated for 10 or more years, or while so rated for at least 5 years from

the member's date of release or separation from duty. We are not opposed to the intent of this feature. We do have some concerns on the technical language. Our statement for the record elaborates on these concerns. In summary, however, it would appear that discontinuance of participation may act as an unintentional bar to receive SBP annuity amounts if such amounts exceed the dependency and indemnity compensation amount, since the member would not be in a participating status. There is also an administrative burden placed on the department which we do not believe would be necessary. A length of remarriage is not included, as in the VA law and under other sections of the SBP law.

Briefly, Mr. Chairman, I would like to address the costs associated with this bill. Very detailed information is included in our statement for the record. Under the current law as we have it today, the Government will continue to realize a cumulative cost avoidance of over \$1 billion until 1989. We will be in the black. Reductions in retired pay will exceed benefit payments. For the next 20 to 25 years we do have costs, but we return to the plus side in about 2015. In effect, members will be more than paying their own way. If the bill were enacted, however, the cost picture changes.

If all the features of S. 91 were provided, the Government would continue to realize a savings in net disbursements from 1981 through 1985 of \$716.7 million. Beginning around the end of the decade, however, net disbursements would begin to exceed reductions in retired pay. Using then year inflated dollars, the cumulative dollar figure would be about \$6 billion by the year 2000. While that is a significant figure, it becomes less dramatic when you consider that in constant 1980 dollars the cumulative figure is about \$2 billion.

We have also looked at each feature of the bill to see what the differences in costs would be between the current system and those proposed by S. 91. We estimate that the cumulative costs for 1981 through 1985 for each feature would be:

For the formula change, \$210.2 million.

For the offset change, \$27.1 million.

For the pre-72 widows, \$96.7 million.

For the reserve offset, zero.

For the totally disabled member, zero.

With these changes, members' contributions over this 5-year period will still exceed benefit payouts by about \$717 million, as I mentioned earlier. Our statement for the record contains more specific analyses of each feature, by year, through the year 2000, and then into the 21st century.

In conclusion, Mr. Chairman, I would like to outline the administration's proposal for an actuarially neutral survivor system. It would provide a dual annuity system that is protected by cost-of-living adjustments, is not integrated with other systems, and is not intended to involve a Government subsidy. Costs would be suspended when there is no eligible beneficiary. The first type annuity is an income replacement annuity designed to fill the income loss due to the member's death. The second type is a short-term income maintenance annuity to meet the income needs of the survivor until that survivor reaches age 62. Also, a member could combine both types of annuity coverage. In each type of annuity, or in combination, the maximum

amount of benefit could not exceed 55 percent of retired or retainer pay. The structure of the plan provides flexibility to members in establishing their estate needs in the future. The costs of providing these types of survivor protection would be based on an actuarially neutral method, and the reduction in retired pay will be determined as the share of the participating member's cost to provide the survivor annuity.

If this new program were enacted for future retired members, member contributions would initially exceed benefit payouts. This situation would probably continue until about the first quarter of the 21st century, when members' deaths would increase as would the number of survivors. At that time a relative balance will be achieved in retired pay reductions and benefit payouts for those covered by the administration's proposal.

Upsetting that balance, however, will be the residual of members currently participating who would be covered by the amendments offered by S. 91. For this residual population the cumulative net disbursements for the next 5 years would be a minus \$386 million. For 1981 through the year 2000 these cumulative net disbursements would be approximately \$12 billion.

In combination, we see that the Administration's proposal, including the S. 91 residual population, will result in a minus net disbursement of \$889 million for 5 years. Through the end of the century the two systems in combination will result in cumulative costs of \$2.99 billion.

These data are more refined in our statement for the record.

Mr. Chairman, this concludes my summary of the main points contained in the formal statement. I do want to take this opportunity to say that we appreciate the priority the committee has placed on the survivor benefit plan. Since this is a valuable and important element of our military retirement system, your consideration reflects our mutual concern for the well-being of our men and women in uniform and their families.

Mr. Chairman, I will be happy to answer your questions if I can.

**WRITTEN STATEMENT OF MAJ. GEN. R. DEAN TICE, USA,
DEPUTY ASSISTANT SECRETARY FOR MILITARY PER-
SONNEL POLICY, DEPARTMENT OF DEFENSE**

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before the Committee and present the views of the Department of Defense on S.91, a bill to remove certain inequities in the Survivor Benefit Plan (SBP). Today, I am accompanied by Colonel Frederick A. Schrader and Mr. William R. Amis. Colonel Schrader has been recently assigned to my staff as the Director of Compensation and, with your permission, would like to take this opportunity to introduce him to the Committee. As we continue our work with the Committee toward providing adequate and comprehensive items of compensation for the men and women in uniform, their dependents, and survivors, Colonel Schrader and his colleagues will be formulating the Department of Defense's position on many of the legislative items addressed by the Committee.

Mr. Chairman, S.91, as passed by the Senate and referred to this Committee makes several amendments to the Survivor Benefit Plan for members of the uniformed services. These amendments would:

- Change the method of calculating members' cost for participation in the Plan;
- Provide that the Social Security offset to the SBP annuity not reduce the SBP payment by more than 40 percent;
- Change the method of calculating the Social Security offset for certain reserve members;
- Provide an annuity for certain widows of members who died on active duty before September 21, 1972, and were retirement eligible at the time of death; and,
- Allow certain totally disabled veterans to suspend participation in the Plan under certain conditions.

Generally, the Department of Defense supports the improvements to the Plan embodied in S.91 for those current participants. Our support, however, is not unilateral. As we testified before the Senate Committee, the Administration's support for these improvements to the current Plan is contingent upon the establishment of an actuarially neutral survivor program for future participants. That position has not changed Mr. Chairman, however, I would like to briefly summarize each feature of the bill, and present our views.

Revising the calculation of members' costs to a method identical to that resident in the civil service survivor program will achieve equity between the two system. Presently, a member is charged 2 1/2 percent for the first \$300 of monthly retired pay constituting the base amount, plus 10 percent of the base amount exceeding \$300. With each retired pay adjustment, a member's costs are recalculated on the increased base amount. By contrast, the retired civil servant's costs are calculated in the same manner as that for the military only at retirement. When civilian retired pay is adjusted, the costs are not recalculated on the increased base amount. Rather, the percentage is applied to the initial reduced retired pay. As a result of these differing techniques, the military member pays more than a Federal civilian retiree for the same amount of survivor protection. The Department recognizes that this differing costing technique is contrary to the intent of the original enabling legislation which was designed upon the civil servant survivor annuity program. We have supported this proposed amendment to establish equity in the cost methodology.

The Survivor Benefit Plan annuity was designed to supplement the Social Security benefits to which a surviving spouse became entitled. This was to assure that a member

could provide survivor protection equal to a maximum of 55 percent of retired pay received. The technique used was an integration of the two benefits through an offset procedure at the surviving spouse's age 62. The amount of the SBP annuity is reduced by the amount of the social security benefit to which a surviving spouse would be entitled, if any, based solely on the military service of the member. There is no reduction made in the social security benefit to which a survivor is entitled to receive. Since 1957, military service has been covered employment for social security purposes, and members have been taxed in the same manner as other covered employees. Consequently, the offset now applies to the majority of retiring members and will eventually apply to all members. Because social security benefits have been improved, the determination of those benefits revised, the regressive nature of social security benefits, and the fact that greater numbers of members' full careers are fully covered, the integration feature often results in a complete offset in the SBP annuity. This is especially true among the enlisted retiree population. The offset feature often eliminates the SBP annuity or reduces it to a very low amount. Members perceive this feature of the Plan as extremely inequitable since they have received reduced retired pay for participating in the SBP and have met their social security tax obligation while on active duty. It is difficult for them to accept the integration offset feature when they believe that they have paid for, and are entitled to, the benefits from the SBP and social security.

The Senate bill would assure that the social security offset to the SBP would not exceed 40 percent. As proposed, survivors would be assured of receiving at least 60 percent of the SBP annuity to which entitled. This would apply when the surviving spouse attained age 62, or when there

was one dependent child and the spouse was entitled to the Mother's Benefit from Social Security. Because of the nature of the social security benefit structure, this feature would be of significant benefit to the retired enlisted population who are presently experiencing the largest proportion of offset. Mr. Chairman, we believe that this proposal will be a significant improvement in the Plan for current participants and present annuitants.

The bill proposes to eliminate the social security offset for those survivors whose member spouses had served on active duty for 30 continuous days or less in a year and had received a federal income tax refund during that year. This feature of the bill would concern members of the Reserve components who are covered by social security in their civilian employment as well as their reserve service. For these members, the maximum level of social security taxation is paid through their civilian employment. Although this occurs, we are also required to deduct the tax from the military pay received. When the individual has paid the maximum amount, they may receive a tax credit on their federal income tax return in the excess that they have paid over the maximum. If enacted, we would exclude from the offset calculation any year in which the member served 30 or fewer continuous days of active duty and had received a tax refund. However, we would include any year during which the member served more than 30 continuous days of active service. Because of the progressive nature of the legislation, this feature would not apply to any portion of military service performed prior to the effective date of the bill. Since none of the social security benefits would be attributable to military service, it is consistent with the intent of the SBP that the offset be eliminated in such instances.

The Senate bill would extend SBP benefits to the survivors of members who died on active duty prior to September

21, 1972, and, but for serving on active duty, were entitled to retired or retainer pay on the date of death. Prior to enactment of the SBP law in 1972, there was no financial protection for survivors of members dying on active duty other than veterans' benefits. Recognizing this, the SBP law provided a feature that entitled a survivor to 55 percent of the retired or retainer pay to which a member was otherwise entitled, if death occurred on active duty. However, the feature was not retroactive to include pre-1972 survivors of retirement eligible members. Currently, if a member is on active duty, is retirement eligible, and dies, the spouse automatically receives 55 percent of the retired pay to which the member would have been entitled. In these circumstances of death, a spouse would normally be entitled to also receive Dependency and Indemnity Compensation (DIC) from the Veterans' Administration. The amount of DIC is reduced from the amount of the SBP annuity. If this feature were enacted. The SBP/DIC integration would operate in the same manner. Additionally, the SBP/Social Security integration would be operative.

I note, Mr. Chairman, that the bill would provide percentage increases in the annuity amount covering two time frames - one from the date of death until September 20, 1972; and, two from October 1, 1972, to the effective date, if enacted. By comparison, when Public Law 95-397 was enacted, it provided an adjustment in Retired Serviceman's Family Protection Plan annuities from September 21, 1972, to the date of enactment. For consistency, the Committee may wish to consider that only the cost-of-living adjustments should be those that have occurred from September 21, 1972, to the present. We also note that there is no bar to receipt of this SBP extension if the survivor is remarried prior to age 60, as exists for other SBP annuitants. Neither is there an offset for minimum income widow payments under Section 4

of Public Law 94-425. Unfortunately, we do not maintain individual records on this category of survivors. Consequently, were this feature to be enacted, we would not be able to advise the individual survivors of their entitlement. We would, however, make every reasonable effort to publicize the features of this expanded eligibility and certify their applications.

Mr. Chairman, we are sympathetic with the intent of this feature. Many survivors believe they have a legitimate entitlement status and that an inequity needs to be corrected. Consequently, we defer to the Committee on this matter.

The last feature of the Senate bill concerns the suspension of SBP participation for members who are rated totally disabled by the Veterans Administration. This feature is similar to S.2463, and its companion bill H.R. 7026. The proposal would remove an anomaly in the Survivor Benefit Plan (SBP) for members of the uniformed services that was created with the enactment of Public Law 95-479, October 18, 1978 (92 Stat. 1564). That Public Law amended 38 USC 410 concerning deaths entitling survivors to Dependency and Indemnity Compensation (DIC) payable by the Veterans Administration. As amended, a surviving spouse, married to a veteran for not less than two years immediately preceding that veteran's death, automatically becomes entitled to the Dependency and Indemnity Compensation benefit when the veteran dies, not as the result of willful misconduct, if the veteran was in receipt of compensation at the time of death for a service-connected disability. As a further requirement, that service-connected disability (1) must be continuously rated as totally disabling for a period of ten or more years immediately preceding death, or (2) if so rated for a lesser period, was so rated continuously for a period of not less than five years from the date of such veteran's discharge or other release from active duty.

Under the provisions of 38 USC 410(b)(3), for the purposes of 10 USC 1448(d), concerning eligibility to the Survivor Benefit Plan annuity for the spouse of a retirement eligible member, and 10 USC 1450(c), concerning the integration of the Survivor Benefit Plan annuity with the Dependency and Indemnity Compensation benefit, eligibility for benefits under 38 USC 410 shall be deemed as eligibility for dependency and indemnity compensation.

The Survivor Benefit Plan annuity is integrated with the Dependency and Indemnity Compensation benefit. The survivor of a member who dies on active duty after becoming eligible for retirement may be entitled to an SBP annuity as a supplement to Veterans' Administration DIC. A spouse, whose DIC entitlement is less than the maximum SBP annuity that would have been received had the member been retired on the date of the member's death, is entitled to an SBP annuity in an amount sufficient to make up the difference. The SBP annuity also functions as a DIC supplement when a member dies in retirement of a service-connected cause and the member's widow is eligible for DIC. In this situation, the surviving spouse is eligible for SBP payments only to the extent that the SBP entitlement exceeds the DIC entitlement. If no SBP annuity is payable because the DIC entitlement is equal or greater, all SBP contributions made by the retired member before death are refunded to the surviving spouse. If part of the SBP annuity is payable, the member's retired pay reductions are recalculated based on the lower annuity and the excess contributions are refunded to the surviving spouse.

The costs of participation in the SBP are by reductions in retired or retainer pay as set out in 10 USC 1452. Public Law 94-496 amended that section by prohibiting a reduction in retired or retainer pay during any month in which there is no eligible spouse beneficiary. Notwithstanding this sus-

pension, the costs of participation may not be terminated if a spouse enters a DIC eligibility status under 38 USC 410(b)(3) since such spouse does not lose eligibility to the SBP annuity. Rather, the SBP law (10 USC 1450(c)) requires a reduction in the amount of the SBP annuity. It does not interrupt a spouse's eligibility status to the annuity. Consequently, reductions in retired or retainer pay must be continued even though eligibility to DIC has been accomplished under 38 USC 410. In certain instances, the continued reductions in retired or retainer pay would produce no SBP benefit to the surviving spouse, or a reduced annuity.

This feature of the bill is intended to correct the anomaly existing for retired members participating in the SBP who have been awarded service-connected disability compensation rated as total for a period of ten or more years. The Department of Defense is sympathetic with this intent and believes that the law should be clarified. As proposed, however, we have some technical concerns regarding the proposed language.

We are concerned that the suspension of a member's election to participate in the Plan may raise questions as to the surviving spouse's continuing eligibility to the SBP annuity. This is especially relevant in instances where the DIC amount would be less than the SBP annuity to which a spouse would otherwise be entitled. Consequently, we recommend that a member may request the suspension of reductions in retired pay by submitting a notice of suspension in writing to the Secretary concerned.

In instances, when the SBP annuity would be greater than the DIC amount, we believe that it would be appropriate to recalculate a member's cost based on the lesser amount of the SBP annuity. This would assure that the member's contribution would only be based on the difference between the SBP

annuity and the DIC amount. To accomplish this, we recommend that the language of the bill include a statement indicating that, "if, because of this subsection, the annuity to which a spouse would otherwise be entitled is less than the amount established under section 1451 of title 10, United States Code, the annuity to which the spouse would otherwise be entitled shall be recalculated under that section. The amount of the reduction in the retired or retainer pay required to provide that recalculated annuity shall be computed under section 1452 of this title." Such a mechanism would be similar to the present method by which reductions in retired pay are recalculated after the fact of a member's death and the award of DIC. In this instance, however, we do not believe it is appropriate to refund a portion of retired or retainer pay reductions since SBP protection has been provided during the interim period.

The proposed amendment would permit suspension of reductions in retired or retainer pay under two circumstances: (1) if a member were rated as totally disabled for a continuous period of ten or more years, or (2) if rated as totally disabled for a continuous period of not less than five years from the date of discharge or release from active duty. We believe it appropriate to authorize such suspension of costs under these circumstances.

As proposed, section 2 of the bill would require the Secretary concerned to furnish a statement of advantages and disadvantages of requested suspension actions. We believe that such a requirement would place an excessive administrative burden on the Military Departments that would be of limited benefit. Since the proposal requires the written consent of the beneficiary or beneficiaries under the Plan prior to any suspension, we believe the additional requirement would not be necessary, and recommend that feature be deleted from the bill.

We agree with the inclusion of the proposed subsection (g)(4), to permit a member to increase coverage if the disability rating is reduced; however, it would be necessary to make some technical conforming revisions consistent with our other recommendations. We will be glad to work with the Committee staff on these technical matters.

Mr. Chairman, I would now like to discuss the costs associated with S.91. Under today's SBP we are finding that member costs are subsidizing the annuity program. The reductions in retired pay exceed the benefit payouts by significant amounts and can be expected to do so for about ten more years. From about 1990 until shortly after the turn of the century, the benefit payouts will exceed the reductions in retired pay. We expect that picture will change, however, between 2010 and 2015 when, once again contributions heavily exceed the amount of annuities paid to survivors. This scenario on the current SBP system is shown in the following cost projection table. We believe this display illustrates one of the compelling reasons for making amendments to the current system. Members should not be expected to pay more for a survivor benefit than will be received through the annuity. This formed one of the reasons for the Administration to propose the establishment of a two-tiered survivor annuity program. As the table depicts, the projections are in "then year" dollars with appropriate inflation and wage growth assumptions.

Cost Projections¹ for SBPCurrent Law
(100% Social Security Offset)Millions of "then year" dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>Reductions to Retired Pay of Members</u>	<u>Benefit Payouts</u>	<u>Net Disbursement</u>
1980 ²	\$ 413.8	\$ 210.5	\$ -203.3
1981	502.6	271.3	-231.3
1982	590.4	356.7	-233.8
1983	653.6	434.9	-218.7
1984	716.0	518.9	-197.1
1985	774.9	605.0	-169.9
1986	828.7	691.3	-137.3
1987	883.3	781.2	-102.1
1988	942.5	877.6	-64.8
1989	1,004.7	979.9	-24.9
1990	1,069.4	1,088.0	18.6
1991	1,138.0	1,202.5	64.6
1992	1,211.2	1,323.7	112.5
1993	1,289.0	1,447.7	158.8
1994	1,373.0	1,573.4	200.4
1995	1,463.2	1,698.3	235.1
1996	1,564.2	1,825.8	261.5
1997	1,670.0	1,956.4	286.4
1998	1,775.5	2,087.7	312.2
1999	1,885.2	2,218.6	333.4
2000	1,999.3	2,346.2	346.9
2010	3,481.7	3,530.1	48.4
2025	7,923.1	5,820.1	-2,103.0
2035	13,620.8	9,716.2	-3,904.7
1981-1985	3,237.5	2,186.8	-1,050.7
1981-2000	23,334.7	24,285.2	950.5

If all the features of S.91 were enacted it would obviously change the cost projections for the present system. The next table represents what the net disbursements would be assuming enactment of the bill. As shown, the government would still be, in an advantageous position for the next few years. Reductions in retired pay would continue to exceed the annuity payment for about six years. Thereafter, costs to the government will grow. Their growth, of course, is also the result of inflation trends and wage growth which have a tendency to escalate the "then year" dollars.

Cost Projections¹ for SBP

S.91

Millions of "then year" dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>Reductions to Retired Pay of Members</u>	<u>Benefit Payouts</u>	<u>Net Disbursement</u>
1980 ²	\$ 413.8	\$ 210.5	\$ -203.3
1981	488.2	294.0	-194.2
1982	561.4	380.3	-181.1
1983	610.8	459.5	-151.3
1984	660.0	544.4	-115.6
1985	706.9	632.3	- 74.5
1986	750.5	721.3	- 29.2
1987	795.5	815.5	20.0
1988	844.9	918.3	73.5
1989	897.4	1,029.4	132.0
1990	952.2	1,149.2	197.0
1991	1,011.0	1,278.4	267.4
1992	1,074.6	1,417.8	343.1
1993	1,143.0	1,565.4	422.5
1994	1,217.8	1,720.7	503.0
1995	1,298.8	1,883.1	584.3
1996	1,391.0	2,055.4	664.3
1997	1,488.2	2,238.5	750.1
1998	1,585.5	2,430.8	845.3
1999	1,687.3	2,632.7	945.3
2000	1,794.1	2,843.2	1,049.2
2010	3,228.1	5,374.5	2,146.3
2025	7,652.3	11,223.5	3,571.2
2035	13,346.6	19,057.2	5,710.5
1981-1985	3,027.3	2,310.5	-716.7
1981-2000	20,959.5	27,010.0	6,050.5

We have also looked at each feature of S.91 to see what the cost implications would be. If I may, I would like to talk about these separate costs.

Revising the formula for member costs to that applicable to retired civil servants will make the SBP participation less costly to individuals. The following table draws a comparison between the current SBP cost formula and that used in the civilian survivor annuity program. As you can see,

Cost Projections¹ for SBP

Reductions in Retired Pay Under Civil Service Method

Millions of "then year" dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>Present Formula</u>	<u>Civil Service Formula</u>	<u>Difference</u>
1980 ²	\$ 413.8	\$ 413.8	\$ 0.
1981	502.6	488.2	14.4
1982	590.4	561.4	29.1
1983	653.6	610.8	42.8
1984	716.0	660.0	56.0
1985	774.9	706.9	68.1
1986	828.7	750.5	78.1
1987	883.3	795.5	87.8
1988	942.5	844.9	97.6
1989	1,004.7	897.4	107.4
1990	1,069.4	952.2	117.2
1991	1,138.0	1,011.0	126.9
1992	1,211.2	1,074.6	136.5
1993	1,289.0	1,143.0	146.0
1994	1,373.0	1,217.8	155.3
1995	1,463.2	1,298.8	164.4
1996	1,564.2	1,391.0	173.2
1997	1,670.0	1,488.2	181.8
1998	1,775.5	1,585.5	190.0
1999	1,885.2	1,687.3	197.8
2000	1,999.3	1,794.1	205.3
2010	3,481.7	3,228.1	253.5
2025	7,923.1	7,652.3	270.8
2035	13,620.8	13,346.6	274.2
1981-1985	3,237.5	3,027.3	210.2
1981-2000	23,334.7	20,959.2	2,375.5

the revision in the formula has the tendency to lessen the reductions in retired pay that constitute member costs. The by year costs continue to be substantial. On a cumulative basis, member contribution from 1981 through 2000 will be almost \$21 billion under the revised formula compared to the \$23.3 billion that would occur under the present formula.

Limiting the amount of the social security offset applied to the SBP annuity to a maximum of 40 percent places a "cap" on the offset amount. Survivors are assured of receiving at least 60 percent of the SBP annuity. The following table shows the comparison between the present benefit payouts with the 100 percent offset feature and what the benefit payouts would be if the 40 percent limitation were enacted. These projections have assumed an inflation and wage growth factor to portray the "then-year" dollars and the difference between the two methodologies of applying the social security offset. Under each set of circumstances, the offset is based only on the social security benefit attributable to military service. On a cumulative basis, using inflated dollars, the difference is about 2.4 billion.

Extending SBP payments to the survivors of members who died on active duty prior to September 21, 1972, and who were retirement eligible at the date of death will have a declin-

Cost Projections¹ for SBPBenefit Payouts Under 40% Cap on
Social Security Offset

Millions of "then year" dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>Benefit Payouts (100% offset)</u>	<u>Benefit Payouts (40% cap)</u>	<u>Difference</u>
1980 ²	\$ 210.5	\$ 210.5	\$ 0.
1981	271.3	275.3	4.0
1982	356.7	361.1	4.4
1983	434.9	440.0	5.1
1984	518.9	524.8	5.9
1985	605.0	612.6	7.6
1986	691.3	701.8	10.5
1987	781.2	796.5	15.1
1988	877.6	899.4	21.8
1989	979.9	1,010.8	30.9
1990	1,088.0	1,130.9	42.9
1991	1,202.5	1,260.5	58.0
1992	1,323.7	1,400.3	76.6
1993	1,447.7	1,548.4	100.7
1994	1,573.4	1,704.2	130.8
1995	1,698.3	1,867.2	168.9
1996	1,825.8	2,040.1	214.3
1997	1,956.4	2,223.6	267.2
1998	2,087.7	2,416.8	329.1
1999	2,218.6	2,619.4	400.8
2000	2,346.2	2,830.6	484.4
2010	3,530.1	5,369.2	1,839.1
2025	5,820.1	11,223.0	5,402.9
2035	9,716.2	19,057.2	9,341.0
1981-1985	2,186.8	2,213.9	27.1
1981-2000	24,285.2	26,664.1	2,378.9

ing cost. The table below depicts the declining numbers of survivors concerned and the declining costs. With respect to the number of survivors, I must emphasize that we have no firm data on this population. Consequently, we have used an objective assumption based on secondary source information. We suspect that these projections are high given the age of the population and the remarriage rates. The cost projections

Cost Projections¹ for SBP

Widows of Members Who Died on Active Duty
Prior to 21 September 1972 Who Were Retirement Eligible

Millions of "then year" dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>Survivors</u>	<u>Total Cost</u>
1981	20,700	\$18.7
1982	19,521	19.2
1983	18,405	19.5
1984	17,346	19.6
1985	16,336	19.7
1986	15,368	19.5
1987	14,438	19.2
1988	13,536	18.9
1989	12,669	18.6
1990	11,832	18.3
1991	11,024	17.9
1992	10,242	17.5
1993	9,487	17.0
1994	8,758	16.5
1995	8,057	15.9
1996	7,383	15.3
1997	6,739	14.7
1998	6,124	14.0
1999	5,539	13.3
2000	4,987	12.6
2010	1,305	5.3
2025	59	.5
2035	3	.0
1981-1985		96.7
1981-2000		345.6

NOTE: This table has been computed using a 1981 average annuity of \$5,017 which is offset by an average DIC payment of \$4,103. Both amounts increase with inflation.

also assume cost-of-living adjustments from September 1972 rather than from date of death. As in the other projections, the feature costs are in "then year" dollars with the indicated inflation and wage growth assumptions. We expect that early in the next century, there will be few, if any, individuals remaining from this population.

