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MILITARY SURVIVOR BENEFIT PLAN

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HEARING

BEFORE THE

SUBCOMMITTEE ON
MANPOWER AND PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 91

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

JULY 12, 1979

Printed for the use of the Committee on Armed Services



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MILITARY SURVIVOR BENEFIT PLAN

THURSDAY, JULY 12, 1979

U.S. SENATE,
SUBCOMMITTEE ON MANPOWER AND PERSONNEL
OF THE COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 10:12 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Hon. John W. Warner presiding.

Present: Senators Nunn (chairman of the subcommittee), Jepsen, and Warner.

Committee staff present: George F. Travers, Charles J. Conneely, Edward B. Kenney, Ronald F. Lehman, professional staff members; John T. Ticer, chief clerk; Christine E. Cowart, research assistant; Mary A