Eliminating the social security offset for Reservists who serve less than 30 continuous days in a year and receive a refund on the social security tax paid on military income will concern few members. Since this change concerns only the offset due to wages after the law has passed, no effect will be noted in costs until late in the century. The twenty year cost to the year 2000 will increase by perhaps \$.1 million. Because of the small amounts, these costs have not been included in the detailed cost charts.

The feature of S.91 concerning disabled members who have been rated totally disabled for at least ten years has negligible costs. At the present time there are approximately 12,500 retired members participating in the SBP with spouse only coverage who have waivers of retired pay in effect for receipt of Veterans Administration disability compensation at the maximum amount for a total disability rating. In each case, it is reasonable to assume that the surviving spouses of such members would become entitled to receive Dependency and Indemnity Compensation payments at the member's death with a corresponding offset in the SBP annuity by an equal amount. In such instances, amounts of reduced retired pay would be refunded to the surviving spouse. Any costs that would be associated with this feature are predominately a change in the time period of money transfer. In most cases it represents money that would eventually be refunded to the widow. There is a small gain to the govern-

ment in that deductions made during the first ten years will not be refunded, if our recommendations on this feature are accepted.

Mr. Chairman, the following table combines each of the cost features of S.91 into one illustration. Here is shown the net disbursements under the current system, the change associated with each feature of S.91, and the resulting net disbursements if S.91 were enacted. As can be seen, the

Cost Projections¹ for SBP

S.91
With Cost Track from Current System

Millions of "then year" dollars
Post 1986 Inflation/Wage Growth = 5%/5.5%

Fiscal Year	Current System Net Disbursements	Formula Change	Offset Change	Pre 1972 Widows	S.91 Net Disbursements
1980	\$ -203.3 ²	\$ 0.	\$ 0.	\$ 0.0	\$ -203.3 ²
1981	-231.3	14.4	4.0	18.7	-194.2
1982	-233.8	29.1	4.4	19.2	-181.1
1983	-218.7	42.8	5.1	19.5	-151.3
1984	-197.1	56.0	5.9	19.6	-115.6
1985	-169.9	68.1	7.6	19.7	-74.5
1986	-137.3	78.1	10.5	19.5	-29.2
1987	-102.1	87.8	15.1	19.2	20.0
1988	-64.8	97.6	21.8	18.9	73.5
1989	-24.9	107.4	30.9	18.6	132.0
1990	18.6	117.2	42.9	18.3	197.0
1991	64.6	126.9	58.0	17.9	267.4
1992	112.5	136.5	76.6	17.5	343.1
1993	158.8	146.0	100.7	17.0	422.5
1994	200.4	155.3	130.8	16.5	503.0
1995	235.1	164.4	168.9	15.9	534.3
1996	261.5	173.2	214.3	15.3	664.3
1997	286.4	181.8	267.2	14.7	750.1
1998	312.2	190.0	329.1	14.0	845.3
1999	333.4	197.8	400.8	13.3	945.3
2000	346.9	205.3	484.4	12.6	1,049.2
2010	48.4	253.5	1,839.1	5.3	2,146.3
2025	-2,103.0	270.8	5,402.9	.5	3,571.2
2035	-3,904.7	274.2	9,341.0	0	5,710.5
1981-1985	-1,050.7	210.2	27.1	96.7	-716.7
1981-2000	950.5	2,375.5	2,378.9	345.6	6,050.5

government continues to be in an advantageous position in the near-years. The government will realize a cumulative savings of almost a billion dollars. There will be a growth in net disbursements beginning near the end of the decade partially due to the inflationary trends and the wage growth assumed. As in the other tables, the projections are in "then-year" dollars.

In conclusion, Mr. Chairman, I would like to briefly outline the Administration's proposal for an actuarially neutral plan for future participants. The present economic situation, the evolution of social security, and the modernization of the military compensation system do not support the extension of a continued government subsidy of the Survivor Plan for future participants. The private retirement plans now provide survivor options without additional cost to the employer. Application of this principle to the military system has been endorsed by the Defense Manpower Commission. Also, the Administration's proposal on total compensation comparability for federal employees will serve to eliminate future government survivor benefit costs for the civilian plan.

If enacted, the actuarially neutral plan would apply to any member entitled or eligible to retired or retainer pay, to include members eligible for Reserve retired pay under chapter 67 of title 10, United States Code. A member who is married and/or has a dependent child/children, who is not married or does not have a dependent child/children, who is on the temporary disability retired list, or who dies on active duty would be eligible to participate. Such members could either elect to participate or decline participation.

The actuarially neutral plan would offer two types of

survivor annuities without any integration with any other form of payments to which a survivor may be eligible to receive or be receiving. The first type of annuity is an income replacement annuity to recognize the income loss due to the member's death. The amount could not exceed 55 percent of the retired or retainer pay to which the member was entitled or eligible on the date of death, and is payable on the day following the date of the participating member's death.

The second type of annuity is an income maintenance annuity designed to meet income needs attributable to less senior surviving spouses. The amount of the annuity could not exceed 55 percent of the retired or retainer pay to which a participating member would be eligible or entitled on the date of death. This annuity, however, would only be payable to a survivor until the designated beneficiary's age 62.

Additionally, a participating member could also provide a combination of the two types of annuities as long as the combination did not exceed 55 percent of retired or retainer pay.

The costs of the annuities would be dependent upon the base amount of retired or retainer pay that base amount could be full retired or retainer pay, or a minimum of \$300. The base amount is adjusted by the same percentage and at the same time as retired pay, as are the survivor annuities. Costs are in the form of reductions to retired or retainer pay. The amount of the reduction is determined by the Secretary of Defense and may be adjusted. The amount of the reduction will be based on an actuarially neutral method without differentiation by sex. Such costs will not include any costs attributable to the extra hazard of military duty,

nor will it include any administrative costs. The reduction will be determined as the share of the cost to the member to provide the annuity and will not exceed that cost. Reductions in retired pay will be suspended when there is no eligible beneficiary.

Mr. Chairman, if the Administration's plan for future retirees were included with the features of S.91, we would have a two-track survivor annuity system into the next century. The next table shows the cost projections that would result from the Administration's proposal, in addition to the residual that would be carried forward if the provisions of S.91 became a fact of law. The following two tables provide a further refinement. One table shows the cost projections associated with the Administration's proposal. As is depicted, in the early years the amounts of reductions in retired pay can be expected to exceed benefit payouts for several years until a balance is achieved. Following that table, is an illustration of the projected cost of the S.91 residual that would occur for current participants. As can be seen, net disbursements will increase until shortly after the turn of the century. By about the first quarter of that century there will be a turn-around and net disbursements will begin to decline until that residual works its way out of the system. The last presentation is a graph that shows the flow of cost projections for the Administration's plan, S.91, the combination of S.91 and the Administration's plan. To keep the costs in perspective, there is also a representation of inflation.

Cost Projections¹ for SBP

Administration Proposal

Including S.91 Residual

Millions of "then year" dollars
 Post 1985 Inflation/Wage Growth/Interest=
 5%/5.5%/6%

<u>Fiscal Year</u>	<u>Reductions Retired Pay of Members</u>	<u>Benefit Payouts</u>	<u>Net Disbursement</u>
1980 ²	413.8	210.5	-203.3
1981	505.5	297.1	-208.4
1982	583.0	380.6	-202.4
1983	644.4	459.9	-184.5
1984	706.2	545.2	-161.0
1985	766.4	633.5	-132.9
1986	822.6	722.0	-100.6
1987	880.5	815.7	-64.8
1988	943.4	917.6	-25.8
1989	1009.8	1027.2	17.4
1990	1079.4	1145.1	65.7
1991	1152.4	1271.8	119.4
1992	1231.0	1408.1	177.1
1993	1314.7	1551.6	236.9
1994	1404.9	1701.9	297.0
1995	1501.6	1858.1	356.5
1996	1610.0	2022.9	412.9
1997	1722.9	2196.6	473.7
1998	1835.1	2378.1	543.0
1999	1952.2	2566.7	614.5
2000	2072.5	2761.3	688.8
2010	3580.5	4961.5	1381.0
2025	7893.2	9149.7	1256.5
2035	13420.8	14718.7	1297.9
1981-1985	3205.5	2316.3	-889.2
1981-2000	23738.5	26661.0	2922.5

Cost Projections¹ for SBPAdministration Proposal--
Neutral System OnlyMillions of "then year" dollars
Post 1985 Inflation/Wage Growth/Interest =
5%/5.5%/6%

<u>Fiscal Year</u>	<u>Reductions to Retired Pay of Members</u>	<u>Benefit Payouts</u>	<u>Net Disbursements</u>
1980	\$ 0.0	\$ 0.0	\$ 0.0
1981	31.6	1.1	- 30.5
1982	67.5	3.6	- 63.9
1983	106.7	7.7	- 99.0
1984	149.5	13.7	-135.8
1985	195.3	21.9	-173.4
1986	243.3	30.0	-213.3
1987	295.3	40.2	-255.1
1988	353.5	52.8	-300.7
1989	416.7	68.2	-348.5
1990	484.5	86.8	-397.7
1991	557.3	108.9	-448.4
1992	637.5	135.2	-502.3
1993	724.5	166.2	-558.3
1994	820.0	202.5	-617.5
1995	923.9	244.4	-679.5
1996	1,041.6	293.1	-748.5
1997	1,165.7	348.8	-816.9
1998	1,291.1	412.1	-879.0
1999	1,423.3	483.3	-940.0
2000	1,560.7	563.5	-997.2
2010	3,302.5	1,992.9	-1,309.6
2025	7,865.3	7,408.9	-456.4
2035	13,419.3	14,195.3	776.0
1981-1985	550.6	48.0	-502.6
1981-2000	12,489.5	3,284.0	-9,205.5

Cost Projections¹ for SBP

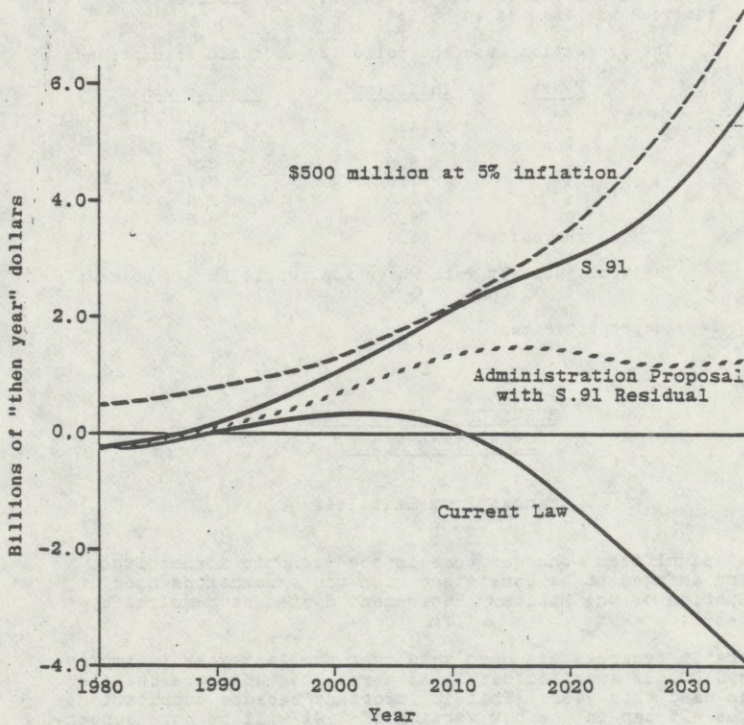
S.91 Residual

Millions of "then year" dollars
 Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>Reductions to Retired Pay of Members</u>	<u>Benefit Payouts</u>	<u>Net Disbursements</u>
1980	\$ 413.8	\$ 210.5	\$ -203.3
1981	473.9	296.0	-177.9
1982	515.5	377.0	-138.5
1983	537.7	452.2	- 85.5
1984	556.7	531.5	- 25.2
1985	571.1	611.6	40.5
1986	579.3	692.0	112.7
1987	585.2	775.5	190.3
1988	589.9	864.8	274.9
1989	593.1	959.0	365.9
1990	594.9	1,058.3	463.4
1991	595.1	1,162.9	567.8
1992	593.5	1,272.9	679.4
1993	590.2	1,385.4	795.2
1994	584.9	1,499.4	914.5
1995	577.7	1,613.7	1,036.0
1996	568.4	1,729.8	1,161.4
1997	557.2	1,847.8	1,290.6
1998	544.0	1,966.0	1,422.0
1999	528.9	2,083.4	1,554.5
2000	511.8	2,197.8	1,686.0
2010	278.0	2,968.6	2,690.6
2025	27.9	1,740.8	1,712.9
2035	1.5	523.4	521.9
1981-1985	2,654.9	2,268.3	-386.6
1981-2000	11,249.0	23,377.0	12,128.0

Cost Projections¹ for SBP
Yearly Net Disbursements
Comparison

Post 1985 Inflation/Wage Growth/Interest=5%/5.5%/6%



Enclosed with my statement are the cost projection footnotes that apply to all the tables. Additionally, I am providing a technical representation that better explains our simulation model and the logic used to develop our projections. I hope this will be helpful to the Committee and others that are interested in this subject.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions that you may have.

SBP

COST PROJECTION FOOTNOTES

The following notes are the economic assumptions applicable to and footnoted in the cost projections. In all of the charts, the participation of future retirees was assumed to be 55%.

1/ The projections use the following economic assumptions:

<u>Year</u>	<u>Inflation</u>	<u>Wage Growth</u>
1	14.5	11.7
2	9.2	8.5
3	8.6	8.4
4	7.6	7.7
5	7.0	7.2
6	6.2	6.6
thereafter	5.0	5.5

The real interest rate where applicable is .99 percent.

2/ Budget Estimates

SURVIVOR BENEFIT PLAN

SIMULATION MODEL

Changes From Last Year

The most significant changes were in the economic assumptions. They were changed to be consistent with the assumptions used in the Valuation of the Military Retirement System as required by P.L. 95-595.

Considerable progress has been made over the last year in improving the DMDC SBP specific data. As a result, much more detailed data was used this year. This is important because computations using the 40% cap in the new version of S.91 will be more susceptible to errors induced by data aggregation than was the 50% social security offset of last years' S.91. Examples of the data changes follow:

- Current Retirees: Last year all current retirees were used with an overall participation rate applied to the age groups. This year only SBP participants were included and thus no overall participation rate was necessary. Similarly, only the amount of the annuity covered was included for each age group and thus no overall annuity coverage rate was needed.

- Future Retirees: Recent SBP specific DMDC data was used to determine the participation age distribution and annuity coverage distribution.

SURVIVOR BENEFIT PLAN
SIMULATION MODEL

Determination of Net Disbursements
For Each Projection Year

Total Net Disbursements = Net Disbursements (Current Survivors)

+ Net Disbursements (Current Retirees)
+ Net Disbursements (Future Retirees)

Net Disbursements (Current Survivors) = Net Benefits =
Number of Survivors X (Gross Benefits/survivor -
Benefits Offset/survivor)

Net Disbursements (Current Retirees*) = Net Benefits
--Member Contribution

Net Benefits = Number of survivors X Gross Benefits Per Survivor

- Number of survivors under 62 X % with one child** X .75 X
SS offset

- Number of survivors over 62 X (.829 to 1)*** X SS offset

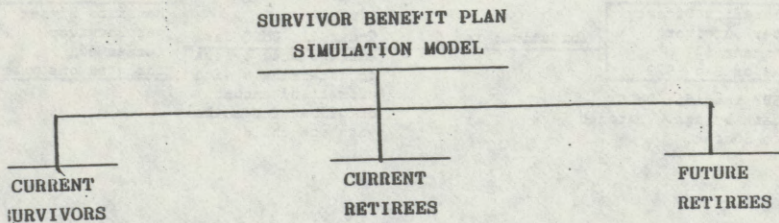
Member Contribution = Number of participants

X amount of contribution as determined by formula and amount
of coverage

Net Disbursements (Future Retirees*) = same as for Current Retirees

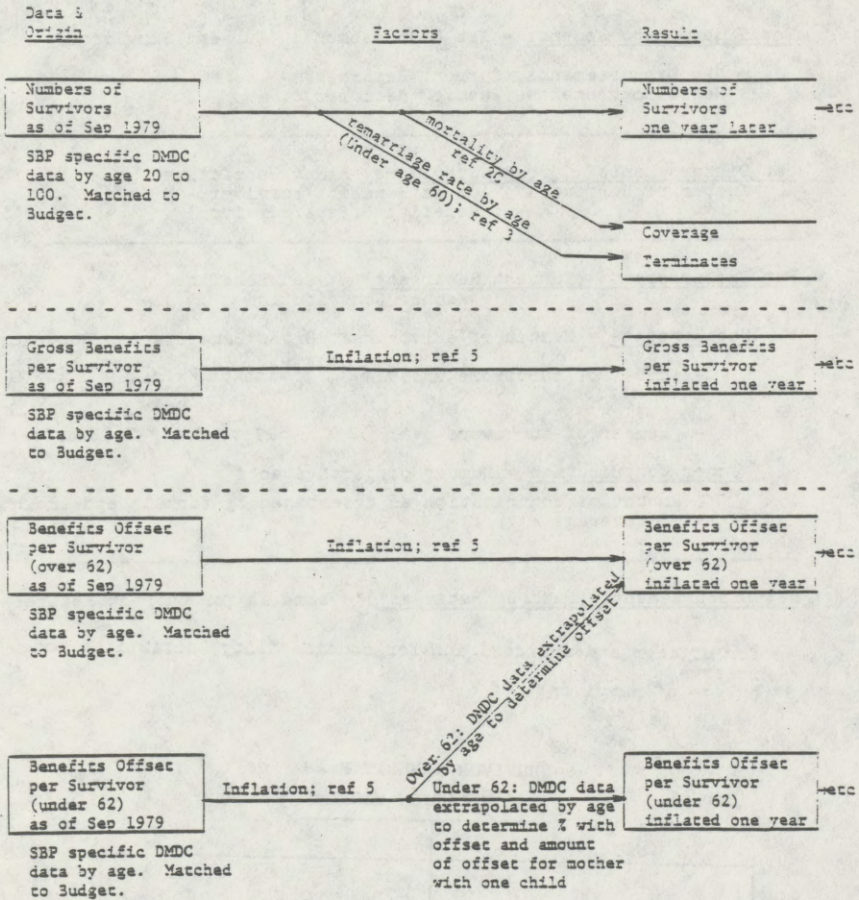
* for officer and enlisted and for nondisability, disability and
reserve

** by age of survivor: ref 6



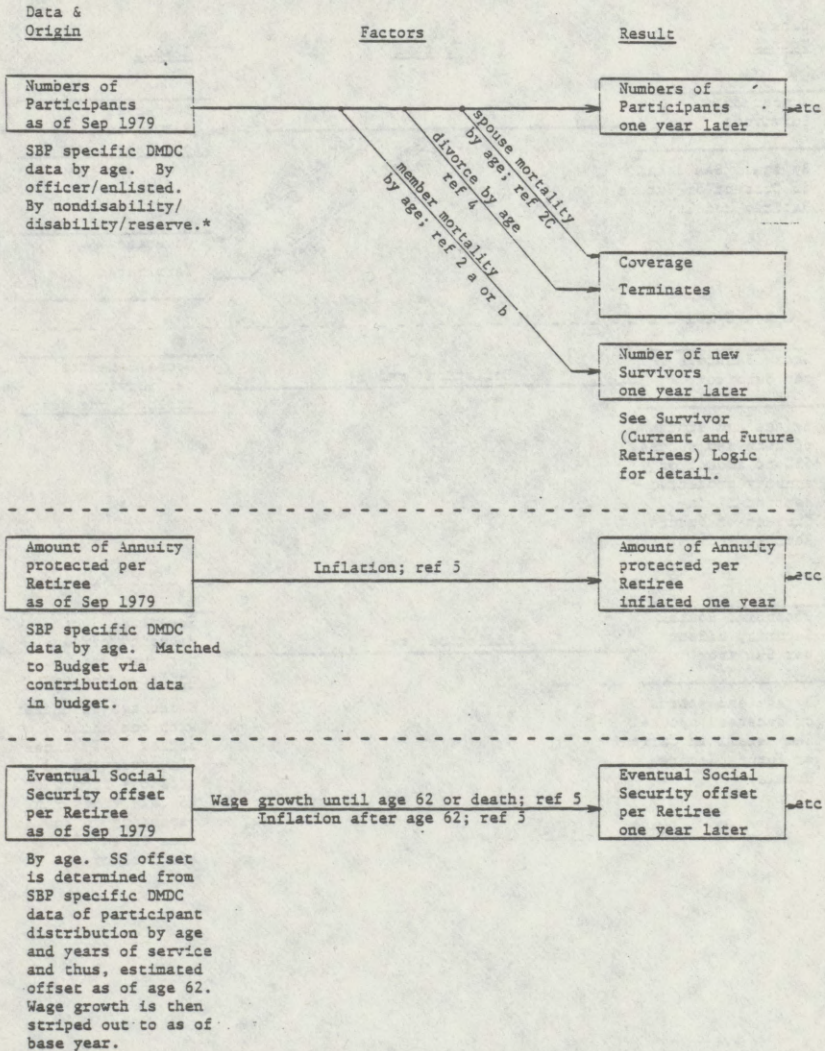
SURVIVOR BENEFIT PLAN
SIMULATION MODEL

Detail of Current Survivor Logic
(each year's iteration)



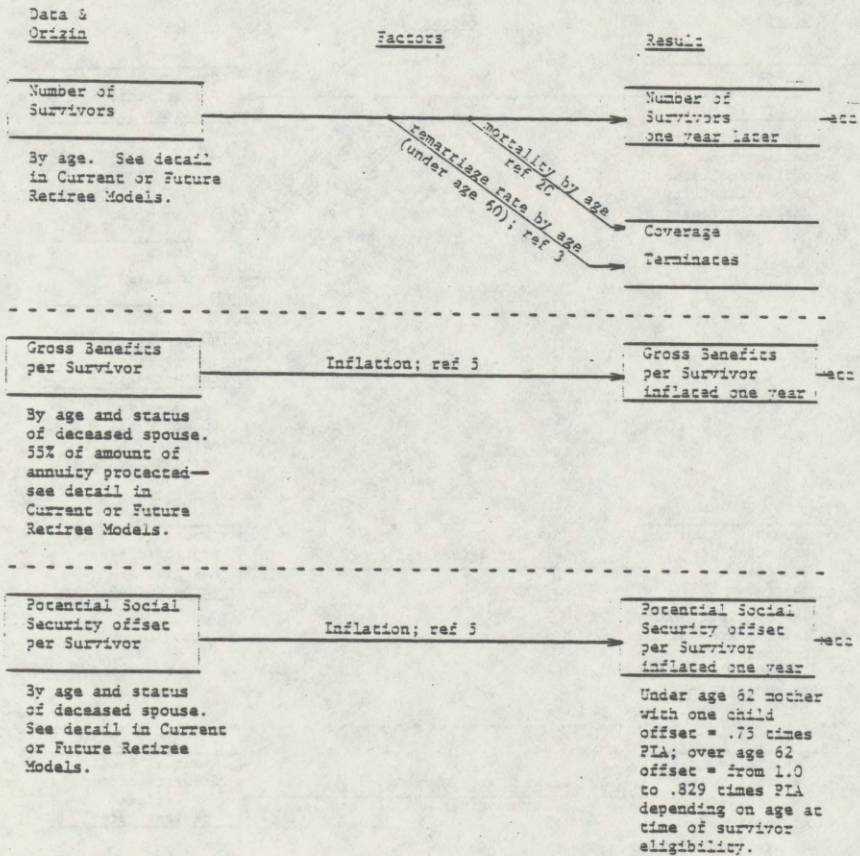
SURVIVOR BENEFIT PLAN
SIMULATION MODEL

Detail of Current Retiree Logic
(each year's iteration)



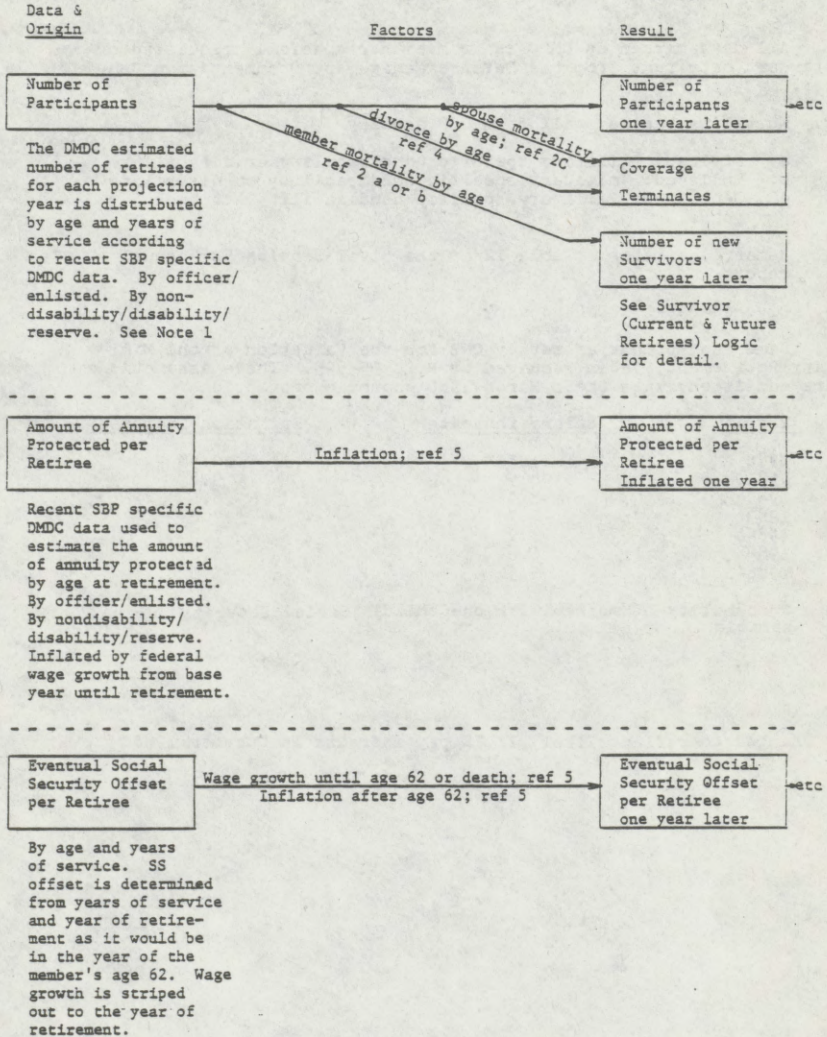
SURVIVOR BENEFIT PLAN
SIMULATION MODEL

Detail of Survivor (Current and Future Retiree) Logic
(each year's iteration)



SURVIVOR BENEFIT PLAN
SIMULATION MODEL

Detail of Future Retiree Logic
(each year's iteration)



SURVIVOR BENEFIT PLAN
SIMULATION MODEL

References

1. All data marked as DMDC is from either specially requested or standard data runs from the Defense Management Documentation Center.
2. Mortality tables: all from DOD actuary.
 - a. Officer: military specific nondisability or disability
 - b. Enlisted: military specific nondisability or disability
 - c. Dependent: military specific nondisability set back 5 years.
3. Remarriage rates: Table 12 of the civil service 50th annual report.
4. Divorce rates: DOD actuary.
5. Same assumptions as set by OMB for the Valuation of the Military Retirement System required by P.L. 95-595. These assumptions are consistent with their March 1980 economic projections.

<u>Year</u>	<u>Salary Increase</u>	<u>Inflation Increase</u>
1980	11.7%*	14.5%
1981	8.5	9.2
1982	8.4	8.6
1983	7.7	7.6
1984	7.2	7.0
1985	6.6	6.2
1986-2035	5.5	5.0

6. Probability of mother with one child: Social Security Administration.

* Changed to reflect likely 11.7% pay increase in October 1980.

Mr. NICHOLS. Mr. Amis, you heard our discussion here with Mr. Wilson concerning time restraints.

My question to you is: Presupposing that the committee and the Congress, and House of Representatives, saw fit to embrace S. 91 in its present form, what would be DOD's position on it? Would you be supportive of it?

Mr. AMIS. Mr. Chairman, as you know, we have supported the amendments offered in the Senate version of S. 91. Our support, however, is contingent on the establishment of an actuarially neutral plan. That was determined as the administration's position on this legislation as it was considered in the Senate and as it is being considered here in the House.

Mr. NICHOLS. Do I understand you, then, that you would not be supportive of S. 91 in its present condition, no changes whatsoever?

Mr. AMIS. Mr. Chairman, I'm afraid that we would still look to the establishment of an actuarially neutral plan.

Mr. NICHOLS. May I ask you what your personal opinion would be?

Mr. AMIS. Mr. Chairman, I deal with the SBP almost on a daily basis, and I see a good number of inequities that arise in the plan that can be corrected, and perhaps should be corrected. We have a good number of participating members that perhaps don't appreciate fully the advantages offered by the survivor benefit plan. I do think we have an opportunity to improve that plan, both for the future and for our future participants.

Mr. NICHOLS. We've been fighting this thing for the last two Congresses.

Mr. AMIS. Yes; you have, Mr. Chairman.

Mr. NICHOLS. And we've about worn it out, like DOPMA.

If the committee does see fit to do that I hope whatever objections the DOD might come back to would be low key—I'll put it that way—because this thing is badly needed. It's not a perfect bill, and we'll just have to look at the time constraints.

Mr. AMIS. I can fully understand that, Mr. Chairman.

Mr. NICHOLS. Let me ask you one further question, and then I'll yield.

We have had, of course, a number of suggestions for additional changes, some of which you've mentioned here. One of the suggestions that has come to the committee has been to permit the retired member to provide an annuity for a former spouse, of course.

I would ask you your views on the desirability of coverage for a former spouse. I presume you would support that generally.

Mr. AMIS. Generally, Mr. Chairman. We understand that a similar provision was considered for the civil servant retirement annuity program, where a civil service retiree would have the option of providing, as a beneficiary, his former spouse. In the current military survivor benefit plan a former spouse, if he is not married at the time of divorce, could designate his former spouse under the insurable interest provision.

I think we would be concerned if dual coverage were provided under such a proposal because the social security offset may result in neither spouse, former or current, having any benefit at all.

We would also be concerned that the entitlement status of the present spouse be recognized and perhaps preserved.

Mr. NICHOLS. Would your concern extend to the duration of marriage? For example, we have had some recommendations that there probably ought to be a minimum time set in the bill for which a former spouse would have been married to the member while he was in military service. What is your opinion on that?

Mr. AMIS. Mr. Chairman, I think that's a reasonable approach to take. Currently, if an individual is serving on military duty he must have served at least 20 years to be eligible to participate in the plan. Coverage becomes automatic if he dies on active duty and has completed 20 years of service. I think a time constraint or a length of marriage constraint might be a very reasonable feature to include.

Mr. NICHOLS. You wouldn't want to suggest a time, would you?

Mr. AMIS. I would suggest, at a minimum, 20 years of marriage.

Mr. NICHOLS. Twenty years of marriage?

Mr. AMIS. At least.

Mr. NICHOLS. Mr. Mitchell.

Mr. MITCHELL. Thank you, Mr. Chairman.

Mr. Amis, you recommend that "* * * the annuity adjustment relating from the date of death to September 20, 1972, be deleted," and then there is a chart where you cost out the different recommendations, but I don't see this referred to. It must be a part of one of the larger categories.

Could you tell me just how much this would cost?

Mr. AMIS. Yes.

Mr. Chairman, this refers to the pre-1972 widow figure of \$96.7 million.

Mr. MITCHELL. Then this would only be a part of that, wouldn't it?

Mr. AMIS. Yes, sir.

Mr. MITCHELL. Would this change add up to the full \$96.7 million, or is only a part of that broad category?

Mr. AMIS. No, sir. This assumes the change that we recommend in the bill.

Mr. MITCHELL. And how much would it cost? That's what I'm trying to find out.

Mr. AMIS. Then it would cost \$96.7 million.

Mr. MITCHELL. In your statement, you say:

In each type of annuity, or in combination, the maximum amount of benefit could not exceed 55 percent of retired or retainer pay.

What would be the mechanics of keeping it at 55 percent or below if you had two different annuities?

Mr. AMIS. What we would do is offer the option to the member to participate in either plan or a combination of plans.

If you remember when the RSFPP came to a close and the SBP was established, we allowed people to combine coverage under those plans also. We would have a similar type combination of coverage under this plan or a combination of two plans.

Mr. MITCHELL. Thank you.

Thank you, Mr. Chairman.

Mr. NICHOLS. Mrs. Byron.

Mrs. BYRON. No questions.

Mr. NICHOLS. Dr. Evans.

Mr. EVANS. Thank you, Mr. Chairman.

In your discussion with the chairman you expressed the objection to the possibility of dual coverage, in other words, the wife from whom he'd been divorced and the one to whom he's still married.

Would you have the same objection toward a split coverage? I'm thinking about a situation where the serviceman might have been married for 20 or more years, subsequently divorces his wife, remarries again for 1 or 2 years, dies and the new widow gets everything and the old one nothing. How would you handle that situation?

Mr. AMIS. Mr. Evans, I think that in a situation like that if you have a member divorced and has provided the annuity coverage to his former wife and subsequently becomes married that is going to be a problem administratively. I must say I'm not prepared to answer that question right now, Mr. Evans, because I don't know what would be the most equitable way to handle the situation.

Mr. EVANS. But you wouldn't have any great objection to split coverage, or would you?

Mr. AMIS. I believe I would, sir.

Mr. EVANS. You mean it has to be either/or and not both, even though the total money might not be in excess of what it would normally be for one?

Mr. AMIS. I believe in a split coverage situation we don't find precedent for that. I may be wrong.

Mr. EVANS. Maybe we ought to make a precedent.

Mr. AMIS. That's quite possible, Mr. Evans.

Mr. EVANS. I notice that you accept the present law that eliminates eligibility in the case of remarriage, and you suggest that this be included.

Just how much would you estimate is lost, or how much more does it cost the Government, if that remarriage provision were not put in? Today, I'm pretty sure we're all aware of the fact that it has become, if not commonplace, certainly very frequent that in order to protect that source of income, communal living occurs instead of the formality of remarriage. I don't know if we're gaining very much by forcing people into these subterfuges in order to increase their income. Does it really mean that we save a lot of money if we put something in that forces them to live in a situation which under normal circumstances might be considered not the best?

Mr. AMIS. Dr. Evans, I hope not.

Mr. EVANS. But we are forcing them to do it by insisting that remarriage rules out eligibility. To put it in blunt language, a woman given a choice between remarrying and losing her eligibility or just living with someone and retaining her eligibility, in most cases, you know what's going to happen.

Mr. AMIS. I think that depends on the personal preference of the individual.

Mr. EVANS. It certainly does. But in a fair number of situations, you know what would happen.

Mr. AMIS. It has happened.

Mr. EVANS. You don't feel that perhaps we ought to modernize that?

Mr. AMIS. Dr. Evans, may I respectfully decline to answer the question, if you don't mind.

Mr. EVANS. I won't insist.

I think that's all, Mr. Chairman. Thank you.

Mr. AMIS. Thank you.

Mr. NICHOLS. Mr. Hutto.

Mr. HUTTO. Mr. Amis, as a new member of the committee, I'm getting educated on this because I am not familiar with it.

Can you just tell me how the member specifies his beneficiaries? How is that done? Is it the first spouse automatically, or what?

Mr. AMIS. When a member is retired, he is automatically enrolled in the survivor benefit plan unless he elects otherwise. That enrollment, that participation, permits a member to name his spouse as the prime beneficiary. He also has the option of providing spouse and children coverage. He also has the option of providing children-only coverage. If he has no spouse or no children, he may elect to provide insurable interest coverage. So there are several options available under the SBP where he can cover his beneficiaries.

Mr. HUTTO. And if the member is divorced, how about if the beneficiary is his spouse? Does that coverage continue?

Mr. AMIS. That coverage does not continue.

Mr. HUTTO. Unless maybe she remarries?

Mr. AMIS. Under the current SBP law, if there is no eligible beneficiary, no eligible spouse, resulting from death or divorce, his participation costs are suspended. On divorce, she ceases to be an eligible beneficiary under the SBP.

Mr. HUTTO. She automatically ceases to be a beneficiary—is that right?

Mr. AMIS. Yes, sir.

Mr. HUTTO. Thank you.

Thank you, Mr. Chairman.

Mr. NICHOLS. Mr. Wyatt.

Mr. WYATT. Thank you, Mr. Chairman.

Mr. Amis, the survivor benefit program is designed to provide a military program similar to that of the civil service.

Do you believe that this bill, S. 91, will accomplish that particular objective?

Mr. AMIS. Mr. Wyatt, the features of S. 91 will liberalize the survivor benefit plan, as we now know it. It would no longer be structured identically to the civil service retirement plan.

As you know, and as was pointed out in Mr. Wilson's statement, while the two plans are designed to be similar, there are dissimilar characteristics in the basic plan itself because the military is covered by social security, while the civil servant is not. That integration feature, the integration feature with DIC, is not resident—the dependency and indemnity compensation of the Veterans' Administration is not resident in the civilian plan.

While the plans are designed on a similar basis, the dissimilarities that are resident in the two systems themselves—in the bases for the two systems themselves—would not put the two out of sync if changes would occur in one, and not occur in the other.

Mr. WYATT. Could you compare the merits of reducing the social security offset by 50 percent with the 40-percent limitation in S. 91? Which, in your opinion, would most equitably restore this program to the original intent of Congress?

Mr. AMIS. You would like a comparison drawn between the 40-percent offset vice the 50-percent reduction?

Mr. WYATT. Yes.

Mr. AMIS. May I provide that for the record, Mr. Wyatt?

Mr. WYATT. Yes, certainly.

[The following information was received for the record:]

Cost Projections¹ for SBP

Change in Net Disbursements Due to
Change in Social Security Offset from Current Law

Millions of "then year" dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>40% Cap on Offset</u>	<u>50% SS Offset</u>	<u>Difference</u>
1980	\$ 0.0	\$ 0.0	\$ 0.0
1981	4.0	28.9	24.9
1982	4.4	34.9	30.5
1983	5.1	42.7	37.6
1984	5.9	52.9	47.0
1985	7.6	66.5	58.9
1986	10.5	53.0	42.5
1987	15.1	103.0	87.9
1988	21.8	126.3	104.5
1989	30.9	153.6	122.7
1990	42.9	185.4	142.5
1991	58.0	221.5	163.5
1992	76.6	262.3	185.7
1993	100.7	310.0	209.3
1994	130.8	365.3	234.5
1995	168.9	429.8	260.9
1996	214.3	502.0	287.7
1997	267.2	581.6	314.4
1998	329.1	669.6	340.5
1999	400.8	766.5	365.7
2000	484.4	873.6	389.2
2010	1,839.1	2,321.0	481.9
2025	5,402.9	5,723.4	320.5
2035	9,341.0	9,855.3	514.3
1981-1985	27.0	225.9	198.9
1981-2000	2,379.0	5,829.4	3,450.4

Cost Projections¹ for SBP

Change in Net Disbursements Due to
Change in Social Security Offset from Current Law

Millions of constant 1980 dollars
Post 1985 Inflation/Wage Growth = 5%/5.5%

<u>Fiscal Year</u>	<u>40% Cap on Offset</u>	<u>50% SS Offset</u>	<u>Difference</u>
1980	\$ 0.0	\$ 0.0	\$ 0.0
1981	3.7	26.5	22.8
1982	3.7	29.4	25.7
1983	4.0	33.5	29.5
1984	4.3	38.7	34.4
1985	5.2	45.9	40.6
1986	6.9	34.8	27.0
1987	9.4	64.4	55.0
1988	13.0	75.2	62.3
1989	17.5	87.1	69.6
1990	23.2	100.2	77.0
1991	29.8	114.0	84.1
1992	37.5	128.6	91.0
1993	47.0	144.7	97.7
1994	58.1	162.4	104.2
1995	71.5	182.0	110.5
1996	86.4	202.4	116.0
1997	102.6	223.3	120.7
1998	120.4	244.9	124.5
1999	139.6	267.0	127.4
2000	160.7	289.8	129.1
2010	374.5	472.7	98.1
2025	529.3	560.7	31.4
2035	561.8	592.7	30.9
1981-1985	20.9	174.0	153.0
1981-2000	944.7	2,494.8	1,550.1

Cost Projections¹ for SBP
Example Survivor Benefit Annuities

Year of Retirement	Rank	Years of Service	Social Security Offset ***	Full Coverage*			Amount Survivor Receives			Typical Coverage **			Minimum Coverage		
				No.	50%		S. 91	No.	S. 91	No.	50%		No.	50%	
					Offset	Offset					Offset	Offset		Offset	Offset
1980	E-7	20	\$287	\$	300	\$ 157	\$180	\$	240	\$	97	\$144	\$165	\$22	\$99
	E-9	30	357		672	514	403		470		292	282	165	0	99
	O-5	20	345		654	482	392		491		319	294	165	0	99
1990	O-6	30	383		1,244	1,052	861		995		803	612	165	0	99
	E-7	20	278		325	186	195		260		121	156	89	0	53
	E-9	30	402		727	526	436		509		308	305	89	0	53
2000	O-5	20	413		708	502	425		531		325	319	89	0	53
	O-6	30	513		1,346	1,090	808		1,077		821	646	89	0	53
	E-7	20	276		341	203	205		273		135	164	55	0	33
	E-9	30	397		763	564	458		534		335	320	55	0	33
	O-5	20	408		742	538	445		557		353	334	55	0	33
	O-6	30	560		1,412	1,132	852		1,130		850	678	55	0	33

* Look back and save-pay provisions not included.

** % covered varies with rank and years of service.

*** Wage growth included to retirees age 62 then brought back to 1980 dollars by inflation. Amount shown assumes beneficiary's offset occurs at age 62 and is therefore .829 of the primary insurance amount attributable to military service.

Cost Projections¹ for SBP

Cost Sharing Ratio Comparison

Post 1985 Inflation/Wage Growth/Interest = 5%/5.5%/6%

S.91 with 40% cap on social security offset:

<u>Year of Retirement</u>	<u>Member's Cost Assumption</u>		
	<u>Enlisted</u>	<u>Officer</u>	<u>Combined</u>
1980	45%	68%	56%
1990	60%	78%	68%

S.91 with 50% social security offset:

<u>Year of Retirement</u>	<u>Member's Cost Assumption</u>		
	<u>Enlisted</u>	<u>Officer</u>	<u>Combined</u>
1980	50%	58%	54%
1990	68%	68%	68%

SBP

COST PROJECTION FOOTNOTES

The following notes are the economic assumptions applicable to and footnoted in the cost projections. In all of the charts, the participation of future retirees was assumed to be 55%.

1/ The projections use the following economic assumptions:

<u>Year</u>	<u>Inflation</u>	<u>Wage Growth</u>
1	14.5	11.7
2	9.2	8.5
3	8.6	8.4
4	7.6	7.7
5	7.0	7.2
6	6.2	6.6
thereafter	5.0	5.5

The real interest rate where applicable is .99 percent.

Mr. WYATT. Under S. 91, a retiree with \$1,000 retired pay-in elects full participation, is guaranteed a survivor annuity of \$330 in SBP. A civil service retiree with the exact retired pay-in, paying the same amount, would receive \$550 in survivor benefits.

Is this fair? And, if not, do you attribute that to the fact that the military retiree would get social security?

Mr. AMIS. Quite possibly; yes, sir.

Mr. WYATT. Certainly. How do you compare the equity between the two?

Mr. AMIS. As to the total aggregate, when the plan was being established, there was recognition of the fact that military service would yield a social security benefit. That was part of the rationale for including the offset feature, recognizing that a portion of the social security benefit would be attributable to military service.

Mr. WYATT. Have you had an opportunity to evaluate Dr. Myers' proposal at all?

Mr. AMIS. We are familiar with Dr. Myers' proposal; yes, sir.

Mr. WYATT. Do you believe his proposal to restore the plan to the originally intended 60-40 costsharing ratio will make it more comparable to the civil service program?

Mr. AMIS. From an initial evaluation of what we see, or what we have seen, while evaluating Dr. Myers' plan, we note that the member's cost assumption for someone retiring in 1980, an enlisted individual would be about 43 percent; for the officer, about 51 percent. If we look at a person that's retiring in 1990, the member cost assumption for the enlisted force would be approximately 66 percent and for the officer population about 61 percent.

Mr. WYATT. Do you think that's an improvement?

Mr. AMIS. It would be an improvement over our current system; yes, sir.

We also note that the member cost assumption under S. 91, under the provisions of S. 91, if an individual retired in 1980, we see that for the enlisted individual, his cost assumption would be approximately 45 percent and the officer would be 68 percent. Projecting out to 1990, those same figures for the enlisted would be 60 percent and the officer 78 percent.

Mr. WYATT. Finally, do you believe that S. 91 would encourage participation at the minimum \$300 base amount, possibly resulting in a member's electing inadequate annuities and even costing the Government more money in the long run?

Mr. AMIS. Mr. Wyatt, no; I personally don't believe that.

The primary consideration in a member's choice of coverage would hopefully be on the needs of the beneficiary. Under S. 91 all levels of coverage for all ranks and years of service would involve a Government subsidy. The greatest subsidy, in terms of expected benefits, less payments, is at maximum coverage. Only in terms of the ratio of dollars paid to dollars received would the minimum of coverage appear to be preferred.

An exaggerated example: Choosing minimum coverage on this basis would be like rejecting a one-time offer to receive \$2 in trade for \$1 in favor of receiving 10 cents in trade for 1 cent. If you go the 1 cent for 10 cents your percentage is greater but your dollar amount is less. If you go the \$1 for \$2 your dollar amount is greater.

I don't believe it will encourage participation at the lower levels.

Mr. WYATT. Thank you.

Thank you, Mr. Chairman.

Mr. NICHOLS. Thank you, Mr. Wyatt.

Thank you, Mr. Amis, for your testimony.

Mr. AMIS. Thank you, Mr. Chairman.

Mr. NICHOLS. Our next witness is our old friend, Chief Robert Nolan, U.S. Navy, retired, who serves as National Executive Secretary of the Fleet Reserve Association.

Let me state to the members of the committee that I'm a conferee on the Defense Authorization bill, and we meet at 3. I'm going to ask Mrs. Byron if she will chair the committee for the remainder of the session.

Mrs. BYRON. Go ahead, Mr. Nolan, any time you're ready.

**WRITTEN STATEMENT OF ROBERT W. NOLAN, NATIONAL
EXECUTIVE SECRETARY OF THE FLEET RESERVE ASSO-
CIATION**

Mr. NOLAN. Thank you.

Madam chairman and members of this distinguished committee.

I am Robert W. Nolan, National Executive Secretary of the Fleet Reserve Association. As a retired Navy chief petty officer it is my privilege to appear as the spokesman for either national military associations on the vital subject of an equitable military survivor benefit plan.

The total membership of the eight national military associations I am speaking for numbers almost 612,000. Collectively, the combined memberships of our associations and their dependents comprises more than 1½ million members of today's military community.

These military associations have banded together in mutual testimony in a sincere endeavor to assist the committee in taking prompt action on S. 91 which passed the U.S. Senate on May 28, 1980. As you know, S. 91 is a compromise resolution of the inequities presently existing in Public Law 92-425, the military survivor benefit plan.

Mr. Chairman, S. 91 is clearly a compromise resolution to the current inequities of the survivor benefit plan. As this committee well knows, the House, at the urging of the Committee on Armed Services, has by overwhelming and unanimous votes twice approved a more equitable resolution. But in each instance, in 1976 and again in 1978, the Senate did not agree with all of the House-approved provisions. The result of the legislation was the military community gained only minimal reform of the survivor benefit plan.

The major inequity in Public Law 92-425 is the required 100-percent offset of militarily earned social security from the survivor benefit annuity when the beneficiary reaches age 62 and is entitled to a social security annuity. This requirement places a disproportionate cost on the participant and depresses participation in the plan. Subsequently, the plan is rapidly approaching the point where it is of little or no benefit to the military personnel retiring today and in the future. This fact has been clearly proven in studies conducted by the Department of Defense, the Congressional Budget Office, and a respected civilian actuary firm.

The current law is grossly unjustified and intolerable. So much so that unless the social security offset provision is liberalized, the Non-Commissioned Officers Association requests the current law be amended to permit withdrawal from the plan by those who are currently enrolled and dissatisfied. I am confident there are many participants in the plan who feel the same way.

The provisions of S. 91 have been explained, and I'm sure that the members of the committee are aware of them and, if I may, I'll skip that portion of my testimony. However, I would like to refer to the table in my statement that shows the amounts of survivor benefit annuity under current law and under the S. 91 compromise, based on a 100-percent election in the survivor benefit plan. These comparisons were computed by the Congressional Budget Office, and I bring them to your attention.

The eight military associations I am speaking for are in a quandary regarding the passage of S. 91 in its present form. We are truly disappointed that the Senate resolution does not treat all military retirees equally. Furthermore, S. 91 does not correct the remaining inequities and shortcomings of the current law. The military community has endured these inequities for almost 8 years. We are aware this is the first time during those 8 years that the Senate has seriously addressed the inequities of the integration of militarily-earned social security and the survivor's annuity. It has taken 6 long years to achieve this compromise.

We feel this committee is well aware of the shortcomings of S. 91 as corrective legislation. If in your wisdom you choose to liberalize S. 91, please be assured of our total support for your improvements.

Speaking realistically, there is precious little time left in the 96th Congress to achieve passage and the enactment of legislation. Therefore, we have a simple choice. We can support S. 91 as presently constituted or amended and thereby gain improved benefits for those it affects favorably or we can oppose S. 91 and elect to maintain the status quo to no one's advantage for, at least, the foreseeable future.

Madam Chairman, this completes our prepared statement. On behalf of those I am speaking for I sincerely thank you and the members of the committee for the careful consideration of our viewpoints. We sincerely appreciate the opportunity to appear on this vital issue. I stand ready to answer your questions to the best of my ability. Thank you.

[The following information was received for the record:]

Widow's Equity . . .

THE RATIONALE FOR ENACTING S.91

JOINT TESTIMONY ON MILITARY SURVIVOR BENEFITS:
S. 91 AS PASSED BY THE U. S. SENATE ON 28 MAY 1980

BEFORE THE
SUBCOMMITTEE ON MILITARY COMPENSATION
COMMITTEE ON ARMED SERVICES
U.S. HOUSE OF REPRESENTATIVES
96TH CONGRESS, 22 JULY 1980

PRESENTED BY
MSC ROBERT W. NOLAN, U.S.N. (RET.)

ON BEHALF OF THE

AIR FORCE SERGEANTS ASSOCIATION

FLEET RESERVE ASSOCIATION

LADIES AUXILIARY, FLEET RESERVE ASSOCIATION

NAVAL ENLISTED RESERVE ASSOCIATION

NON-COMMISSIONED OFFICERS ASSOCIATION

RESERVE ENLISTED ASSOCIATION

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INTRODUCTION

Mr. Chairman and members of this distinguished Committee,

I am Robert W. Nolan, National Executive Secretary of the Fleet Reserve Association. As a retired Navy Chief Petty Officer it is my privilege to appear as the spokesman for eight national military associations on the vital subject of an equitable military Survivor Benefit Plan.

The total membership of the eight national military associations I am speaking for numbers almost 612,000. They are:

Air Force Sergeants Association	148,000
Fleet Reserve Association	148,000
Ladies Auxiliary, Fleet Reserve Association	25,000
Naval Enlisted Reserve Association	15,159
Non-Commissioned Officers Association	150,000
Reserve Enlisted Association	700
Reserve Officers Association	120,000
<u>U. S. Coast Guard Chief Petty Officers Association</u>	<u>5,100</u>
TOTAL MEMBERSHIP	611,959

Collectively, the combined memberships of our associations and their dependents comprises more than one-and-a-half million members of today's military community.

These military associations have banded together in mutual testimony in a sincere endeavor to assist the Committee in taking prompt action on S. 91 which passed the United States Senate on 28 May 1980. As you know, S. 91 is a compromise resolution of the inequities presently existing in Public Law 92-425, the military Survivor Benefit Plan.

BACKGROUND

Mr. Chairman, S. 91 is clearly a compromise resolution to the current inequities of the Survivor Benefit Plan. As this Committee well knows, the House at the urging of the Committee on Armed Services, has by overwhelming and unanimous votes twice approved a more equitable resolution. But in each instance, in 1976 and again in 1978, the Senate did not agree with all of the House approved provisions. The result of the legislation was the military community gained only minimal reform of the Survivor Benefit Plan.

The major inequity in Public Law 92-425 is the required one hundred percent

offset of militarily earned Social Security from the Survivor Benefit annuity when the beneficiary reaches age 62 and is ENTITLED to a Social Security annuity. This requirement places a disproportionate cost on the participant and depresses participation in the plan. Subsequently, the plan is rapidly approaching the point where it is of little or no benefit to the military personnel retiring today and in the future. This fact has been clearly proven in studies conducted by the Department of Defense, the Congressional Budget Office and a respected civilian actuary firm.

The current law is grossly unjustified and intolerable. So much so, that unless the Social Security offset provision is liberalized, the Non-Commissioned Officers Association requests the current law be amended to permit withdrawal from the plan by those who are currently enrolled and dissatisfied. I am confident there are many participants in the plan who feel the same way.

THE PROVISIONS OF S. 91

The Senate Committee on Armed Services refused to fully resolve the Social Security offset inequities in Public Law 92-425. They recommended to the Senate and the Senate approved the following provisions of S. 91 to amend the law:

- The Survivor Benefit Plan annuity will not be reduced by more than forty percent when the Social Security offset is effected. This guarantees the annuitant will receive at least sixty percent of the designated survivor annuity upon reaching age 62.
- The recalculation of Survivor Benefit premiums after a future cost-of-living increase to military retired pay using the same formula and computation used in recalculating the premiums for the civilian federal retiree's survivor annuity plan.
- The elimination of the Social Security offset in cases where the only active duty service performed is for periods of less than thirty continuous days and the service member is entitled to receive a Social Security tax refund.
- Grants a Survivor Benefit Plan annuity to a military widow whose husband was eligible for retirement but continued to serve on active duty and subsequently died on active duty prior to 21 September 1972. The widow must be receiving Dependency and Indemnity Compensation and her survivor's annuity amount will be

determined by the current law's provisions for receipt of Dependency and Indemnity Compensation and the survivor's annuity.

- Permits Survivor Benefit Plan participants who are rated one hundred percent disabled by the Veterans Administration to discontinue paying premiums for Survivor Benefit Plan coverage.

The table on the next page shows comparisons of the amounts of the survivor benefit annuity under current law and under the S. 91 compromise based on a 100 percent election in the Survivor Benefit Plan. These comparisons were computed by the Congressional Budget Office.

Comparisons of Amounts of the SBP Annuity Under Current Law and the FRA Compromise Based on a 100% Election in SBP						
Year of Retirement	Paygrade at Retirement	Years of Service at Retirement	Widow's SBP Annuity ¹	100% Soc. Sec. Offset ²	WIDOW'S ANNUITY AT 62	
					Under Current Law	FRA Compromise ³
1965	E-7	20	324	210	114	195
	E-8	25	493	218	275	296
	E-9	30	736	203	533	533
	O-5	20	695	216	479	479
	O-5	25	1046	231	815	815
	O-6	30	1362	223	1139	1139
1975	E-7	20	321	301	20	193
	E-8	25	488	323	165	293
	E-9	30	728	337	391	437
	O-5	20	687	340	347	412
	O-5	25	1034	338	696	696
	O-6	30	1346	357	989	989
1980	E-7	20	307	315	0	184
	E-8	25	466	365	101	279
	E-9	30	695	400	295	417
	O-5	20	656	398	258	394
	O-5	25	988	424	564	593
	O-6	30	1286	423	863	863
1990	E-7	20	304	330	0	182
	E-8	25	461	386	75	277
	E-9	30	689	455	234	413
	O-5	20	650	514	136	390
	O-5	25	978	577	401	587
	O-6	30	1274	591	683	764
2000	E-7	20	325	353	0	195
	E-8	25	493	409	84	296
	E-9	30	737	483	254	442
	O-5	20	695	548	147	417
	O-5	25	1047	649	398	628
	O-6	30	1363	687	676	818

1. Widow receives this sum until she reaches age 62.
 2. These offsets are expressed in constant 1980 dollars, but assume wage and price growth until the retiree reaches age 62. They also assume that the spouse is eligible for social security at age 62 (that is, they equal 82.9 percent of the principal insurance amount attributable to military service). The offsets are calculated assuming the person is at the median paygrade during each year of his service.
 3. Guarantees widow will receive 60% of designated SBP.

THE ASSOCIATIONS' POSITION ON S. 91

The eight military associations I am speaking for are in a quandary regarding the passage of S. 91 in its present form. We are truly disappointed

that the Senate solution does not treat all military retirees equally. Furthermore, S. 91 does not correct the remaining inequities and shortcomings of the current law. The military community has endured these inequities for almost eight years. We are aware this is the first time during those eight years that the Senate has seriously addressed the inequities of the integration of militarily-earned Social Security and the survivor's annuity. It has taken six long years to achieve this compromise.

We feel this Committee is well aware of the shortcomings of S. 91 as corrective legislation. If in your wisdom you choose to liberalize S. 91, please be assured of our total support for your improvements.

Speaking realistically, there is precious little time left in the 96th Congress to achieve passage and the enactment of legislation. Therefore, we have a simple choice. We can support S. 91 as presently constituted or amended and thereby gain improved benefits for those it affects favorably or we can oppose S. 91 and elect to maintain the status quo to no one's advantage for, at least, the foreseeable future.

In representing our members in the legislative arena for many years we have learned that gaining successful legislation is accomplished by the art of compromise. Therefore, in the interest of our members and the military community we support the passage of S. 91 in the 96th Congress.

CONCLUSION

Mr. Chairman, this completes our prepared statement. On behalf of those I am speaking for I sincerely thank you and the Committee members for the careful consideration of our viewpoints. We sincerely appreciate the opportunity to appear on this vital issue. I stand ready to answer your questions to the best of my ability. Thank you.

Mrs. BYRON. Thank you, Mr. Nolan.

It is my understanding from your testimony that it is better to have something than nothing.

Mr. NOLAN. Yes, ma'am.

Mrs. BYRON. I think you have made a strong statement on that basis, and you were very wise in observing that the time in the 96th Congress is growing short. Therefore, speaking for your groups, you go on record being in favor of S. 91?

Mr. NOLAN. Most certainly.

Mrs. BYRON. Thank you.

Mr. Mitchell.

Mr. MITCHELL. Thank you, Madam Chairman.

I was concerned about the question of S. 91 or nothing also. I'm pleased that you did answer it.

I compliment you on your statement, Mr. Nolan, and also for representing the other eight groups. I think that's an excellent way to provide testimony, especially as we approach the end of the session.

Mr. NOLAN. I think the associations I'm speaking for here today receive that compliment, and deservedly so, in their effort to assist the committee because of the shortness of time.

Mr. MITCHELL. It helps us too when there is a unified position with so many groups that have such great credibility and respect. If each group asks for something a little bit different it makes it more difficult for the committee to respond.

Thank you for your statement, Mr. Nolan.

Mr. NOLAN. Thank you, Mr. Mitchell.

Mrs. BYRON. Mr. Hutto.

Mr. HUTTO. Thank you, Madam Chairman.

I commend Mr. Nolan on representing his groups well and commend him on his statement.

I have no questions. Thank you, Madam Chairman.

Mrs. BYRON. Mr. Evans.

Mr. EVANS. Thank you, Madam Chairman.

I want to commend the witness on his statement, and I certainly admire the pragmatism. I have no questions.

Mrs. BYRON. Mr. Wyatt.

Mr. WYATT. Thank you, Madam Chairman.

Mr. Nolan, if you had the choice of reducing the social security offset to 50 percent of that attributed to military service, as previously passed by the House on two other occasions, or limiting the offset to not more than 40 percent, as provided in S. 91, which proposal would you recommend?

Mr. NOLAN. We would recommend a 50-percent offset, sir. But we were faced with the problem in the Senate of them not taking action for almost 5, or a little better than 5, years on the 50-percent proposal, and it was the Fleet Reserve Association, in view of the original cost-sharing provision of 40-60, that proposed the compromise of putting a 40-percent cap on the annuity because now with the cap you can at least give those who are going to enroll an estimate of what their widow would get. Under today's law, you ask a man to enroll and he says, "What will my widow get?" You can't even begin to give him a figure because you don't know what's going to happen to social security in the future.

Mr. WYATT. Thank you.

Thank you, Madam Chairman.

Mrs. BYRON. Any further questions?

[No response.]

Mrs. BYRON. Thank you very much.

The next witness is Mr. Max Beilke, legislative counsel, National Association for Uniformed Services.

**STATEMENT OF MAX J. BEILKE, LEGISLATIVE COUNSEL,
NATIONAL ASSOCIATION FOR UNIFORMED SERVICES**

Mr. BEILKE. Madam Chairman, gentlemen, good afternoon. I am Max J. Beilke, legislative counsel for the National Association for Uniformed Services.

In the interest of time and to prevent redundancy of some of the things you've already heard, I will summarize my statement. However, I request that the full statement be placed in the record.

NAUS has worked with this subcommittee for many years in an effort to create and improve the uniformed services' survivor benefit plan, and we appreciate your support. We are aware that the subcommittee and the House of Representatives have twice approved most of the SBP improvements that we are currently seeking, only to have them turned down by the Senate. The fact that the Senate this year, for the first time, has taken into consideration the social security offset I think is a very interesting point.

S. 91, as approved by the Senate, is but a compromise. It will help all participants in some measure, and it is all that the Senate approved, and, therefore, NAUS agrees that this subcommittee support, as a minimum, if it cannot be improved in conference, S. 91 as it came out of the Senate.

That concludes my statement, in the interest of time. At this time I will answer any questions you may have.

[The prepared statement of Max J. Beilke follows:]

WRITTEN STATEMENT OF HON. MAX J. BEILKE

S. 91—SBP IMPROVEMENTS

Mr. Chairman, Gentlemen, I am Max J. Beilke, Legislative Counsel of the National Association for Uniformed Services (NAUS). Our membership is drawn from all ranks in all seven of the uniformed services of the United States, active, retired, reserves, veterans, and survivors.

NAUS has worked with this subcommittee for many years in the efforts to create and improve the uniformed services' Survivor Benefit Plan (SBP). We appreciate the support you have given to making it a valuable benefit of service careers. We are all too aware that this subcommittee and the House of Representatives have twice approved most of the SBP improvements we are currently seeking, only to have them turned down by the Senate.

S. 91, as now approved by the Senate, is a compromise that alleviates some inequities in the current SBP, but not all. Because it will help every participant in the military SBP in some measure, and because it is all we have been able to convince the Senate to approve, NAUS urges that this subcommittee support it as a minimum, if it cannot be improved in conference with the Senate Committee on Armed Services.

As you know, the S. 91 provision for retention of the 100 percent social security offset of a widow's SBP payment for service-earned social security up to 40 percent of the SBP payment will benefit the widows of lower ranking personnel significantly and those of higher ranking personnel hardly at all. While such an

approach is appropriate to the concept of social security, it certainly is not appropriate to the provision of benefits in the uniformed services. Surely, the financial rewards of uniformed services' careers, just as in all other professions, should remain based on career attainments. We urge that this subcommittee support the principle that the widows' SBP social security offset be proportionate for all grades and not weighted heavily in favor of the lowest.

We urge also that the original provisions of S. 91 be restored to:

Eliminate social security offset for survivor with one child.

Eliminate social security offset for the widow who has earned social security benefits based on her own employment.

Provide a 270-day open enrollment period for those who did not elect SBP at retirement.

Provide SBP coverage for spouses whose sponsors died in retirement prior to Sept. 21, 1972 (the "forgotten widows").

Again, S. 91, as approved by the Senate, is a step in the right direction. We hope that the House will improve it with the changes I have outlined. If they are not made in the current bill, NAUS and many other service associations will continue to seek them in the future.

Thank you.

Mrs. BYRON. Thank you very much.

I have no questions.

Mr. MITCHELL.

Mr. MITCHELL. Thank you, Madam Chairman.

I understand that you do approve S. 91 as a minimum.

Mr. BEILKE. As a minimum.

Mr. MITCHELL. You'd rather have this than nothing.

Mr. BEILKE. Yes, sir. We do not believe in drawing to an inside straight. We're very conservative.

Mr. MITCHELL. That's a good statement to make to a full house like this.

[Laughter.]

Mr. MITCHELL. Thank you, Madam Chairman.

Mrs. BYRON. Mr. Hutto.

Mr. HUTTO. No questions, Madam Chairman.

Mrs. BYRON. Mr. Evans.

Mr. EVANS. No questions, Madam Chairman.

Mrs. BYRON. Mr. Wyatt.

Mr. WYATT. No questions, Madam Chairman.

Mrs. BYRON. Thank you very much. We appreciate your taking the time to come before the committee today.

Mr. BEILKE. Thank you.

Mrs. BYRON. The next witness we have is Col. Hennrikus, chief legislative counsel, the Retired Officers Association, accompanied by Dr. Robert Myers.

Colonel HENNRİKUS. Thank you, Madam Chairman.

I would like to submit our entire statement for the record for your review, hopefully, and give an overview and then introduce Dr. Myers, who I think has an interesting proposal.

Mrs. BYRON. Fine. Thank you.

STATEMENT OF COL. GEORGE F. HENNRİKUS, JR., USAF, RET., CHIEF LEGISLATIVE COUNSEL, THE RETIRED OFFICERS ASSOCIATION

Colonel HENNRİKUS. Madam Chairman, I am Col. George F. Hennrikus, USAF, Retired, chief legislative counsel of The Retired

Officers Association, with headquarters at 201 North Washington St., Alexandria, Va. Our association of over 280,000 active and retired officers and widows has the support of the Commissioned Officers Association, of the U.S. Public Health Service, the Naval Reserve Association, the U.S. Coast Guard Chief Warrant and Warrant Officers Association and the U.S. Army Warrant Officers Association in this statement.

Madam Chairman, we come before this distinguished committee with a sense of both regret and gratitude. Regret that, in this most difficult legislative session, filled with matters of vital significance to our country's future, you must once more address yourselves to a problem you have dealt with, successfully, twice in the past. We are grateful that you have set aside this time and are demonstrating your concern for the uniformed services widow.

In the 94th Congress, this committee recognized the flaw implicit in the military survivor benefit plan as it was originally constituted under Public Law 92-425. After lengthy study, you designed a meaningful modification and gained the almost unanimous support of your colleagues, only to attain partial agreement in the other Chamber. The whole process was repeated in the 95th Congress. This time it was sent to the Senate by a unanimous vote. Despite earnest efforts and hard work by those who understand the critical nature of this complex but essential element of the military compensation system, its major flaw was again overlooked.

In the final markup of S. 91 in the Senate Armed Services Subcommittee on Manpower and Personnel, each member of the subcommittee stated separately before he voted that he did not understand the issue. Thus, the bill before you today is less the product of careful consideration than it is the victim of a system which has assigned a low priority to survivor benefits. This is not a condemnation. It's merely recognition of a factor that has constantly frustrated proper correction of the survivor benefit plan. I cannot use as supporting argument, for instance, the theme that has gained currency recently to the effect that part of the reason we are losing middle-grade people is the perception that their contributions are inadequately compensated. For, despite its great significance for the future well-being of their dependents, few people in uniform have any more knowledge of SBP than the Senators who approved this bill. The best evidence of this is found in the fact that a large percentage of participants still elect minimum coverage, even though the resultant annuity will be wiped out by the social security offset. Defense literature available to potential retirees is, at best, misleading and confusing. As a matter of fact, our association produced this booklet, "SBP Made Easy," which has been commended by this committee and by the Defense Department, in an effort to make a fairly reasonable explanation to people who are planning retirement. First of all, Madam Chairman, personnel counselors who are assigned by the services to counsel these individuals retiring are not adequately prepared to explain the plan.

Thus, the action you take here will have little political significance. Its real significance will be felt by a group of present and future widows who will either spend their final days in reasonable comfort or will exist in marginal conditions, dependent upon their children or

the State, and wondering why they and their husbands made the sacrifices implicit in military service.

In the 6 years this association has pursued ways to make SBP meaningful for military survivors, the members of this committee and its able staff have repeatedly demonstrated a thorough knowledge of the program and the measures which must be taken to counterbalance the two factors which have deterred more than 50 percent of all retirees from participation: the social security interface and the extended period of participation. With appropriate modification, resulting in a more equitable cost-sharing ratio, we have little doubt that participation would increase dramatically, though it would probably never equal the 93-percent participation in the civil service plan from which it was adapted. In 1979, participation in the survivor benefit plan, by service, was Army 62 percent Navy 31 percent, Air Force, 54 percent, Marine Corps 33 percent, overall 49-percent participation in this plan that was designed for at least an 80-percent participation in the beginning.

Since the Senate passage of S. 91 we have received frequent warnings that opposition to it might result in severe criticism of our association. The guarantee that a widow would receive at least 60 percent of that annuity for which her husband paid was, after all, an improvement over the current system in which participants within the next few years will be paying from 110 percent to 230 percent of the cost of the plan. Revision of the cost-computation formula, relief for widows whose retirement-eligible husbands died on active duty before the SBP was adopted, elimination of the offset for certain reservists, and a waiver for certain disability retirees who are totally disabled are marked improvements that we have sought for many years.

Despite the possible impact on our association, we have elected to persist in our opposition. We are convinced that adoption of such a plan would both limit participants to a minimal, virtually meaningless, participation, and would result in such excessive costs to the Government that further correction or abandonment would be inevitable.

When it became apparent that the Senate would not accept the House solution, our association called upon a world-renowned actuary to study the problem and develop a viable alternative. Dr. Robert J. Myers, for more than 23 years Chief Actuary of the Social Security Administration, consultant to the House Ways and Means and Senate Finance Committees of this Congress, and to over 43 countries, was recommended to us as an individual eminently qualified for the task. He was also a member of the board of actuaries of the retired serviceman's family protection plan. His abbreviated biography is before you. We asked Dr. Myers, in a consultant capacity, to analyze the current plan and the Senate alternative and to design a method which would incorporate a cost-sharing formula that was fair to all the participants and to the Government and, hopefully, which would be a permanent solution. We strongly support the solution he has developed. At this time I would like to ask Dr. Myers to describe his proposal and to answer any questions you may wish to ask with regard to it or his analysis of the other alternatives under consideration.

WRITTEN STATEMENT OF COL. GEORGE F. HENNRİKUS

Mr. Chairman:

I am Colonel George F. Hennrikus, Jr., USAF, Retired, Chief Legislative Counsel of The Retired Officers Association, with Headquarters at 201 N. Washington St. Alexandria, Virginia. Our Association of over 280,000 active and retired officers and widows has the support of the Naval Reserve Association; United States Coast Guard Chief Warrant and Warrant Officers Association and the United States Army Warrant Officers Association in this statement.

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In the 94th Congress, this Committee recognized the flaw implicit in the military Survivor Benefit Plan as it was originally constituted under P.L. 92-425. After lengthy study, you designed a meaningful modification and gained the almost unanimous support of your colleagues, only to attain partial agreement in the other Chamber. The whole process was repeated in the 95th Congress. This time it was sent to the Senate by a unanimous vote. Despite earnest efforts and hard work by those who understand the critical nature of this complex but essential element of the military compensation system, its major flaw was again overlooked.

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In the six years this Association has pursued ways to make SBP meaningful for military survivors, the Members of this Committee and its able staff have repeatedly demonstrated a thorough knowledge of the program and the measures which must be taken to counterbalance the two factors which have deterred more than 50% of all retirees from participation: the Social Security interface and the extended period of participation. With appropriate modification, resulting in a more equitable cost-sharing ratio, we have little doubt that participation would increase dramatically, though it would probably never equal the 93% participation in the civil service plan from which it was adapted. (In 1979, participation in SBP, by service was: Army 62%, Navy 31%, Air Force 54%, Marine Corps 33%, overall, 49%)

Since the Senate passage of S. 91, we have received frequent warnings that opposition to it might result in severe criticism. The guarantee that a widow would receive at least 60% of that annuity for which her husband paid, was, after all, an improvement over the current system in which participants within the next few years will be paying 110% - 230% of the cost of the plan. Revision of the cost computation formula, relief for widows whose retirement-eligible husbands died on active duty before the SBP was adopted, elimination of the offset for certain reservists, and a waiver for certain disability retirees who are totally disabled are marked improvements that we have sought for many years.

Despite the possible impact on our Association, we have elected to persist in our opposition. We are convinced that adoption of such a plan would both limit participants to a minimal, virtually meaningless, participation, and would result in such excessive costs to the government that further correction or abandonment would be inevitable.

When it became apparent that the Senate would not accept the House solution, our Association called upon a world-renowned actuary to study the problem and develop a viable alternative. Dr. Robert Myers, for more than 23 years, Chief Actuary of the Social Security Administration, consultant to the House Ways and Means and Senate Finance Committees and to over 43 Countries, was recommended to us as an individual eminently qualified for the task. He was also a member of the Board of Actuaries of the Retired Serviceman's Family Protection Plan. His abbreviated biography is before you. We asked Dr. Myers, in a consultant capacity, to analyze the current plan and the Senate alternative and to design a method which would incorporate a cost-sharing formula that was fair to all the participants and to the government and, hopefully, which would be a permanent solution. We strongly support the solution he has developed. At this time I ask Dr. Myers to describe his proposal and to answer any questions you may wish to ask with regard to it or his analysis of the other alternatives under consideration.

I think you would agree that if a practical means is available within the structure of the basic plan for providing future security without further burdening the taxpayer, we should dedicate ourselves to finding it. We feel such a solution is possible.

While the Civil Service survivorship annuity system has grown in popularity to the

point where more than 93 percent of all Civil Service retirees participate, the military program has fallen from a 1974 high of 61.5 percent to 49% of FY 1979 retirees.

The reason for this great disparity can be found in the four fundamental differences between the military and civilian plans:

1. The Civil Service Plan has no Social Security offset.
2. The cost to the military participant is increased 10 percent with each CPI increase in retired pay, whereas the Civil Servant's cost is increased by the same percentage as the CPI adjustment.
3. The Civil Service funds are invested and monitored by a Board of Actuaries, whereas the military funds merely revert to the General Treasury.
4. The military participant pays a greater amount for 18 years longer.

It is difficult to decide how best to proceed from here as I find myself in the "chicken or the egg" quandary. I think it is probably better to discuss the profitability of the plan to the government, how this situation came to pass as we see it and, finally, what needs to be done about it.

First, let me make it unmistakably clear that The Retired Officers Association could support H.R. 3314. Our problem is that it does not go far enough -- that is, it neither recognizes, nor corrects several of the existing inequities.

It's our intention to provide this subcommittee with our rationale for supporting both the basic proposal and those additional refinements we feel to be essential to a total solution.

In 1978 it was predicted that the Plan would experience some deficit years from 1996 through 2000. That picture has now changed -- the present plan will never experience a deficit. Excess deductions from the retired pay of military personnel of about 4.3 billion dollars are projected. I know that this is a projection, and projections are fair game for second guesses. But let me point out an historical fact -- in its first seven years of existence the present plan has produced net accumulated deductions of 1.1 billion dollars. This money has merely been retained in the General Treasury of the United States. The Department of Defense projects that an additional 200 million dollars will be accumulated each year in FY80 and FY81. This is a total of 1.5 billion dollars in its first nine years. Mr. Chairman, this is fact not an estimate of the future. Incidentally, if the past "profit" and the projected accumulations were to be invested at six percent interest as they accrue, and compounded annually, they would produce 10.4 billion dollars through the year 2000.

Mr. Chairman, I have addressed the profitability of the Plan. I would now like to remind the Committee that it was the originally stated intention of the Congress to tailor this plan after the Civil Service survivorship annuity in which the govern-

ment does absorb 40 percent of the cost. With this as a background I would like to offer some thoughts as to how this profit came to pass.

Table 1 from pages 6 and 7 of the Senate Report 92-1089, Chart I, provides some interesting comparisons between military and Civil Service retirees. The average military retired lifetime is 28.1 years, whereas the civil service average retired survival is 18.1 years. An early retirement option is one reason why military retirement is valued higher than civil service retirement, a fact that is frequently used to criticize military retirement. But it seems to be ignored when it works to the military person's disadvantage. The average military retiree is going to contribute at least 10 years longer and perhaps 18 years longer to this survivor annuity than his civil service counterpart.

Add to this the fact that under existing law he is going to contribute a significantly greater amount. Chart II clearly shows that in the first six years of the military SBP's existence that military man will have contributed \$863.73 more than a civilian who entered the civil service survivorship annuity program at the same time. Interestingly, he contributed \$232.00 of that difference since I testified before the Senate Armed Services Committee on July 12, 1979.

The final reason for disparity in the performance of the two programs is the social security offset. Let me set a couple of points straight for the record right here. First, it was assumed by the Congress that civil service retirees do not draw social security benefits. The fact of the matter is that about 83 percent of civil service retirees draw at least minimum social security benefits. This, incidentally, is the most heavily subsidized part of the Social Security benefit. Second, military retirees also pay for their survivor annuity. As we tried to gather data to prepare for this hearing, data that would demonstrate the disparity between military and civil service survivor benefits, we were continually told "Yes, but the civilians contribute to theirs" as an explanation for the discrepancies between the annuities. The bottom line here is that four fifths of civil service survivorship annuitants draw their annuity PLUS a social security widow's benefit, while nearly all military survivor annuitants draw their survivor benefits MINUS some portion of a social security widow's benefit. To summarize, the military retiree is contributing a higher premium, many years longer, and his survivor is receiving significantly smaller benefits.

Is it any wonder that military SBP is making handsome profit for the government? These disparities were certainly not intended when the plan was conceived in 1972. Many of them have developed as a result of amendments to the Social Security Act. The point is that they are crying out to be remedied. Mr. Chairman, I exhort your Committee and the Congress to take action now. Please don't put this off another year. It has had sufficient study to permit a decision.

I have now come to the third part of my presentation: What needs to be done about these inequities.

* S.91 is only a starting point. It would:

- Eliminate the social security offset if the only military service performed in the future is for periods of less than 30 continuous days;
- Ensure that the social security offset would not reduce a widow's survivor benefit below 60% of what her husband paid for. Dr. Robert J. Myers has advised us as follows concerning this provision: "... participants would be over charged for the protection elected on retired pay in excess of \$300 per month. They would generally be well-advised to elect only on the basis of that figure and purchase additional protection elsewhere. The only disadvantage of such an approach is that any other insurance would not be indexed to changes in prices, but nonetheless an inequitable over-charge is being made under SBP, even taking into account such indexing. Actually, SBP as it is now established is an unwarranted "money-maker" for the federal government, and even under the bill it would have little cost to the government."
- Revise the calculation of required reductions in retired or retainer pay to a method identical to that for participants in the retired civil servant survivor annuity program in the future.
- Provide an annuity to survivors of members who died on active duty before September 20, 1972, and were retirement eligible.
- Allow certain disabled veterans to suspend participation in the SBP.

It is apparent that the biggest difficulties in military SBP stem from the interface with other plans, principally social security. Each time that the Social Security Act is amended, there is a corresponding effect on the survivor benefit plan.

A 1979 DoD Study shows that when the plan was created in 1972 the typical officer assumed about 67 percent of the cost, today he is paying 80 percent, and, in another seven years, 1987, he will be paying 110 percent. The figures are much more dramatic for the average enlisted member. His percentage of cost started at 85 percent in 1972, has already grown to more than 125 percent, and by 1987 will reach 236 percent. It is the integration with the substantially changed social security system that has so dramatically altered the ratio.

The service finance centers have advised us that they already have cases where the survivor annuity is being totally offset by social security. What this says to me is that a 50 percent offset is, at best, a temporary solution, and that equity requires either complete separation of the two programs, or, failing that, an annual review and report to this Congress so that these absurd variances cannot be allowed to happen again.

The provision of S. 91 requiring that cost be calculated in a method identical to the civil service program is fine as far as it goes. It will limit future divergence but it does nothing to repair past damage. Chart II presents what has happened from 1973 to date. The military member electing coverage in 1972 has

already contributed \$863 more than his civilian counterpart and the difference is currently \$21.47 per month. Assuming a seven percent annual CPI rise, this difference will increase to \$34.76 per month by 1990 and \$69.17 per month by the year 2000. In the last year alone, the military member has contributed \$232.00 more than the civil servant. By the year 2000 this will be \$830 per year under S. 91. I do not suggest that military people should receive a refund of past deductions. That would be an administrative nightmare and probably impossible to accomplish. What I do suggest is that S. 91 be amended to require that the deduction in retired pay be recalculated from the time of their initial entry into the plan, using the formula contained in S. 91.

Mr. Chairman, in preparing for our presentations to the Congress, TROA addressed requests for data under the Freedom of Information Act to the Finance Centers of the Army, Navy, Air Force, Marine Corps, and Coast Guard. While the responses provided were quite complete, it took months to gather the information, and it differed in content between services. It is apparent that no requirement to compile data exists. The result is that adequate records are just not being kept. I have summarized most of the information in Charts III and IV. This does establish that, as of September 30, 1979, there were 1,229,124 retired military personnel and that 633,974 or 51.5 percent, were participating in the survivor benefit program. The other factor of note here is that a large percentage of those personnel who elected to participate in SBP have done so at the minimum or at least a reduced level.

This leads me to a discussion of the open enrollment provision. I think that we can agree that a great number of military retirees perceive SBP as being deficient. If they didn't, participation would be at or near the 93 percent level that civil service enjoys. I realize that there has been significant opposition to an open enrollment provision in past years, but I think that it makes sense to give people who, correctly or otherwise, saw real problems in the plan an opportunity to join if the obstacles to their participation are removed. The DoD 1979 study certainly supports this supposition and shows a plan with 75 percent participation to be healthier than one with 55 percent acceptance. There seems to be a fear on the part of many that an open enrollment period will result in many "deathbed" elections with enormous near-term cost to the Treasury. Experience would seem to negate this theory. The present plan enjoyed a protracted open period when older retirees, who had little or no social security offset, were given the opportunity to join. The result has NOT been a terrible drain; it has been an 1.1 billion dollar excess of retired pay deduction over annuity payouts. Perhaps as high as one third of all SBP participants have elected minimum coverage. It seems a virtual certainty that their survivors will see their potential annuity substantially offset. This means that the retiree is paying for an illusory benefit, something that he certainly would not have done had he been properly counselled prior to making a decision. In addition to permitting new enrollments, it is absolutely essential that present participants be given the opportunity to increase the base amount of their election. Mr. Chairman, if the improvements recommended in this statement are adopted, it makes not only business sense to provide an opportunity to those already retired to participate, but doing so is also a moral requirement.

There are several significant problem areas that remain to be touched upon and which are not addressed by S.91.

(1) The present SBP provides for a suspension of deductions from retired pay in the event of divorce or death of a spouse. But in the event of a remarriage the coverage is automatically restored by operation of law whether or not the service retiree requires or desires it. The 95th Congress recognized that another marriage, occurring later in life, would probably take place under significantly different circumstances. In Public Law 95-317, the civil service retiree was given a right to elect, one year after remarriage, whether or not to reinstate survivor coverage for his new spouse. This seems to be a highly desirable provision, and it is strongly recommended that it be incorporated in any bill which this committee reports.

(2) The Social Security Amendments of 1977 provide that a widow's insurance benefit under Social Security will be reduced by any benefit that is paid by a Federal or State government which is based upon HER OWN earnings. In response to the question whether the SBP annuity would also be offset, the Army Finance Center stated "The SBP annuity payable is subject to offset by the entitlement to Social Security payments attributable solely to the member's active military service after 1956." In this circumstance, ONE Social Security benefit is deducted TWICE, once from her own earned retirement and once from the military survivor annuity. If there is any problem that screams for correction, certainly it is this one.

(3) Another curious result occurs when a retiree changes from "spouse and child" coverage to "child only" coverage in the event of divorce or death of a spouse. The Comptroller General has held that when this occurs, the deduction must be recomputed on an actuarial basis using the member's age and that of the youngest child the day after loss of the eligible spouse. This has resulted in very large increases in the required deduction from retired pay. I have one letter on my desk now where an elderly retired officer has seen his premium rise 60 percent. In situations such as this, where the retiree clearly did not expect such a result, the Service Secretaries should be given authority to permit withdrawal from the plan.

(4) The Social Security offset should be eliminated in the case of a widow with one dependent child.

(5) The Social Security offset should be eliminated when a survivor has earned this benefit based on the survivor's own covered earnings.

In conclusion, I wish that I could have been more brief in my remarks, but the problems are present and have to be identified. Last year concern was expressed that a bill similar to S. 91 might result in outlays by the Treasury of \$5 billion between now and the year 2000. Mr. Chairman, the Treasury of the United States has already gained \$1.1 billion in the first seven years of the Survivor Benefit Plan from deductions from the retired pay of 634,000 people. I urge you to act quickly to remedy this situation and prevent SBP from going the way of its predecessors.

Thank you for giving us the opportunity to make this statement.

TABLE 1. Comparison of age, length of service, and future retired benefits for military and civil service retirees in fiscal year 1970
[Retirees from active service only]

MILITARY RETIREMENTS									
Other: and below									
Non-ability									
Number	Average	Percent	Average	Adjusted	Average	Average	Average	Average	Lump-
retirees	active		retired	active	retirement	retirement	retirement	retirement	sum
in	service		pay	service					equivalent
thousands									
61,661	3,261,000	1.67	\$443	21.9	23.2	65.9	74.4	116.716	\$64,716
16,000	2,261,000	1.66	\$319	22.4	11.6	20.9	64.7	75,630	45,462
All	77,661	2.12	410	21.9	18.4	41.3	66.1	136,126	82,845
Ability									
Number	Average	Percent	Average	Adjusted	Average	Average	Average	Average	Lump-
retirees	active		retired	active	retirement	retirement	retirement	retirement	sum
in	service		pay	service					equivalent
thousands									
1,400	400,000	2.86	\$78	20.1	26.1	61.2	74.9	75,296	117,721
1,400	400,000	2.86	\$78	20.1	26.1	61.2	74.9	75,296	117,721
All	2,800	5.72	156	20.1	26.1	61.2	74.9	150,592	235,442
Total									
Number	Average	Percent	Average	Adjusted	Average	Average	Average	Average	Lump-
retirees	active		retired	active	retirement	retirement	retirement	retirement	sum
in	service		pay	service					equivalent
thousands									
27,121	2,872,000	1.29	\$223	21.1	21.4	42.6	74.9	121,312	76,603
14,400	2,872,000	1.60	\$297	21.6	15.6	31.9	62.2	85,628	81,458
All	41,521	1.79	260	21.9	18.1	36.4	68.2	166,940	158,061

CIVIL SERVICE RETIREMENT									
Men and women:									
Non-ability									
Number	Average	Percent	Average	Adjusted	Average	Average	Average	Average	Lump-
retirees	active		retired	active	retirement	retirement	retirement	retirement	sum
in	service		pay	service					equivalent
thousands									
64,292	3,476,000	1.60	\$416	24.6	21.6	65.9	71.9	121,312	76,603
14,400	2,872,000	1.60	\$297	21.6	15.6	31.9	62.2	85,628	81,458
All	78,692	2.20	\$311	24.6	26.3	48.9	71.9	166,940	158,061
Men									
Number	Average	Percent	Average	Adjusted	Average	Average	Average	Average	Lump-
retirees	active		retired	active	retirement	retirement	retirement	retirement	sum
in	service		pay	service					equivalent
thousands									
28,792	1,876,000	1.60	\$46	23.2	26.4	61.6	71.2	121,312	76,603
14,400	1,876,000	1.60	\$297	21.6	15.6	31.9	62.2	85,628	81,458
All	43,192	3.20	\$360	28.1	26.1	46.2	71.2	166,940	158,061
Women									
Number	Average	Percent	Average	Adjusted	Average	Average	Average	Average	Lump-
retirees	active		retired	active	retirement	retirement	retirement	retirement	sum
in	service		pay	service					equivalent
thousands									
18,628	797,000	1.56	\$68	26.7	24.4	68.1	71.2	121,312	76,603
14,400	797,000	1.60	\$297	21.6	15.6	31.9	62.2	85,628	81,458
All	33,028	1.58	\$265	28.0	23.3	49.9	71.2	166,940	158,061

The number of military retirees on the active list who retired and died in fiscal year 1970, and persons who were all of the military retired pay to obtain benefits from the Civil Service Retirement Administration. The number is approximate due to delay in mailing the data.

* This is the original age at entry into the service if the service was continuous; otherwise, it is the age at entry into the service after a break in service.

† "Year about" includes years for which the contributions were reduced and years for which the contributions were not reduced.

‡ For civil service, this excludes any years for which the contributions were reduced.

SOURCE: Senate Report 92 - 1089

CHART I



THE SURVIVOR BENEFIT PLAN

Cost Comparison: Military vs Civil Service

Cost of Living Increases	Survivor Annuity	Monthly Cost	
		Military	Civil Service
Jul 73 - 6.1%	\$ 155.00	\$ 7.50	\$ 7.50
Jan 74 - 5.5%	175.07	9.33	7.96
Jul 74 - 6.3%	184.70	11.80	8.40
Jan 75 - 7.3%	196.52	13.20	8.93
Aug 75 - 5.1%	210.67	15.80	8.58
Mar 76 - 5.4%	221.41	17.76	10.06
Mar 77 - 4.8%	233.41	19.93	10.60
Sep 77 - 4.3%	244.57	21.97	11.11
Mar 78 - 2.4%	255.08	23.88	11.59
Sep 78 - 4.9%	261.21	24.99	11.87
Mar 79 - 3.9%	274.00	27.32	12.45
Sep 79 - 6.8%	284.70	29.26	12.95
Mar 80 - 6.0%	304.34	32.83	13.85
	322.60	36.15	14.68
TOTAL ANNUITY COST (June 1973 - June 1980)		\$1789.29	\$ 925.56
ADDITIONAL COST TO MILITARY RETIREE FOR IDENTICAL COVERAGE: \$863.73			

Assumption: Both retirees left Federal Service on June 1, 1973 and elected identical survivor annuity coverage.

CHART II



SURVIVOR BENEFIT PLAN

TOTAL PARTICIPATION THRU SEPTEMBER 30, 1979

<u>SERVICE</u>	<u>TOTAL RETIRED 30 SEP 79</u>	<u>TOTAL SBP 30 SEP 79</u>	<u>TOTAL PAY WITHHELD FY 79</u>	<u>TOTAL ANNUITY PAYOUT FY 79</u>	<u>FUNDS REVERTING TO TREASURY FY 79</u>
ARMY	412,783	238,942	\$135,348,165	\$ 75,041,276	\$ 60,306,889
NAVY	314,778	167,289	80,921,900	53,807,973	27,113,927
AIR FORCE	437,367	201,528	116,764,372	34,780,863	81,983,509
MARINE CORPS	64,196	26,215	13,822,506	5,611,362	8,211,144
TOTAL	1,229,124	633,974	\$346,856,943	\$169,241,474	\$177,615,469
		51.5%		48.8%	51.2%

SOURCE: ARMY, NAVY, AIR FORCE AND MARINE CORPS FINANCE CENTERS

CHART III



SURVIVOR BENEFIT PLAN

PERSONNEL RETIRING IN FY 1979

SERVICE	OFFICER		OFFICER ELECTING MINIMUM SBP		ENLISTED		ENLISTED ELECTING MINIMUM SBP		ENLISTED ELECTING MINIMUM SBP		TOTAL RETIRING		TOTAL ELECTING MINIMUM SBP		TOTAL ELECTING MINIMUM SBP	
	OFFICER	SBP	OFFICER	SBP	ENLISTED	SBP	ENLISTED	SBP	ENLISTED	SBP	TOTAL RETIRING	SBP	TOTAL ELECTING MINIMUM SBP	SBP	TOTAL ELECTING MINIMUM SBP	SBP
ARMY	5,197		4,425		7,834		3,755		N.A.		13,031		8,180	(62%)	N.A.	
NAVY	3,649		1,306		8,880		2,646		1,686		12,529		3,952	(31%)	2,058	
AIR FORCE	7,242		5,260		14,523		6,585		1,317		21,765		11,845	(54%)	1,580	
MARINE CORPS	1,450		611		2,669		756		143		4,119		1,367	(33%)	268	
TOTAL	17,538		11,602	(66%)	36,627		13,742	(40%)			51,444		25,344	(49%)		

SOURCE: ARMY, NAVY, AIR FORCE AND MARINE CORPS FINANCE CENTERS

CHART IV

Mrs. BYRON. Thank you.
Dr. Myers.

**STATEMENT OF DR. ROBERT J. MYERS, FORMER CHIEF
ACTUARY OF THE SOCIAL SECURITY ADMINISTRATION**

Dr. MYERS. Thank you, Madam Chairman.

I should like to discuss briefly some of the inequities in the present survivor benefit plan, what SBP does to solve them, and, finally, what I believe should be done.

As you know, SBP was developed to replace the retired service-man's family protection plan, which was a plan under which all individuals were given the opportunity to participate on an actuarially equivalent basis. In other words, everybody who participated got their money's worth, but no more. Because of this feature of no Government financial participation in the program, only about 15 to 20 percent of the eligibles actually did participate. Therefore, SBP was developed, presumably to get greater participation by having the Federal Government contribute part of the cost of the plan, just as it does under civil service retirement for the joint and survivor annuities there.

This was the theory, but as it has actually turned out, and as I just saw a few months ago when I first examined it, I was shocked to find out that what SBP actually did was to become a moneymaker for the Government. This is so because participants in SBP, in general, pay far more for their benefit protection than it's worth. In other words, the general Treasury of the United States makes a profit.

If a private employer set up a plan like this, whereby the employer offered a benefit plan to the employees, and the net result of it was that the employer made money on it I am certain that you would hear a great protest through collective bargaining processes. Also, it is probable that various legislation would be enacted to prevent such practices.

Let's look at the inequities in the present SBP.

There is the inequity that the cost charge when the CPI increases is not increased proportionately, but rather it is increased more than the increases in the retired pay.

Second, the reduction for social security widow's benefits when the widow becomes age 62 is made even though the widow might not receive a social security benefit, unless the reason is that she is working. If she has a social security benefit in her own right that's larger than the one coming from her husband, she still suffers this reduction. This seems very inequitable.

There is also an inequity, as one of the previous witnesses stated, that there's a reduction made when there is a widowed mother and one child but not when there is a widowed mother and two or more children.

The general concept of the social security reduction produces a very inequitable and poor buy under SBP, especially when the amount of the retired pay is above \$300 per month. There is a very serious question: Why should there be any reduction when civil service retirement has none? It has been argued that the civil service employees contribute toward their retirement pay and that the military do not. But from a broad economic standpoint, I don't think that this argument

holds any water. It could be argued that civil service employees get larger pay because their retirement system is contributory, or it could be argued, on the other hand, that the military get lower pay because their retirement system is noncontributory. This is the sort of economic matter that you can chase all around the barn without really coming to any conclusive answer.

The survivor benefits under the civil service retirement system are a good buy for virtually everybody, whether considering the reductions below the basic amount of \$300 per month or even above, where there is a 10-percent cost charge. The reason for this is that civil service retirees tend to be older than military retirees. They tend to be between 55 and 65. But as it happens actuarially, for people who take this option in their forties or early fifties, the 10-percent charge is really no bargain. It's more or less an actuarial equivalent if there is no social security offset. Where the bargain element is present, if there were no widow's offset for social security benefits, is on the 2½-percent part.

Another thing too that could happen with the present survivor benefit plan is that it could encourage divorces. If a couple is on the rolls for a while and have been under SBP, when the wife has reached 62—so that, if the husband were to die immediately, the social security offset would go into effect—the entire SBP benefit could be wiped out. If the couple gets a divorce that would be just fine as far as the SBP is concerned, because the cost charge then would be eliminated. Thus, it could be tempting to people to get a divorce under those circumstances and continue to live together.

There are also problems in SBP about what happens to the divorced wife if the husband later dies. Under the present law, the divorced wife loses protection immediately, and this does not recognize any possible property rights. On the other hand, the social security system provides that once a woman has been married to a man for 10 years, and then a divorce occurs, the benefit rights continue the same for that woman as if the divorce had not occurred.

Now, what does S. 91 do to solve the problem of these various inequities?

It does remedy the erroneous procedure for the cost bases when retired pay is increased because of rises in the CPI. That's all to the good.

It does nothing, however, about the reduction for the social security widow's benefit when she has a benefit in her own right that is larger than—even a substantial part of—the widow's benefit. This inequity cries out for remedy.

Likewise, S. 91 does nothing about the situation of the mother with one child, where there is a social security offset, as against the fact that there is no offset for larger families.

S. 91 provides a partial solution to the problem of the inequity of the social security reduction, which produces a poor buy for those who elect SBP. The 40-percent maximum on the reduction in SBP for the social security widow's benefit, of course, helps greatly, but it still does not make the plan a good buy for everybody, or even a reasonable buy in many cases.

I would think that, if S. 91 is passed, anybody who elects to take more survivor benefit plan protection than on the first \$300 of retired

pay is making a bad choice. As an actuary, I would tell them that this is a poor buy and that they could probably do better elsewhere, although not getting exactly the same package.

S. 91 will result in everybody electing on the first \$300 of retired pay getting a reasonably good buy. But they certainly should not take any protection above that, unless they are quite certain that they will die in the very near future.

One other suggestion that I would make about S. 91 is the provision with regard to reservists with less than 30 days of service per year. I think that the intent of this provision in S. 91 is good, but I suggest to the subcommittee that the provision is not properly drafted: I suggest that the staff might want to look into this. As I read the language in S. 91 as passed by the Senate, if an individual is over the social security earnings base for his or her private employment so that the military service does not increase the social security benefit at all, this will take away the social security offset. But this is the case only if the base is exceeded in every single year. In other words, if in 1 year a person misses and has lower earnings from private employment than the social security base, the social security offset will still apply.

I suggest that what should be done in connection with the social security widow's offset for military service of a reservist is that it should be based on the military earnings which counted in the social security earnings record over the years. In other words, if the person goes over the base in every year but one, than in that 1 year there was some military earnings that counted toward widow's benefits, and only that earnings should be counted toward the offset, and not all the other military earnings.

Mrs. BYRON. Dr. Myers, can I interrupt you for a moment?

Dr. MYERS. Yes.

Mrs. BYRON. We have a vote on the floor, and I'm going to adjourn the committee for 10 minutes and we'll go vote. Will the members come back just as soon as possible and continue? I didn't mean to interrupt you in the middle of it, but I think we'll give more attention to it if we go vote first.

Dr. MYERS. Thank you, Madam Chairman.

(Whereupon, the subcommittee recessed from 3:28 p.m. until 3:41 p.m.)

Mrs. BYRON. The subcommittee will now reconvene.

Dr. Myers, I'm sorry to interrupt you. Go right ahead.

Mr. MYERS. Thank you, Madam Chairman.

Finally, I would like to turn to what I think should be done about the survivor benefit plan to make it an equitable and attractive plan to the participants, while at the same time being a reasonable plan insofar as the employer, the Government, is concerned.

If there is to be a social security offset, I believe that it should be based only on the additional benefit that is derived from military service that is actually payable, in other words, only the excess of the widow's benefit over the benefit that the widow or widower had on own earnings record.

Further, if there is to be an offset—and I really seriously question whether there should be one—I think that it should be a uniform amount, such as, say, \$110 a month, or the social security widow's

benefit, if less. The offset, therefore, in essence would be applicable only to the benefit from the first \$300 a month of retired pay. My reason for this belief is that the benefits under SBP coming from higher amounts of retired pay are very close to the actuarial equivalent of the 10 percent cost charge that is levied on the member.

It sometimes has been said that there should be some offset in the survivor benefit plan because the Government contributes to the social security benefit of the individual and that this should be recognized. On the other hand, it is argued under civil service retirement, the employees are not under social security, and the Government does not pay any social security contribution on their behalf. However, I think it should be recognized that about 80 percent of Federal civil service retirees do qualify for social security from other types of employment either from moonlighting while they are in Federal service or from working in private employment at other times during their working lifetimes. As a result of this social security coverage these civil service retirees obtain very significant windfall benefits, and yet this is not recognized by any offset against their survivor benefits under civil service retirement.

But if there is to be an offset, I suggest that the most appropriate basis would be a flat amount of something like \$110 a month.

Another good approach—one that I think is not quite as good, but is still quite acceptable—is the one that this committee has developed over the years—namely, that the offset should be 50 percent of the social security widow's benefit based on military service. There is a certain logic to this, on the grounds that the Federal Government paid the same amount as the member of the Armed Forces and, therefore, you could say very approximately that the Government paid for half of the social security benefit and that the individual, through his or her own contributions, also paid for half of the benefit. Therefore, there should be an offset of only 50 percent.

So I believe that, although S. 91 is far better than the present law, it still leaves much to be desired in these many areas that I have discussed.

Also, I would repeat again that if S. 91 is enacted, it would be unwise in almost all instances for members to elect any SBP protection on more than the first \$300 per month of retired pay. In that portion, there is good protection, and part of it is paid by the Federal Government. But any election of amounts above that means that the individual is paying more than the protection is worth—or, in other words, that the Government is making money out of that unwise election.

I have three memorandums that I would like to submit for the record, Madam Chairman. I think that they explain more fully my proposed plan and also my difficulties with the present SBP as to its inequitable provisions.

Mrs. BYRON. They will be included in the record.

[The following information was received for the record:]

PROPOSED REVISION OF SURVIVOR BENEFIT PLAN

This memorandum sets forth my recommendations as to how the Survivor Benefit Plan should be revamped. It is generally agreed that the present basis contains many inequities and anomalies. Accordingly, in my opinion it does not

seem to be desirable to "patch up" the plan temporarily, as S. 91 would do, because it is known that in a few years the inequities and anomalies would once again appear.

COST BASIS

It is generally agreed that the present basis for determining the cost to the member is inequitable and resulted from poor drafting of the 1972 legislation. The intent of Congress was apparently that the same procedure should be followed in determining this cost when there are CPI increases in retired pay as is done in the CSR system. In brief, the proper procedure is merely to increase the cost charge by the increase in the CPI (just as would be done for the gross and net pays). I strongly believe that this should be done.

In addition, I propose that the portion of the cost charge that is based on the first \$300 of initial retired pay (as subsequently adjusted for changes in the CPI) should be eliminated in and after the month in which the wife attains age 60.

MONTHS FOR WHICH SBP ANNUITY IS REDUCED BECAUSE OF SS BENEFITS

I propose that reduction in the SBP annuity should be made only for months when a SS widow's benefit (counting the first tier of the Railroad Retirement system as a SS benefit) is actually received at and after age 60. It should be noted that when a woman is eligible for both a benefit based on her own earnings record and one based on her husband's earning record, the widow's benefit is considered to be only the excess (if any) of the latter over the former. As an alternative to the foregoing, the age limit could be set at the present 62, instead of 60. It should also be noted that I am recommending that the present anomaly of having the offset applicable for a widowed mother with exactly one child should be rectified by eliminating such offset.

AMOUNT OF REDUCTION

I recommend that the amount of reduction for each month where applicable should be two-thirds of the SBP annuity based on the first \$300 of retired pay (i.e., \$165), as adjusted upward by any CPI changes applicable after the member's retirement and as adjusted downward by the early-retirement factors applicable to widows (e.g., 71½ percent if the benefit is first claimed at age 60). Such reduction should, however, never exceed the SS widow's benefit actually paid for the month (note that this is not on an "entitled" or "payable" basis).

I might point out the basis of the proposed deduction or offset as it applies to a widow first claiming benefits at age 65. Under the new SS benefit formula as applicable in 1979, there is much heavier weighting of the first \$180 of Average Indexed Monthly Earnings than is applicable for higher amounts. The benefit factor for the first \$180 is 90 percent, while that applicable thereafter is only 32 percent. It can thus be said that there is a "windfall" or "bonus" basis of 58 percent of \$180 in the primary benefit for those with average or above-average benefits. The widow's benefit at age 65 is the full primary benefit. This bonus of \$104.40 is 63 percent of the SBP annuity based on the first \$300 of retired pay. Accordingly, I have used the rounded figure of two-thirds as representing the portion of the SBP annuity which should be offset initially for age-65 widows as representing the bonus element in the SS benefit, which could be said to be "other than purchasable" by the employer-employee SS contributions.

Although the suggested procedure does not have complete logic, there is no possible way to achieve this end. Moreover, the suggested procedure has far more logic than the present muddled, complex method.

TREATMENT OF PRESENT MEMBERS

Beginning with a prescribed future effective date, the present members in SBP should have the cost base recomputed for future months on the basis of what it would have been if the proposed proper procedure had been followed from the start. Similarly, the reduction in the cost charge when the wife attains age 60 should be applicable from the effective date on.

The new basis for determining the amount of the reduction for survivor beneficiaries on the roll should be applicable for those currently on the roll beginning with the effective date.

Retirees who did not elect SBP should be given an open enrollment period of a number of months. There should be some underwriting safeguard such as requiring a certain proportion (say, 50 percent) of cost charges which would have

been made in the past to be paid in a lump sum, or else coverage should not begin until a number of months after enrollment.

BOARD OF ACTUARIES

A Board of Actuaries should be established in a manner similar to that under the former RSFPP. This Board would have the function of seeing to it that proper actuarial analysis of SBP is made, including a development of the hypothetical fund which would have arisen if separate accounting of its income and outgo had been made. The Board would also make recommendations as to the operation of the plan, particularly as to any anomalies or inequities which might arise.

ROBERT J. MYERS,
Silver Spring, Md., May 30, 1980.

MEMORANDUM

Subject: Actuarial Analysis of Cost Charges for Survivor Benefit Plan.

This memorandum will make a brief actuarial analysis of the proportion of the benefit protection "purchased" by members under the SBP.

Four levels of monthly retired pay have been selected—\$300 (representing the minimum which can be elected), \$800 (representing a typical enlisted retiree), \$1,200 (representing the typical officer retiree), and \$2,400 (representing the situation in the distant future, after there has been considerable inflation).

Three cases have been considered as to the Social Security offset. First, no offset would be made because the widow has a larger Social Security benefit based on her own earnings than on her widow's benefit. Second, a 100-percent offset based on a widow's benefit of \$400 per month if taken at age 65 would be made. Third, there would be an offset of the full widow's Social Security benefit, but never more offset than 40 percent of the SBP benefit, as is proposed in a bill reported by the Manpower Subcommittee of the Senate Armed Forces Committee. It will be noted that the limitation of the offset to 40 percent of the SBP benefit is only of value to those with low SBP benefits. It is further assumed that no children are present and that remarriage before age 60 will not occur. The Social Security offset, according to present law, begins at age 62.

The analysis compares the present value of the cost charges paid by a man retired at age 43 with a wife the same age, as against the present value of the potential future benefits payable to the widow. The calculations are based on the 1971 Group Annuity Mortality Table, using an interest rate of 3½ percent. It is assumed that there will be no price inflation in the future, so that a low interest rate such as 3½ percent is proper. It may be noted that, if price inflation had been assumed, then a higher interest rate would be proper, and these two elements would have a counterbalancing effect. For example, if price inflation of 5 percent had been assumed, and if the consistent interest rate of 8½ percent had been used, the same relative results in the analysis would have occurred.

As shown by the attached table, when no offset is assumed, the vast majority of the cost is borne by the member, except for the \$300 minimum case. Or, this can be looked at by expressing the member cost for amounts elected above the \$300 minimum; in this case, it happens that the member charge is just about exactly the same as the benefit protection obtained.

On the other hand, considering the existence of the full present Social Security offset in all cases, the member pays substantially more than the benefit protection is worth—obviously an inequitable and illogical situation.

Next, considering the effect of the proposed legislative change of having the offset of Social Security widow's benefits not being in excess of 40 percent of the SBP benefit, the \$300 case continues to involve a large proportion of the cost being borne by the plan (i.e., the government). However, for the other cases, more than the full cost is borne by the participant, so that no "bargain" element is present (as it is in Civil Service Retirement). In other words, the cases above \$300 actually pay considerably more than the value of their benefits above this point than if they had elected to participate only on their first \$300 per month of retired pay—e.g., an excess charge of 52 percent for the \$800 case. In other words, the government would have a higher cost (i.e., a lower "profit", which is really completely unwarranted) if fewer persons participated on retired pay in excess of \$300 per month!

Finally, analysis has been made of what the proper charge would be for various

ages at retirement with no Social Security offset if the member were to pay the full actuarial cost. For age at retirement 43, the cost charge would be uniform 9.9 percent. For age 50 it would be 15.0 percent, while for ages 55 and 60, it would be 18.1 percent and 21.9 percent, respectively.

The foregoing analysis makes it quite evident that the members who elect SBP are being considerably overcharged, especially considering those where the Social Security offset will likely be operative and especially as to the portion of the benefit based on monthly retired pay in excess of \$300. The proposed legislative changes would improve the situation where there is an offset present, but primarily only for those with relatively low SBP benefits. The participants would be overcharged for the protection elected on retired pay in excess of \$300 per month. They would generally be well-advised to elect only on the basis of that figure and purchase additional protection elsewhere. The only disadvantage of such an approach is that any other insurance would not be indexed to changes in prices, but nonetheless an inequitable over-charge is being made under SBP, even taking into account such indexing. Actually, SBP as it is now established is an unwarranted "money maker" for the federal government, and even under the bill it would have little cost to the government.

ROBERT J. MYERS.

ANALYSIS OF PROPORTION OF BENEFIT PROTECTION "PURCHASED" BY MEMBERS UNDER SURVIVOR BENEFIT PLAN

Monthly retired pay	Present value of—		Proportion of cost borne by member (percent)	
	Cost charges	Benefit protection	On total	On amount over \$300
Assuming no offset:				
\$300	\$1,596	\$6,314	25	-----
\$800	12,233	16,838	73	101
\$1,200	20,742	25,256	82	101
\$2,400	46,271	50,513	92	101
Assuming full present 100-percent offset:				
\$300	1,596	1,058	151	-----
\$800	12,233	4,963	246	272
\$1,200	20,742	13,383	155	155
\$2,400	46,271	38,638	120	119
Assuming present 100-percent offset, but with maximum offset of 40-percent of SBP benefits:				
\$300	1,596	4,212	38	-----
\$800	12,233	11,232	109	152
\$1,200	20,742	16,847	123	152
\$2,400	46,271	39,937	116	125

Note: See test for description of assumptions and methodology.

MEMORANDUM

Subject: Some Statistical Information about the Survivor Benefit Plan.

The DOD Statistical Report on the Military Retirement System for fiscal year 1979 presents some interesting data as to SBP.

The average age at time of retirement for those electing SBP was 48.2 (although it was 43.1 if the approximately 8,600 reservists retiring at age 60 were not counted). The proportion of retirees electing SBP was 53 percent in the aggregate, but was much lower at the younger ages (ranging from about 20 percent at the very youngest ages to about 45 percent at ages 27-43, and then increasing to about 65 percent in the early 50's, and to as much as 90 percent at age 60).

Up to about age 50, the spouses' ages tended to average about 2 years less than those of the retirees.

The SBP base amount averaged about 80 percent of the initial retired pay (before reduction).

MEMORANDUM

Subject: Assumptions used in "Actuarial Analysis of Cost Charges for Survivor Benefit Plan."

In my memorandum on the above general subject dated May 30, certain interest, mortality, and marital assumptions were used. This memorandum will discuss in somewhat more detail why these assumptions were chosen.

The mortality experience was assumed to be represented by the 1971 Group Annuity Mortality Table. This is generally representative of current mortality experience among lives who have somewhat lower mortality than the general population. Although a basis using somewhat lower mortality might have been selected (so as to reflect the lower mortality experience in recent years and likely for the future), this would not have greatly different results because both male and female mortality have been improving, and what is important is the relationship between them. In any event, the use of a basis with lower mortality would present the SBP to be even a poorer "buy" than my previous calculations.

An interest rate of $3\frac{1}{2}$ percent was used as a "real" rate, reflecting the fact that no CPI increases were assumed, so that an interest rate reflecting non-inflationary conditions was appropriate. Some might argue that $3\frac{1}{2}$ percent is too high, considering the yield on government bonds has not been that much in excess of price inflation. This comparison, however, is not relevant because what is involved is the "real" interest rate insofar as individuals perceive it. If a lower interest rate than $3\frac{1}{2}$ percent had been used, SBP would not be as bad a "buy" as indicated in my previous memorandum, but it still would not be a good "buy" (i.e., equitable) for participation above the first \$300 per month of retired pay.

The illustrative case analyzed was a retiree aged 43, with a wife the same age. Age 43 at retirement seems reasonable in view of the experience under the SBP for all retirees exclusive of reservists (average age of 43.1 in fiscal year 1979). Based on the experience, there is an average differential of two years between the age of the retiree under SBP and the spouse. The use of such a differential in the actuarial analysis would have shown SBP in a somewhat more favorable light, but by no means a good "buy". However, the use of a higher illustrative age for the spouse than the average is a justifiable procedure, because the equity of SBP should be measured not merely for the "average" case, but also for other reasonable and likely cases. (In other words, even if equity were present for the average case, this would not be sufficient if there were many cases somewhat away from the average where poor "buys" were being provided.)

Mrs. BYRON. Thank you, Dr. Myers. That concludes your presentation?

Dr. MYERS. Yes, Madam Chairman.

Mrs. BYRON. I have several questions.

I would like to ask you why you feel there is such a big difference among the services in the percentage of participation in the SBP. You quote the figures of 62 percent for the Army and for the Navy 31 percent. That's a very large discrepancy in participation.

Do you have any indication of why there is such a big difference?

Colonel HENRIKUS. Madam Chairman, that may be either quality of counseling or counseling the counselors. I don't know. It would appear to be, on the surface, an indictment of one service as opposed to another by the degree of participation.

However, I can cite my own situation. I retired a few years ago from the Air Force after 32 years, and I think everyone goes into the situation the same way. They have no idea of what SBP is all about. All they do is talk to a counselor, and if they are in a situation like I was with several children still at home or in college, there was no question in my mind. I would take whatever I was offered, with no question as to the costs or anything else. I was told generally that I would pay 60 percent and the Government would pay 40. I'm ending up now paying 75 percent or thereabouts. I'm still happy with it. But what we're concerned with is as it goes down—

Mrs. BYRON. But basically, you say you believe that with the Navy and the Marine Corps, which are very low in percentages, it results from the awareness of the individual at the time of retirement?

Colonel HENNIKUS. Yes, ma'am. Of course, from the standpoint of a new retiree it might be a better awareness from our view because survivor benefit plan is a better plan than no plan, but it's not the greatest plan, and it's no plan at all for enlisted people or people at low participation.

We have always recommended that if you're going into a survivor benefit plan you go 55 percent, which is the maximum amount you can take.

Mrs. BYRON. Dr. Myers, you feel that S. 91 is not an ideal plan, but pragmatically if we had S. 91 or nothing, S. 91 would be a beginning?

Dr. MYERS. Yes, Madam Chairman. S. 91 is certainly far better than nothing. It does make the SBP much more equitable, particularly if people understand what to do. I think, however, that anybody who considers SBP as it would be amended by S. 91 would be ill-advised not to participate, but they would also be ill-advised to participate at much more than the \$300 per month minimum.

Mrs. BYRON. Mr. Mitchell.

Mr. MITCHELL. Thank you, Madam Chairman.

Colonel Hennrikus, you mention that each member of the Senate Armed Services Subcommittee on Manpower and Personnel stated separately that he did not understand the issue.

Colonel HENNIKUS. Yes, sir.

Mr. MITCHELL. How was the information obtained? What sort of question was asked? How did you find this out?

Colonel HENNIKUS. Each one of them volunteered the fact that, "I don't understand this, but I'm going to vote for it because we have to get this thing off the docket," in those terms, and each one of them said it separately, sir.

Mr. MITCHELL. I see. Thank you.

To the same person?

Colonel HENNIKUS. Just to the record.

Mr. MITCHELL. Oh, I see.

Colonel HENNIKUS. It was a markup session.

Mr. MITCHELL. I see. And there was a public record?

Colonel HENNIKUS. They had attempted Lord knows how many markups prior to that and never had gotten a quorum or enough people together to do anything about it, and finally they got three or four people together and they said, "Well, let's do something," and they had a spectrum of choices. They went down the middle, and said, "Let's take this one."

Mr. MITCHELL. Did it take them very long?

Colonel HENNIKUS. When you consider all the time that Senator Nunn put in trying to get his subcommittee together, there was extensive time, but as far as discussing a subject, no, because they had nothing to discuss. They didn't understand it.

Mr. MITCHELL. Thank you.

Dr. Myers, have you costed out your recommendations for the changes in the program? Do you know what your proposal would cost in addition to the present program?

Dr. MYERS. No, I did not do that. I do not have the capabilities of doing it, because I do not have the data or the computers that the Department of Defense has. I merely looked at this from the stand-

point of were people being treated equitably. I make analyses of a number of illustrative cases that showed that, in many instances, people paid far more for their protection than it was worth on an actuarial basis. Some of the testimony that you have had today confirms that

Mr. MITCHELL. You mentioned that the SBP program makes money for the Federal Government. I was surprised at that. I can't imagine a Government program that makes money. You know there has to be a mistake there.

Colonel HENRIKUS. Mr. Mitchell, I might add there, sir, that we've gone to the service finance offices, all of them, for the past 2 years on a freedom of information request to determine a number of things, but, among others, the statistics of how much money is taken in in contributions and how much is paid out to annuities, and it amounted in 1979 to about a billion dollars over the amount paid out from 1972, and it's increasing now, we found out, at the rate of \$200 million a year, and the profit goes back to the general fund of the Treasury. So you do have one plan you work with that's running at a profit.

Dr. MYERS. Mr. Mitchell, might I comment on that?

I certainly would have no objection to a governmental agency making money if it is operating a business. If the Post Office made money that would be just fine. But here my moral objection is that the Government, in essence, as an employer offers a benefit plan to its employees. Normally you would expect that, when the employer offers a benefit plan, it will be of some advantage to the employees. At least, under the RSFPP, the Government said, "We'll administer it free, and you will get your actuarial equivalence." But here, under the present SBP and, in part, as it would be amended by S. 91, the Government is offering a plan to people which is not worth what they are going to pay for it. In other words, the Government, the employer, is going to make money, although presumably it is acting as a beneficial employer offering a benefit plan.

Mr. MITCHELL. I understand your point.

You mentioned also a statistic that seems unusually high, and that was that 80 percent of service retirees were qualified for social security on their own by moonlighting and working in private employment.

Dr. MYERS. The situation is that 80 percent of Federal civil service retirees who reach age 62 will be eligible for social security. I recently made an analysis of this matter, and I have published an article on the subject that I would be glad to send you or include it in the record—in Employee Benefits Journal, Summer 1979.

Mr. MITCHELL. These are civil service employees? These are not armed services retirees?

Dr. MYERS. No. These are civil service retirement employees. I obtained data from what used to be the Civil Service Commission and the Social Security Administration and made this analysis and projection.

Mr. MITCHELL. So they do receive additional social security because of their additional work outside of the Government?

Dr. MYERS. That is correct.

Mr. MITCHELL. I didn't understand your observation of that statistic and your objection to the offset program for the survivor benefit plan. What was the connection there?

Dr. MYERS. My point there, Mr. Mitchell, is this: In the survivor benefit plan, the social security offset is made because it is believed this is overlapping protection. What I am saying is that civil service retirees, to a very great extent, have that same overlapping protection, and they do not have any offset.

Mr. MITCHELL. I see.

Thank you very much.

Thank you, Madam Chairman.

Mrs. BYRON. Mr. Wyatt.

Mr. WYATT. Thank you, Madam Chairman.

Dr. Myers, if because of budgetary limitations it becomes necessary for us not to accept the full program, for instance, which you have offered, how would you suggest we modify your program to meet the restrictions that would be imposed? For instance, Mr. Amis, I think, said that it had to be actuarially sound, in essence, or actuarially neutral.

Could we modify the program you have recommended to us in some way to make it actuarially neutral?

Dr. MYERS. Mr. Wyatt, I do not think that it really could be modified in that way. It could be modified to have less cost to the Government as an employer. But if you adopt an actuarially neutral system, what this really means is to revert back to the RSFPP, which I thought was a good program. It was a program that gave everybody exactly their money's worth. Therefore, it cost the Government nothing. Unfortunately, that program was not successful, because it only had about a 15-percent participation. So then, SBP was enacted, with the thought that the Government would contribute to it, so as to make it more attractive, and then more people would participate. But what has happened is that the Government, instead of putting more money into it, is taking money out of it.

There are various modifications that can be made to go part of the way toward giving adequate protection. For instance, instead of the 100-percent offset, if you do not want to go as far as the 50-percent offset, which this committee originally favored, and which I think is a desirable thing, you could compromise and have a 75-percent offset.

There are all sorts of permutations and combinations of moving down toward more equitable treatment of the beneficiaries. S. 91 does that to some extent, but there are still many people who would be inequitably treated under S. 91 if they participate fully in the program.

Mr. WYATT. Since the 50-percent social security offset has not been acceptable to the Senate, what are your views on limiting the offset to 40 percent. I suspect, Doctor, this is the question you just answered; this would be acceptable to you.

Dr. MYERS. Yes; that would be much better. Or if, instead of having a 40-percent maximum offset against the SBP benefits, the way the Senate says, there was a 30-percent maximum. As I understand it, the 40 percent is just an arbitrary figure; there is no logic in back of it.

Mr. WYATT. It's not necessarily actuarially neutral?

Dr. MYERS. No, indeed. It is nowhere near actuarially neutral. With a 40-percent reduction some people get a very good deal out of the program; others get a poor deal. Some people are equitably treated; some are inequitably treated. An actuarially neutral system is like the old RSFPP where everybody received exactly their money's worth.

Mr. WYATT. Thank you.

Thank you, Madam Chairman.

Mrs. BYRON. Thank you, Mr. Wyatt.

Dr. EVANS.

Mr. EVANS. Thank you, Madam Chairman.

Dr. MYERS, I presume when we talk about a "survivor" you refer equally to widow or widower.

Dr. MYERS. Yes, sir.

Mr. EVANS. But then with the life expectancy being so different between men and women the actuarial assessment goes up in smoke, doesn't it? In other words, it's actuarially balanced when the survivor is a widow, who is expected to live much longer, but it doesn't apply when the survivor is a widower, who may not be expected to live long, and this is particularly important since the percentage of women in the service is increasing. How do you answer that?

Dr. MYERS. Your observations are, of course, quite correct about the different mortality of men and women. In a strictly actuarially neutral system, this would be taken into account by using separate mortality tables for men and women and recognizing this in the charges made. In the present SBP, or as it would be modified by S. 91, the residual cost that is borne by the Government reflects this. In other words, all other things being equal, the Government will pay less in the case of a female member of the retired force with a male beneficiary than the reverse, the reason being that the female will live longer and is much more likely to outlive her beneficiary.

Mr. EVANS. Other things being equal, if the Government tried to straighten that out, the Government could be accused of being discriminatory?

Dr. MYERS. Yes, that is right.

Mr. EVANS. One other point I would like to clarify.

You said that 80 percent of the civilian Government employees also are covered under social security, and you said you thought it was because of moonlighting. Isn't it more than likely that 80 percent of the civilian workers did not put in their full working years in Government, and they had many years in private industry either before or after Government?

Dr. MYERS. It's both of those factors, Dr. Evans. The data that I had gave no way of indicating which one. If I had to guess, I would say that what you say is correct—that probably more retired Government employees either worked before their Government employment or afterward, rather than simultaneously. But the fact is that 80 percent of them will have a social security record and get social security benefits plus civil service retirement benefits.

Mr. EVANS. But if they worked before going to Government and the benefit is based on length of service then they really aren't getting a bonus because what they gain from their civilian employ has been offset by shortening the term of Government employ.

Dr. MYERS. Yes; that is true to a considerable extent. I am not saying by this that the retired civil service employee should not get social security benefits. It is just that, under the way in which the social security system computes benefits at present, the benefit for being covered under social security only part of a working career is disproportionately large as compared to that for people who are in social security all their lifetime.

Mr. EVANS. Thank you, Dr. Myers.
Thank you, Madam Chairman.

Mrs. BYRON. Thank you very much, Dr. Myers and Colonel Hennrikus.

We will adjourn for 10 minutes. We have another vote on the floor. When we come back Mr. Donald Schwab will be the next witness.

[Whereupon, the subcommittee recessed from 4:01 p.m. until 4:12 p.m.]

Mrs. BYRON. The subcommittee will come to order.

The next witness is Mr. Donald Schwab, director of legislative service, Veterans of Foreign Wars.

Mr. Schwab.

Mr. SCHWAB. Thank you, Madam Chairwoman.

In the interest of time and in an attempt not to be redundant, I'll summarize my statement, with the understanding it will be printed in full in the record.

Mrs. BYRON. It will.

STATEMENT OF DONALD H. SCHWAB, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS

Mr. SCHWAB. My name is Donald H. Schwab and it is my privilege to serve the 1.9 million men and women of the Veterans of Foreign Wars of the United States as their national legislative director.

Madam Chairwoman, Public Law 95-379, the Uniformed Services Survivors' Benefit Amendments of 1978, made significant improvements in both the retired serviceman's family protection plan and the survivor benefit plan. However, at least two of the injustices in the current plan prove to be continuing impediments to large participation, and they are the social security and dependency and indemnity compensation offsets. Realizing the deleterious effect of these offsets to beneficiaries and, also, that they are responsible in part for only an approximate 50 percent participation by retirees, notwithstanding the fact that nonparticipation to the fullest extent requires the counseling and signature of the potential beneficiary, the voting delegates to our last national convention passed Resolution No. 607 calling for the complete elimination of the social security and DIC offsets, a copy of which is appended to my testimony.

The instant legislation, S. 91, introduced by the Honorable Strom Thurmond, was passed by the Senate, as amended, on May 28, 1980. Although in its present form the bill fulfills our VFW mandate only in part, it goes beyond the provisions thereof.

Madam Chairwoman, the VFW appreciates the continuing effort of this subcommittee to resolve the inequities in the Armed Forces survivor benefit plan. We are gratified that the Humphrey-Thurmond amendment provides the vehicle to eliminate the DIC offset problem for most of the 12,570 Armed Forces retirees participating in the survivor benefit plan and rated permanently and totally disabled by the VA. Notwithstanding, we believe the social security offset for potential beneficiaries is the greatest impediment to larger participation in the plan. In view thereof, we request that the pending legislation be further amended to eliminate the social security offset for all beneficiaries.

Deviating from my prepared text, permit me to state that I participate in the survivor benefit plan, as I have participated in one of its predecessors, the retired servicemen's family protection plan, but only because my dear wife is permanently and totally disabled. Were such not the case, I would have deep reservations about participating in the survivor benefit plan even as it is today.

This concludes my testimony, and I will be happy to respond to any questions you may have.

WRITTEN STATEMENT OF DONALD H. SCHWAB

Mr. Chairman and members of the subcommittee: Thank you for the privilege of presenting to this distinguished Subcommittee the views of the Veterans of Foreign Wars of the United States regarding pending legislation to improve the Armed Forces Survivor Benefit Plan.

My name is Donald H. Schwab and it is my privilege to serve the 1.9 million men and women of the Veterans of Foreign Wars as their National Legislative Director.

Mr. Chairman, as you are aware, prior to the "Uniformed Services Contingency Option Act of 1953," existing law provided no means whereby retired Armed Forces personnel could share their retired income with their survivors to provide a modest degree of security and independence for their widows or widowers. The provisions of this Act were directed at establishing a self-supporting system based on actuarial soundness and at no cost to the United States Government. Thus, deductions from the group as a whole were sufficient to pay survivor benefits. However, participation therein was less than desirable due both to the high cost of the program and restrictions therein.

As a result of small participation in the Contingency Option Act, Public Law 87-381, dated October 4, 1961, established the Retired Serviceman's Family Protection Plan. Briefly, the plan made provisions for a member of the Armed Forces to elect reduced retired pay to provide survivors with up to 50 percent of the retired pay in effect on the date of retirement. An extra cost feature subsequently added to the plan permitted withdrawal therefrom in the absence of an eligible beneficiary. Notwithstanding the RSFPP improvement over the Contingency Option Act, participation therein by retirees was only approximately 15 percent.

To induce greater participation in a plan whereby all Armed Forces personnel could provide a meaningful annuity to their survivors, Public Law 92-425, enacted September 21, 1972, established the Armed Forces Survivor Benefit Plan, which is currently in effect. Under the SBP, a member of the Armed Forces may provide survivors an annuity up to 55 percent of the retired pay to which entitled on the date of death by electing reduced retired pay. Another feature of the Survivor Benefit Plan establishes a "minimum income" per annum for certain unmarried spouses of deceased retired personnel. Although the Survivor Benefit Plan contains many desirable features absent in its predecessors, including adjusting the annuity payable in accordance with the Consumer Price Index, other restrictive provisions continue to bring criticism from both non-participants and participants alike.

Public Law 95-397, the "Uniformed Services Survivors' Benefit Amendments of 1978," made significant improvements in both the Retired Serviceman's Family Protection Plan and the Survivor Benefit Plan. However, at least two of the injustices in the current plan prove to be continuing impediments to large participation and they are the social security and Dependency and Indemnity Compensation offsets. Realizing the deleterious effect of these offsets to beneficiaries and, also, that they are responsible in part or only an approximate 50 percent participation by retirees, notwithstanding the fact that non-participation to the fullest extent requires the counseling and signature of the potential beneficiary, the voting delegates to our last National Convention passed Resolution No. 607 calling for the complete elimination of the social security and DIC offsets, a copy of which is appended to my testimony. As you are aware, Mr. Chairman, under the provisions of section 1451(a), Title 10, USC, the Department of Defense deducts dollar for dollar from the annuity payable to the beneficiary at age 62 the amount of social security benefit to which the widow or widower would be entitled based solely on the deceased retiree's social security benefit accrued while serving on active duty in our Armed Forces. This is true even if the beneficiary

has earned social security entitlement in his or her own right or does not even file for benefits. The offset is based upon entitlement alone. This offset substantially reduces the survivor benefit and in some cases can entirely wipe out any payment under the SBP. A DOD study submitted in February last year reflects that even at present participation rates, by the year 2000 the government will receive \$89 million more in contributions to the plan than it will pay to beneficiaries. However, even more startling, in May of 1979 an actuarial validation by the firm of Towers, Perrin, Foster and Crosby indicates that the surplus "profit" to the government for this period will not be \$89 million but \$3.5 billion. In view thereof, Mr. Chairman, we see no justification, whatsoever, for not entirely eliminating the unjust social security offset and we ask this Subcommittee to so amend the instant legislation.

The Dependency and Indemnity Compensation offset is also acting as a deterrent to participation in the SBP which will be accentuated in the future due to the liberalization of the DIC criteria as enunciated in Public Law 95-479, the "Veterans' Disability Compensation and Survivors' Benefits Act of 1978." As you are aware, DIC was formerly paid only to the survivors of those service-connected veterans who were permanently and totally disabled and expired due to their service-connected disabilities. Public Law 95-479 made eligible the survivors of permanently and totally disabled veterans due to their service-connected disabilities regardless of the cause of death.

The instant legislation, S. 91, introduced by the Honorable Strom Thurmond, was passed by the Senate, as amended, on May 28, 1980. Although in its present form the bill fulfills our V.F.W. mandate only in part, it goes beyond the provisions thereof. Briefly, S. 91 would: Revise the cost formula to bring it in line with the Federal Civilian Survivor Annuity Program; limit the social security offset to no more than 40 percent of the survivors annuity; provide annuities to the widows whose husbands expired while serving on active duty prior to 1972 and were eligible for retirement; completely eliminates the social security offset for Reservists whose active duty was for periods of 30 days or less after 1956 when Armed Forces Personnel commenced paying into social security and permits Armed Forces Retirees who are rated permanently and totally disabled by the Veterans Administration continuously for 10 or more years or continuously for 5 years from date of retirement to withdraw from the SBP and again elect to participate if their 100 percent rating is reduced prior to becoming protected as enunciated in 38 USC 110. This last provision, allowing certain retirees rated totally disabled by the Veterans Administration to withdraw from the SBP and re-elect under a given circumstance, was the substance of S. 2463 introduced by the Honorable Gordon J. Humphrey for himself and Senator Thurmond and supported by the V.F.W.

Mr. Chairman, the V.F.W. appreciates the continuing effort of this Subcommittee to resolve inequities in the Armed Forces Survivor Benefit Plan. We are gratified that the Humphrey-Thurmond amendment provides the vehicle to eliminate the DIC offset problem for most of the 12,570 Armed Forces Retirees participating in the SBP and rated permanently and totally disabled by the Veterans Administration. Notwithstanding, we believe the social security offset for potential beneficiaries is the greatest impediment to larger participation in the plan. In view thereof, and to reiterate, we request that the pending legislation be further amended to eliminate the social security offset for all beneficiaries.

Thank you.

RESOLUTION NO. 607—SURVIVOR BENEFIT PLAN (SBP)

Whereas, the SBP was designed to provide financial protection for the survivors of deceased military retirees; and

Whereas, certain off-set provisions in the plan negate the value of participation; and

Whereas, other restrictions in the SBP impose hardship on the beneficiaries at an age when survival on a fixed income is difficult; now, therefore be it resolved, by the 80th National Convention of the Veterans of Foreign Wars of the United States, that we actively support legislation to:

1. Eliminate off-set of Social Security benefits based on the military service of the retiree.
2. Permit concurrent payment of SBP annuity and DIC.
3. Exempt non-resident alien beneficiaries from the 30 percent tax levied by Section 871, Title 26, U.S.C.

Adopted by the 80th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 17-24, 1979.

Mrs. BYRON. Thank you, Mr. Schwab.

I have one.

You do participate in the existing plan?

Mr. SCHWAB. Yes; I do.

Mrs. BYRON. Under the proposed S. 91 would you be inclined to participate?

Mr. SCHWAB. No; I would not, because of the existing 100-percent social security offset, if my wife were not disabled.

Mrs. BYRON. Mr. Mitchell.

Mr. MITCHELL. Thank you, Madam Chairman.

Thank you too, Mr. Schwab, for your excellent statement. I know the committee will give your views every consideration.

To ask you the standard question: You prefer S. 91 over nothing, I guess?

Mr. SCHWAB. Yes.

Mr. MITCHELL. That's what it comes down to.

Mr. SCHWAB. That's what it comes down to. However, I hope we don't work ourselves into a position of chipping away at the plan to placate various interest groups to the extent where we can never do anything about the social security offset. We've seen something like this happen in the social security program, where they've liberalized it to placate people, and it's in trouble as a result.

Mr. MITCHELL. It certainly is, I agree.

Thank you.

Mr. SCHWAB. Yes, sir.

Mr. MITCHELL. Thank you, Madam Chairman.

Mrs. BYRON. Dr. Evans.

Mr. EVANS. Thank you, Madam Chairman. No questions, Mr. Schwab.

Mrs. BYRON. Mr. Schwab, thank you very much for coming before us today with your testimony. We appreciate your taking the time.

Mr. SCHWAB. Thank you.

Mrs. BYRON. Our next witness is Jean Arthurs, president of the National Association of Military Widows.

STATEMENT OF JEAN ARTHURS, PRESIDENT, NATIONAL ASSOCIATION OF MILITARY WIDOWS

Ms. ARTHURS. Madam Chairman and members of the subcommittee: I am Jean Arthurs, president of the National Association of Military Widows, and we appreciate this opportunity to present our views on issues relating to the military survivor benefit plan as it is interpreted through Senator Strom Thurmond's bill, S. 91.

Since time is short I will try to synopsise my statement here.

The revised S. 91 bill, as passed by the Senate, would include under the military SBP the widows of servicemen who were retirement-eligible, having served 20 or more years, who died on active duty, which precluded their participation in retirement benefits.

This is a small group of widows, who receive dependency and indemnity compensation, known as DIC. They are about 6,000 in number, at an approximate cost of \$5 million. It is not a case of

awarding the full 55 percent of the serviceman's retirement pay; but, rather, of combining the DIC and SBP to achieve the 55-percent level. It is also one of the few bills that has a self-decreasing cost factor because by the year 2000, 95 percent of these widows will be dead.

I feel that I should explain this a little bit because I find that many people, in my travels around the Hill, do not understand the widow's point of view, so please bear with me.

The discrimination within categories as far as widows are concerned exists for the DIC widow due to the time of death. As an example, the widow who lost her husband on September 20, 1972, receives only DIC, which is about 25 percent of her husband's retired pay, whereas the widow whose husband died 1 day later, September 21, receives DIC and SBP combined to 55 percent of retired pay. Very often they might have been in the same airplane accident. The FECA allows 75 percent of the husband's pay if he is killed in a job-related situation. The time of death is an inequitable criterion and should not be the determining factor.

We are very grateful that the Senate understood this inequity and that it has passed this amendment. It is a step forward, and we sincerely hope this committee recommends that the House take favorable action.

However, we are very sorry the "forgotten widows" were not included in this action. I have written in my statement regarding the "forgotten widows," so I will just be very brief at this time.

Why should the "forgotten widows" be included in the survivor benefit plan? From the standpoint of equity, when the civil service survivor annuity plan became law in 1948, it was amended in 1958, to pick up all widows whose husbands predeceased the plan. Both civil service and military service are Government service, and they have the same paymaster, and we feel that they both should receive the same benefits to be equitable.

What would be the cost of picking up the pre-1972 widows?

Now, I mention this fact because I have heard such outlandish figures about this that it is amazing.

According to a Department of Defense analysis 3 years ago, there were roughly about 40,000 widows of members retired prior to 1972 who were currently not receiving SBP. The cost of including them is estimated in the realm of \$30 million. However, since 1977 a good number of these widows have become deceased. The cost would be a diminishing one, again because these women are older and they will be receiving the payments for just a very short time probably.

These women's husbands spent 20, 30, or more years serving the United States and the women themselves made great personal sacrifices to assure that their husbands served well. We feel that's a very valid point.

The cost of this legislation is minimal, compared with many laws, both initially and as a continuing expenditure, it has a diminishing cost factor. By the year 2000 these widows will all be dead. Furthermore, since SBP is taxable these women would be making a significant contribution to the country's revenue.

Is this legislation urgently needed? This legislation needs to be taken up now. These women cannot wait. Inflation, lack of low-cost

housing, medical expenses and the inability to supplant a meager income is taking its toll daily. It is imperative that these needs be met at the earliest possible moment.

Regarding the social security offset, as of September 1972, the military retirees subscribe to the SBP program and provide 55 percent of their military retired pay as a survivor benefit annuity for their dependents. However, when the survivor reaches her 62d birthday her SBP is automatically reduced by the amount of social security to which she would be entitled either through her husband's or her own participation in the social security program. What a shock to find your SBP reduced to \$5 or \$6, or maybe none at all, on your 62d birthday. SBP and social security deductions were paid with two separate premiums, and in some cases, three premiums, when it was the widow's own earned right. This is grossly unfair, and it should be remedied. Also, the reduction for the widow and one child. The widow with two children, their SBP is not reduced. The basic cost of making a home for one child or two just does not vary that much.

I find these incredible inequities. We feel the military widow should not have to bear the brunt of the country's budget problems. When aliens come to this country and are covered with social security implement of \$365 per month, have made no contribution in taxes or service to the country, we feel that the widows are being shortchanged. If we can care for the refugees world over, surely we have resources to give the military widows a fair and equitable benefit, many of whom have spent their best years in a very hard way of life as the best emissaries this country has ever had.

What action is necessary? We need immediate relief, and assistance must be extended to these widows now to alleviate their deprived circumstances. Legislation must be enacted to close the gap in the military survivor benefit plan. Congress must act to restore the credibility lost by allowing this situation to continue at the expense of these older widows.

I trust you will read my testimony for further details.

Thank you, Madam Chairman and members of the committee. The staff has always been so lovely to us. I think they're exceptional.

WRITTEN STATEMENT OF JEAN ARTHURS

Mr. Chairman and members of the committee: I am Jean Arthurs, president of the National Association of Military Widows, and I am pleased to have the opportunity to appear before this committee to testify on behalf of Senator Strom Thurmond's (R-Ga) bill, S. 91.

The revised S. 91 bill, as passed by the Senate, would include under the military survivor benefit plan the widows of servicemen who were retirement-eligible, having served twenty or more years, who died on active duty, which precluded their participation in retirement benefits.

This is a small group of widows, approximately 6,000 in number with a cost factor of \$5,184,000. It is not a case of awarding the full 55 percent of the serviceman's retirement pay; but rather a matter of raising the widow's DIC benefit from 20-25 percent to 55 percent of her husband's retired pay. One of the few bills with a self-decreasing factor—as by the year 2000, 95 percent of these widows will be dead.

Congress created inequities between categories of widows within this group when the survivor benefit plan was passed September 21, 1972. From that date forward DIC widows whose husbands were retirement eligible, but who died on active duty, were automatically included in SBP, with no contribution made. It is right and just that these widows are included in SBP. Their husbands were retirement eligible but had the misfortune of being killed or dying on active duty, which

prevented retirement prerequisites, such as SBP. Tragically, when this bill was passed, it was not made retroactive to include the small number of pre-1972 DIC widows of careermen.

The discrimination within categories exists with regard to time of death. As an example: the widow who lost her husband 20 September 1972 receives only DIC (which averages 20-25 percent of her husband's retired pay) whereas the widow whose husband died one day later, September 21, receives DIC and SBP combined to 55 percent of her husband's retired pay, plus cost-of-living increases. The FECA allows a widow 75 percent of her husband's pay if he is killed in a job-related situation. It is just as tragic and difficult to live and raise a family alone whether you lost your husband on Iwo Jima or Vietnam. The time of death is an inequitable criterion and should not be a determining factor.

The passage of this amendment by the Senate is a step forward, and we hope the House will consider it favorably.

We are disappointed that the bill did not include the "forgotten widows". Our country's military widows are entitled to just and equitable treatment under the military and Civil Service survivor benefit programs. In 1949 the Civil Service Federal Employee Compensation Act (FECA) was passed and later, in 1958, was made retroactive to cover women who became widows prior to 1948. We maintain that because the military and Civil Service serve the same Federal government and share the same paymaster, these women should be compensated with equal benefits. In 1972 the Congress approved the Military Survivor Benefit Plan, but by not making the plan retroactive to cover the pre-1972 widows they managed to create a group of "forgotten widows". Although the SBP was patterned after the FECA, these women were not included. This discrimination among categories of Federal widows is unjust.

The "forgotten widows" are a group of older women (60 to 90 years of age) whose husbands were career military personnel. During the years in which their husbands served on active duty (20 to 40 years), they endured low pay, inadequate housing, and the turmoil of constant relocation. All of this made for an extremely difficult effort to keep the family together while making do with severely limited resources. The Secretary of the Army has stated, "When the government contracts for the serviceman, it really contracts for the entire family unit, as it includes all the family in the adjusted lifestyle . . . the 24-hour call, the 'perils and discomforts' with readiness to serve anywhere, to go to hazardous places at a moment's notice."

Some of these widows are not eligible for social security because their husbands were retired before the benefit was made available to military personnel. This casts these widows into dire situations.

Immediate problems include high taxes, a lack of affordable housing, and the severe impact of inflation on their personal incomes. Even if we accept high taxes as a "fact of life", there is no way for a widow to deal with the problem of being displaced by condominium conversion. So that you might better understand the threat, imagine living in an apartment and paying \$150 a month rent. What do you do when the condo-conversion movement overtakes you and you are faced with having to pay your savings as a downpayment (if you have any—and most widows don't) and the rental for the average apartment into a condominium cost of \$500 to \$750 per month, plus an \$80 to \$200 monthly condo fee. (See attachment-Arl. Co. Condo). My mail is becoming more and more frantic as widows in sheer desperation find it difficult to survive.

Medical care is another priority concern. Too often these widows will wait months for a doctor's appointment. Very often they can get no appointment at all, because the clinics are open only to active duty personnel and their dependents.

However, the most devastating of all the problems facing these widows is the problem of getting enough money to survive in today's economy.

The problems I have described are related to problems we all face. But for this group of older widows they are especially threatening. There is very little they can do to abate the crisis. In the real sense, these widows are forced to depend on assistance to see them through. The help they need does not constitute a great deal of money; the time frame for acting on their behalf is quite limited. In all likelihood, these widows will be dead by the year 2000. That is why Congress must act now to correct its oversight. There is still a chance to serve this constituency.

Another problem is the SOCIAL SECURITY OFFSET. As of September 1972 all military retirees can subscribe to the new SBP when they retire, and provide 55 percent of their military pay as a survivor benefit annuity for their

dependents. However, when the survivor reaches her sixty-second birthday her SBP is automatically reduced by the amount of social security to which she would be entitled either through her husband's or her own participation in the social security program. What a shock to find your SBP reduced to \$5 or \$6. SBP and social security deductions were paid with two separate premiums; and in some cases—three—when it was the widow's own earned payment. This is grossly unfair. Just as it is for the reduction in SBP for the widow and one child. The widow with two children . . . their SBP is not reduced. Anyone who has maintained a household knows it is not that much more expensive—establishing and maintaining the home is the costly process.

The pre-1972 widows had no control toward improvements in the SBP . . . they were not included nor consulted. The "living retirees" had eighteen month "open periods" for enrollment. Furthermore, the retirees can remarry; die one year and a day later, and the new wife will receive 55 percent of her husband's retired pay. This is quite a contrast with the widow who worked in many ways with her husband as they spent their lives serving our country . . . and then to receive no benefit.

Gentlemen, the truth of the matter is: Many people have laid down their lives for this country—made the sacrifice for "their country—right or wrong". And too many have come out on the losing end of that patriotic bargain. It has happened to the Vietnam vet; it has happened to many who survived the first and second World Wars. It is unfortunate that as the country tries to put wars in the past, it coincidentally fails to uphold its part of the bargain—as Abraham Lincoln said "to care for him who has born the battle, and his widow and his orphan."

These unfortunate widows do not seek to drain the government's resources or make a profit by exploiting misfortune, they simply want the assistance necessary to live out the remainder of their days—with pride in themselves and their country.

If Congress manages to ignore the plight of these disadvantaged widows, how are we Americans supposed to maintain a confidence that the failure will not be repeated. Furthermore, how can we expect our children (and their families) to enter into the commitment of service, to support their country—"right or wrong", and to strike a bargain to preserve freedom?

I wish to thank you Mr. Chairman, the members of the committee, and the staff for allowing me to testify today.

FACT SHEET: CONDOMINIUM CONVERSION IN ARLINGTON COUNTY, VA.

Condominium conversion of moderate-cost rental units has reached crisis proportions in Arlington County. Tremendous numbers of apartments are being converted to condominium units, which the current residents of the apartments cannot afford to buy. The result is the displacement and dislocation of many of Arlington's citizens who have no place to move within the County or in Northern Virginia. Here are some facts about the problem:

LOSS OF RENTAL UNITS

Of the 72,000 dwelling units in Arlington County, approximately 44,000 were rental units in 1970; of that amount, approximately 20,000 were moderate-cost apartments in 1970.

Primarily through condominium conversion, there has been a 40 percent loss in the number of moderate cost rental units in Arlington County since 1972, when the first of the condominium conversion projects was announced. Approximately 30 percent of the moderate-cost rental units are already converted to condominiums and sold; and the other 10 percent is in the process of being converted.

In Northern Virginia (even including the growth in Fairfax County), there has been a 6.4 percent net loss in the total number of multi-family rental units between 1977 and 1979.

If the loss rates in Arlington were to remain constant into the future, by 1992 there will be no moderate-cost rental units in Arlington County. (This is an alarming statistic based upon the current trend in Arlington of losing 1,000 rental units per year to condominium conversion—in 1978, the loss was 1,200 and in 1979, it was 1,050 units.)

VACANCY RATES AND DISPLACEMENT

The vacancy rate in Arlington County is now 1.3 percent, and has been steadily declining since 1974 when it was 3.5 percent. The U.S. Dept. of Housing and

Urban Development considers anything under a 5 percent vacancy rate as an extremely tight rental market.

To date, Arlington's experience is that only 20 percent of the tenants of a rental complex, which is converted, actually purchase their units as condominiums. The rest are displaced and must find somewhere else to live.

Few studies of where the displaced people go, have been done; but in one 500-plus unit Arlington conversion, a sampling showed that at least 20 percent of the tenants were forced to leave the County as a result of the conversion.

As more and more moderate-cost rental units are converted, the increased demand on a smaller and smaller number of available units will force a larger and larger percentage of residents out of the County in their search for housing.

By 1986, if this condominium conversion trend continues, the average number of moderate-income tenants displaced each month will be larger than the total number of vacant moderate-cost rental units each month.

COST INCREASE FROM RENTAL TO CONDOMINIUM UNITS

Current tenants whose units are converted cannot afford to purchase their units once they are converted to condominiums.

In 1979, the average purchase price of a converted condominium unit in Arlington was approximately \$55,000.

In order for a tenant to purchase a condominium unit at this average price, their household income would need to be at least \$22,000.

The monthly debt-service alone on a \$55,000 loan (30-year term) at current interest rates would be approximately \$565/month; this does not include other housing costs of condominium ownership, such as condominium fees, utility costs, taxes, etc., which (when added to debt-service) brings the total monthly carrying charges for owning a condominium to approximately \$725/month. The tax-deduction advantage of condominium ownership do not offset these high costs of ownership.

The monthly rental price on the average rental unit prior to condominium conversion was \$293/month in 1979.

CONDO CONVERSION WORRIES RENTERS AT COMPLEX IN 7 CORNERS AREA

(By Paul Clancy, Washington Star Staff Writer)

Marie Aggerholm is 70 years old and still employed, so she is able to support herself and pay the rent at Greenwood Apartments in the Seven Corners area of Fairfax County.

But, like the other tenants of the quiet garden apartments that have withstood the pressures of one of the most congested sections of the county, Aggerholm is concerned. The 150-unit apartment complex is being converted to condominiums, and that usually means lower-income renters are forced out.

Already, some of the apartments are being remodeled, and soon tenants will receive official notices of the conversion.

"All I want to know is how long can I stay in Greenwood," she said. "I have nobody. I'm all alone. I'm too old to buy a condominium."

The question was directed to Henry Ingersoll, a smooth-talking, carefully groomed, 33-year-old architect-developer who owns the apartments and wants to convert them to private residences. The setting was a tenants' meeting last week at the First Christian Church of Falls Church, right across Leesburg Pike from the aging apartments.

"How long have you lived there?" he asked.

"This is my ninth year in Greenwood," she said.

"The person in your situation is the one we're most concerned with," he said, sitting at a table facing the audience. "If you like it here and you want to stay in Greenwood, then we want to keep you here. We'll work it out."

Enormously relieved, Marie Aggerholm took her seat among her white-haired friends on the front row of the audience.

But others at the meeting of the Greenwood Tenants' Association were not as convinced that the owner has their best interest at heart. They are suspicious, and feel they are being pressured into buying or getting out.

Many are elderly. Many are Vietnamese families who have just moved into the area. Some are as one of them said, just "renters at heart" who do not want to take on the responsibilities of ownership.

The apartments, built in 1950, have begun to show their age, but that's part of the dilemma: Rents are still relatively low. If the owner made the necessary renovations, the tenants were warned, "rents would go so high you couldn't afford to stay."

The fears of the Greenwood tenants are identical to those of apartment dwellers throughout the Washington area who have felt the pressures of what local officials call "condomania," the steady march of conversions as owners discover they can turn a shaky economic situation into a profitable one.

There have been far fewer condominium conversions in Fairfax than in neighboring Arlington or the District. And primarily they have involved people in higher-priced apartments who could afford to make the transition from renter to owner.

Now, says Mason District Supervisor Thomas M. Davis III, who brought the Greenwood situation to the attention of the county Board of Supervisors last week, the phenomenon is spreading westward.

Davis says the costs of maintaining apartments has made it unprofitable for apartment owners. And now, with the dip in interest rates, more and more owners will be looking to conversion.

"But we do have a serious problem—displacing people who can't afford to buy," Davis pointed out that low- and moderate-income apartments in the county are now in extremely short supply. "They're displaced, and where do they go?"

Virginia has few laws protecting tenants from being uprooted and made homeless.

Mrs. BYRON. Thank you, Ms. Arthurs.

I have no questions.

I appreciate your very concise, informative statement.

Mr. Mitchell, do you have any questions?

Mr. MITCHELL. Thank you, Madam Chairman.

I want to thank you for your thoughtful statement. You made several excellent points and pointed out several inequities that do exist.

I'm personally highly sympathetic with the plight of the service widows, and you did an excellent job describing the low pay and the really tough life that many lead in the military.

Ms. ARTHURS. I hope you have a copy of my testimony because it's more explicit.

Mr. MITCHELL. Yes; I have it right here. But you did a good job explaining without it even.

Ms. ARTHURS. Thank you, sir.

Mr. MITCHELL. I just hope that the committee can address some of the problems that you cite.

Ms. ARTHURS. Thank you, sir.

Mr. MITCHELL. Thank you.

Thank you, Madam Chairman.

Mrs. BYRON. Dr. Evans.

Mr. EVANS. Thank you, Madam Chairman.

I want to associate myself with the remarks just made by Congressman Mitchell, and commend you for your statement. I have no questions.

Ms. ARTHURS. Thank you.

Mrs. BYRON. Thank you very much.

The next witness we have is Rosemary Locke, president, National Military Wives Association.

STATEMENT OF ROSEMARY LOCKE, PRESIDENT, NATIONAL MILITARY WIVES ASSOCIATION

Ms. LOCKE. Madam Chairman and members of the committee.

I am Rosemary Locke, president of the National Military Wives Association. Accompanying me is Jane Gerson, chairman of legislation for the association. We come here today to express the concerns of wives whose husbands have served or are serving in the uniformed services. We look to Congress for the protection intended when the survivor benefit plan was first drafted and became law—a program designed whereby a service member could provide for his survivor a portion of his retired pay based on a cost-sharing plan.

The need for a viable and equitable program is essential, not only for those who have already retired, but also for those who retire in the future. Those currently in the program are faced with the prospect of the survivor benefit protection they paid for being wiped out by the social security to which they also contributed. Future retirees are asked to make a crucial decision regarding participation in the survivor benefit plan in the midst of conflicting information from military counselors, military publications, military friends, and from private insurance salesmen. All too easily lost in this confusion can be the security of the wives and children of servicemen.

Since the survivor benefit plan Senate hearings last July, the National Military Wives Association has gone out to wives clubs to discuss the military benefits package including the survivor benefit plan. It is not only frightening to hear the confused views expressed concerning SBP, but possibly even more alarming is the helplessness expressed concerning family financial planning based on military pay and benefits. Military families are struggling to make ends meet and many are losing the struggle. Certainly a military family using food stamps can hardly pay for a private insurance program guaranteeing future security in a time of increasing inflation.

For the survivor benefit plan to work, it must be fair and affordable to all. No SBP annuitant should find her annuity wiped out by the social security offset at age 62. This is cruel treatment of the military survivor, and legislation correcting this situation must be enacted. Those currently in the plan had no way of knowing how dramatically social security would affect their elected amount of SBP. The new S. 91, with its 40-percent cap, would certainly help those SBP recipients with relatively low SBP benefits with the current offset of 100 percent. It would do little or nothing, however, for many who in good faith elected the maximum participation. Nor does it address the working spouse who has earned her own social security entitlement. This will continue to be an increasing problem with more military spouses working in order to supplement the military income. This seems particularly unfair when it is known that over 60 percent—and Dr. Myers said today 80 percent—of civil service annuitants receive both their civil service annuities and social security benefits. The senate is to be commended for the inclusion of the pre-1972 widows whose retirement-eligible husbands died on active duty. But again, the "forgotten widows," some of whom are even without the protection of social security, remain forgotten. The recalculation of SBP

premiums to conform to the formula used in the civil service survivor annuity program is only fair.

Of real concern to the active-duty community is whether this new program will encourage future SBP participants to elect only minimum participation. If so, this is a dramatic reversal in the original concept of SBP and a further erosion of benefits. Having honorably served, many now feel they must leave after 20 years to begin second careers which provide a more secure future for their families.

The inequities and confusion created by social security and its integration with the Survivor Benefit Plan will continue to plague the program. The National Military Wives Association requests that you remove the social security integration from the Survivor Benefit Plan and develop a program which can be fair and understood by all. We realize that there is no way for the Government to completely compensate for military service and we do not expect it. However, it seems only just that military families receive fair treatment from the Federal Government.

Thank you for allowing us the opportunity to express our concerns. Mrs. BYRON. Thank you, Mrs. Locke.

I have one quick question.

You are currently married to a military person who is on active duty?

Ms. LOCKE. That is correct.

Mrs. BYRON. Consequently, you probably have numerous friends who are contemplating retirement of one form or another.

Do you feel, as an individual, from your personal knowledge, that they are getting adequate counseling on the proposals that are available and the options that are available to them, or do you feel, as we've heard from numerous individuals today, that at that period when you do retire the factual information is not all there and available for a comprehensive decision to be made?

Ms. LOCKE. I think that the information is much better than it was several years ago. I took a survey as to how each of the services prepare their people for retirement, and it was very impressive to find that the Army ran the names through a computer at about 18½ years, inviting future retirees to retirement programs. Wives were invited to come along. Unfortunately, the percentage of wives who attended these briefings was very poor. But at least it gave the husbands the opportunity to begin thinking about the survivor benefit plan.

Mrs. Gerson's husband recently retired from the Air Force, and she probably would be more equipped to tell you about the counseling she received from the Air Force.

Ms. GERSON. I believe that the information available is totally inadequate. I was one of the unique wives who went along with my husband and spoke to some people at the Pentagon. There is a total lack of understanding of the offset. If you ask questions about it, they do have some papers they can pull out and give you some predictions. If you ask any question that they have never heard before, they cannot answer it. I do not think there is adequate counseling.

Mr. BYRON. In the testimony of Colonel Hennrikus, he stated that the Army had 62 percent of the people who were participating in the plan compared to 31 percent in the Navy and the Marine Corps. You

just stated that the Army has recently increased the awareness in that program.

The Air Force has also done the same thing?

Ms. LOCKE. All of the services are trying. For example, the Coast Guard has developed a film on the survivor benefit plan, and I certainly don't want to put down my husband's service. I'm very proud to be a Navy wife.

Mrs. BYRON. I just assumed you were an Army wife.

Ms. LOCKE. No.

I checked with Master Chief Crow this morning and he pulled the figures for me. For the year 1980 the Navy has now come up to 59 percent, and I feel that that's because the counseling—

Mrs. BYRON. Per capita increase?

Ms. LOCKE. Yes.

Once again though, people may be signing up for the minimum. He could not tell me if it was for the maximum or the minimum.

Ms. GERSON. Excuse me, Rosemary.

The very last page of TROA's presentation has the 1979 figures for participation. According to them, a very large percentage of the Navy participation is for the minimum amount. The figure for the Army, which has that large 62 percent, is not available on minimum participation.

There is another point about minimum participation. As you probably all know, the law requires that the wife be notified by letter if the husband declines participation. So that may well come into the advice too since it is incorrectly believed, take the minimum, and we won't have to write and tell your wife.

Ms. LOCKE. Or the wife will not squawk as much.

It is frightening. I've run into women whose husbands have retired just the year before, with small children in school, and these women do not know what their situation is. Many women are still under the impression that if their husband dies in retirement their retired pay continues.

It's difficult to fault anyone. The information is there. But on the other hand, the military publications have put out very negative statements concerning SBP. At Bolling, for example, there are private insurance salesmen who try to get the military information, go out to people and prove that they can do better by other plans. The counselors there are working as hard as they can, but it's an uphill battle.

Mrs. BYRON. Thank you.

Mr. Mitchell.

Mr. MITCHELL. Thank you, Madam Chairman.

It looks as if, at the very least, all the services should provide a lot better system of information. It seems like there's great confusion and people don't know what benefits are available. Consequently, they are not taking advantage of what we do have.

Do you both agree that the Senate bill is better than nothing, but not a great deal better? If the choice was that or nothing, you'd rather have that, I guess.

Ms. GERSON. If it was that or nothing.

Mr. MITCHELL. Or the status quo.

Ms. GERSON. Yes, because, if nothing else, it would get that recalculation, and how that has been allowed to continue for so many years I just don't understand.

Mr. MITCHELL. It's hard for me to understand it too.

We've done a pretty good job on this committee, I think.

Ms. LOCKE. We have a bit of a split decision because Jane's husband is already retired and provided her with the maximum participation. My husband has not. And I do think I am right in expressing the concern of the active duty if this new proposal encourages just minimum participation.

But you asked why people don't know about the Survivor Benefit Plan. We testified at the White House Conference on Families concerning the problems of military families, and I deal, because I am a Navy wife, quite frequently with master Chief Crow, and he said, again to explain, that the people in the service are hurting for pay now and so many of them are concerned about putting bread on the table now that they really do not think about retirement until they're 6 months away from retirement.

Mr. MITCHELL. They're just worrying about if they have enough to take care of present needs. Is that right?

Ms. LOCKE. Right. And so they're just not devoting their thoughts to retirement.

Ms. GERSON. I would like to say that as far as the provision for the offset I consider it only a very little bit better than nothing. My husband retired last year, he probably would not have taken SBP if I did not expect some improvement in that. I personally, as we said, do not believe there should be any offset. To me, both programs have been paid for, and it's like saying you can't buy peaches and plums at the same store.

Mr. MITCHELL. It ties in with this same general concept of double dipping. Someone serves in the service on active duty for 20 years and earns a pension. Then he goes to work for the Federal Government and people object to the fact that he is making what he is. They think that one should be worked in with the other. I don't see that at all. I think they're two separate contracts, just as you do in your situation.

Ms. GERSON. Yes.

Mr. MITCHELL. I want to thank you and compliment you on your statement. I think you did a fine job of highlighting several problems related to SBP. I am sympathetic to the views you have expressed. I just hope that we can do a little better job.

Ms. LOCKE. Thank you.

Mrs. BYRON. Dr. Evans.

Mr. EVANS. I have no further questions. I just want to compliment both of you.

Ms. LOCKE. Thank you.

Mrs. BYRON. Thank you very much for coming today.

Is Mrs. Virginia Raymond here, president of the Society of Military Widows?

Ms. RAYMOND. Yes.

Mrs. BYRON. You do have a statement? I caught you off guard.

**STATEMENT OF VIRGINIA RAYMOND, PRESIDENT,
SOCIETY OF MILITARY WIDOWS**

Ms. RAYMOND. I am Virginia Raymond from Chapter 8, Society of Military Widows.

Madam Chairman and members of the committee, we appreciate this opportunity to present our views to you. Our organization is interested in the plight of the "forgotten widows," those whose husbands served over 20 years in the Armed Forces and who at their husbands' deaths received nothing in compensation. For the past 10 years, we have followed the progress—or shall we say development—of the survivor benefit plan for military widows. Practically every year since the enactment of the SBP in 1972, widows have been testifying before the House and Senate committees to be included in the plan, but very little improvement has been made to correct the inequities that were created in 1972 when the plan was enacted.

We were very disappointed when the Senate passed S. 91 on May 28, 1980, not as originally introduced by Senator Thurmond, but completely rewritten. The original bill was to correct certain inequities in the plan and provide mostly for the older widows a decent living. Instead the Senate bill created more inequities. It encompasses a small number, 6,000, of widows only; those whose husbands died on active duty before 1972 and were retirement eligible. These widows are younger, probably were in their forties when their husbands died, and they receive dependency indemnity compensation from the Veterans' Administration. S.91 does not include those whose husbands died in retirement before 1972—those who receive no compensation at all. These unfortunate older widows were "forgotten" again, even though they are the very ones which Senator Strom Thurmond hoped to help when he introduced his original bill.

In his speech on the Senate floor on May 28, 1980, Senator Strom Thurmond stated that he was very dissatisfied with the version of S. 91 as passed.

Our observations to you today are as follows: As I mentioned in previous testimonies, the number of all the "forgotten widows" is approximately 40,200 today and would diminish to 300 by the year 2000 (Senate hearing, July 12, 1979, p. 50 and 85). S. 91, as completely rewritten, suggests the inclusion of about 6,000 widows whose husbands died on active duty before 1972. To deduct these 6,000 widows from the 40,200 it would leave approximately 34,000 widows remaining to consider for inclusion in the survivor benefit plan.

We understand that in this period of fiscal restraints we have to make sacrifices and we would like to suggest that every widow who falls in the "forgotten widow" category should be included in the plan at age 60, rather than the all-inclusive original version which placed no age minimum on the receipt of benefits. This would be a great help to those older widows whose husbands retired before military personnel were included in social security and those who retired so soon after such inclusion that they are entitled to only the minimum. Some of these widows are in dire need. The age minimum would eliminate more than half the cost because of DIC entitlements, partial social security offsets, and the exclusion of those widows who have not yet reached 60 years of age. In our opinion, the estimated cost of this bill

would not exceed \$50 million per year at its inception and, of course, would diminish as the number of widows diminishes.

Where would the money come from?

Senator Strom Thurmond, in his speech on the floor of the Senate on 28 May 1980, said:

It is a historical fact that the military Survivor Benefit Plan has already collected in excess of \$1 billion more than has been paid out in survivor annuities. As a matter of fact, the latest DOD calculations reveal that an additional excess of \$200 million each year will accrue in 1980 and 1981. The total excess in 1981 will be \$1.5 billion.

Therefore, we wish to make a plea on behalf of the widows of servicemen who served their country most of their working lives at a depressed pay in order to earn a decent retirement for themselves and their families, then retired and died much younger than most men, leaving their earned retirement pay in large part unused. We also want to point out that these men contributed more to the DOD budget by their earned retirement pay they did not get than any man now retired can possibly ever contribute under the present contributory system. Accordingly, we suggest that all widows who fall in the "forgotten widow" category and who are not included in the present S. 91, when they reach age 60 be accorded the right to apply to the individual services for inclusion in the survivor benefit plan. As we mentioned previously, cost in our opinion would only be approximately \$50 million per year at the beginning and that amount could be absorbed by the unused \$1 billion-plus account. Over the next 20 years, this would significantly reduce the cost because by the year 2000 these widows will be deceased and the survivor benefit plan will have over a \$1 billion surplus.

Wives of military personnel have little or no opportunity to enter the work force during their marriages. The transient life did not lend itself to a second career in the family. The military wife could not build up either social security or any other type of retirement plan for herself.

We also want to state that we are in agreement with the other provisions of S. 91, and we urgently ask you to consider the suggestions made above and include those unfortunate widows whose husbands gave most of their lives to military service when you make your recommendations to the full committee.

We wish to express our appreciation for this opportunity of sharing our views with you.

Due to lack of time, this statement has not been coordinated with our national headquarters in California, but it reflects the opinion and wishes of the members of chapter 8 and the founder, Tess Alexander.

Thank you very much.

Mrs. BYRON. Thank you very much, Mrs. Raymond.

I have no questions. I think you've touched on the area that concerns your group very well.

Dr. Evans, do you have any questions?

Mr. EVANS. No questions, Madam Chairman.

Mrs. BYRON. Thank you very much.

I would like to take just a moment and tell Mrs. Opal Thomas, who has traveled from Georgia today to be with us, that we appreciate

her taking the time, we appreciate her interest in the committee hearings, and look forward to hearing from her if she cares to give us a very brief statement, since she has traveled so far.

STATEMENT OF MRS. OPAL THOMAS

Ms. THOMAS. Thank you very much.

I do not represent any organization. My name is Opal Thomas. My age is 61. I am a divorced widow of a career officer. My deceased husband entered the service in 1934. He was commissioned at a very young age—18, I believe, at that time. At that time it was the CCC—Civilian Conservation Corps. He was stationed at Florence, Ala. That training as a young officer was the foundation for my husband's military career. It was also a way to survive in 1934 and to contribute to the support of his widowed mother. He chose to make the military his career. He worked hard and was a dedicated officer. He retired in 1961 with a 27-year career. He held the rank of lieutenant colonel in the Air Force.

I feel the inequities of Public Law 92-425 should be corrected as quickly as possible to alleviate the hardships that are being endured.

I am the rightful beneficiary to the survivor benefit plan. Social security recognizes me as a widow. The most important part of the Government, the military, however, has denied me this right.

I believe our Nation's security should be top priority. But hasn't it always been with the lives of our military men?

I urge this committee to please come forward and correct the inequities of Public Law 92-425, the survivor benefit plan, and give the divorced widows whose husbands did participate, with no assigned beneficiary due to what I feel is an unconstitutional law. This money, I feel, does not belong in a fund in the Treasury, and I do feel that a serviceman's retired pay is in jeopardy when the Government has a payroll deduction on retired pay earned. My husband earned this money, and it does not belong to the Treasury Department. There are widows living on food stamps who need this more, I feel, than the Government.

My husband and I were married 20 years. We were married in 1957 and divorced in 1977. One year later, he passed away; This was in June 1978. SBP was not assigned to anyone. He did not remarry, and I have not remarried.

I appreciate the opportunity of talking here today and thank each and every one of you.

Mrs. BYRON. Thank you very much. We appreciate your coming before the committee.

Dr. EVANS, do you have any questions?

Mr. EVANS. I don't, Madam Chairman. Thank you.

Mrs. BYRON. All right.

Thank you very much.

Mrs. BYRON. The subcommittee stands adjourned until the call of the Chair.

[Whereupon, at 4:54 p.m., the subcommittee adjourned.]

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
MILITARY COMPENSATION SUBCOMMITTEE,
Washington, D.C., Thursday, August 21, 1980.

The subcommittee met, pursuant to notice, at 9:34 a.m., in room 2212, Rayburn House Office Building, Hon. Bill Nichols (chairman) presiding.

Mr. NICHOLS. The subcommittee will come to order.

I have called the subcommittee together today to conclude our consideration of possible changes in the survivor benefit plan for retired military personnel.

The members of the committee will recall that, on July 22, the subcommittee received testimony from Congressman Bob Wilson, the distinguished ranking minority member of the full committee, and Congressman Leon Panetta from California. Bob Wilson is recognized as the principal mover of this legislation and of improvements thereto, and certainly the committee will miss his sage counsel in the future. Testimony was also received from representatives of the Department of Defense. A number of witnesses representing active and retired service personnel and survivors also testified.

The hearing focused on the provisions of S. 91—a bill passed by the Senate on May 28, 1980. The purpose of the meeting today is to determine what action, if any, we should propose with regard to S. 91. Each of the members has previously been furnished a summary of the survivor benefit plan as it is now constituted and a description of the changes proposed by S. 91. The members are aware that in recent years there has been some criticism of several features of the survivor benefit plan. Most complaints are directed at the social security offset and at the formula for computing the cost of participation in the plan.

During both the 94th and 95th Congresses, the House enacted bills that would have addressed those issues and, in addition, would have substantially revised and liberalized other features of the plan. Unfortunately, the Senate did not act on most of those proposed changes. And with that history, the committee, until now, has not attempted to push for corrective action in the House during this session of the Congress. Now, for the first time, the Senate has acted to address some of the major shortcomings in the plan by passing S. 91.

S. 91 revises the formula for computing deductions from military retirees' pay to conform with the civil service formula. This provision is one of the changes recommended previously by the House.

S. 91 also would limit the amount of the social security offset against the benefits payable to a spouse to 40 percent of the payment to the survivor under the plan. For example, if the survivor annuity was \$200 per month, the maximum amount that the annuity could be reduced by the social security offset would be \$80, which is 40 percent of \$200.

There are three other provisions in S. 91. One provision would enable a retiree to discontinue participation in the survivor benefit plan when he has been continuously rated totally disabled for 10 years or more, or has been so rated continuously for 5 years following his last discharge or release from military service.

A second provision would authorize payment of a survivor annuity to the widow of a retirement eligible member who died on active duty before September 21, 1972—the date of enactment of the survivor benefit plan. This equalizes the treatment of such widows with the treatment accorded widows of retirement eligible members who died on or after that date.

Finally, S. 91 eliminates from the calculation of the social security offset against benefits under the plan active military service after December 1956, for periods of less than 30 continuous days and for which the member received a refund of social security taxes paid for such service.

Considering the history of our past efforts to improve and liberalize the survivor benefit plan and the lack of action by the Senate, my inclination is to suggest that we should accept S. 91 as passed by the Senate. I would be the first to admit that S. 91 is not as comprehensive as the bills previously passed by the House. However, S. 91 is a significant improvement over present law. All retirees will benefit from the change in the formula; and many survivors—particularly survivors of enlisted members—will benefit from the 40-percent limitation on the amount of social security offset.

It is possible, of course, for the subcommittee to again propose changes similar to those passed by the House in the 94th and 95th Congresses. It is very likely that such changes would be acceptable to the full committee and to the House. However, I doubt those changes would be considered and accepted by the Senate Armed Services Committee during this Congress.

I would point out that S. 91 is the product of considerable time and effort by the Senate Armed Services Committee. That committee was fully aware of the previous House action. I personally believe that the most that the Senate will find acceptable this year is probably embodied in S. 91.

Accordingly, I strongly suggest that we should accept S. 91 and leave for future Congresses attempts to further liberalize the plan.

Mr. MITCHELL. Mr. Chairman.

Mr. NICHOLS. Mr. Mitchell.

Mr. MITCHELL. I wish to associate myself with the comments of the chairman. I regret that the total package of changes the House passed in both the 94th and the 95th Congresses are not included in the Senate bill. However, in view of the past Senate inaction on this matter and the obvious reluctance of that body to take any action on this matter, I am persuaded that if we desire any improvement to the survivor benefit plan this session, we had better accept the Senate bill. I think it is the best we can do in the short time remaining, and though we could wish for more, there are three important improvements contained in that bill:

First is the revision of the formula for computing the cost to the member participating in the plan is made consistent with the formula for civil service retirees. All retirees will benefit from this change.

Second, the 40-percent ceiling on the reduction in the Department of Defense payment to the survivor will be a significant benefit to a substantial number of survivor beneficiaries, particularly the survivors of retired enlisted members, but also to survivors of many retired officers—especially in the future.

Third, the bill will equalize the treatment of the widows of retirement eligible members who died before enactment of the survivor benefit plan with the treatment of the widows of such members who died after its enactment.

In summary, the bill, though not as broad in scope as many of us might wish, is a significant improvement.

Mr. Chairman, I suggest that we take this half-a-loaf in lieu of no change at all this session.

Finally, I would like to make just one observation. I know that my good friend and colleague, Bob Wilson, has worked long and hard in this general subject area. His insight, initiative, and leadership in this area will be sorely missed. I know all my colleagues will agree that when Bob Wilson departs the Congress, he will leave behind the survivor benefit plan as one of the many important monuments to his long and extraordinarily distinguished service to this Nation, his district, and to its service members.

Thank you, Mr. Chairman.

Mr. NICHOLS. All right. Anybody else wish to be heard?

Mr. EVANS. I would like to associate myself, briefly, completely both with the remarks of the chairman and of Mr. Mitchell.

Mr. DAVIS. Mr. Chairman, I move the adoption of S. 91.

Mr. NICHOLS. I will entertain that motion. First, I just wanted to allow Mr. Wilson, as a matter of courtesy, to speak on this legislation.

Mr. WILSON. Mr. Chairman, I appreciate that. I am certainly in accord with moving fast on this, because, you know, I think you grab something good when you have a chance. I have had so many experiences in the past years with passing legislation on this side and getting it over to the Senate only to have them just sit on it and kill it. Unfortunately, they have done that in the past on our survivor benefit plan legislation.

I agree with the statements of both you and the minority leader, Mr. Mitchell, that this is not as good as we had hoped it to be, but it certainly is a step forward. I think it can remove some of the misapprehension that the Senate has had that this is going to cost a lot of money. Perhaps we can even put some impetus to you gentlemen and Members of the Congress who are working on it in the future to continue to work toward the ideal which we have all been interested in and which we are still not satisfied that we have reached.

I want to thank you both for your statements about me. As Adlai Stevenson used to say, flattery is OK if you don't inhale. I do appreciate, though, the sincerity of your remarks, and I want to tell you how much I have enjoyed being with you. My very first subcommittee when I came to Congress 28 years ago was Personnel, which covered all activities such as this, and I have been interested in it since that time.

But this is no monument to me, particularly; believe me. This is just the work of a lot of people, and particularly your committee which endeavored and strived and finally prevailed.

I would also like to thank my administrative assistant, Mrs. Karen Heath, who is with us, who has been the prod in back of me in all the survivor benefit legislation. She is the one who takes the calls from the widows and the annuitants and knows just how important this is. She has worked on this legislation herself. She just got out of a sick bed; she has had a very serious major operation. This is her first day out, but she came. She just could not resist coming here to see that we voted right on this bill. So let's vote.

Mr. NICHOLS. The Chair is going to recognize Mr. Davis for the purpose of making a motion.

Mr. DAVIS. Mr. Chairman, I move that the subcommittee adopt S. 91 and report it to the full committee.

Mr. NICHOLS. Gentlemen, you heard the motion. The clerk will call the roll.

Mr. EMMERICH. Mr. Chairman, on this vote there are 12 ayes and no nays.

Mr. NICHOLS. Twelve ayes and no nays, and the motion is carried. It will be the intent of the chairman to bring this to the full committee next Tuesday when we meet.

Regarding the further piece of business, I want to tell the members that the conference report on the Nunn-Warner bill is ready. I hoped to bring it up by unanimous consent yesterday afternoon, but we got in a few little arguments there toward the latter part of the session and it got late. I asked to bring it up this morning and Mr. Ashley, who has been waiting 2 or 3 days on his Treasury bill, is first, so we will bring the conference report up just as soon as we can get to it following the Treasury on unanimous consent.

Any further business of the subcommittee? Stand adjourned.

[Note: Full committee consideration of S. 91 is contained in HASC 96-53.]

[Whereupon, at 9:47 p.m., the subcommittee was adjourned.]

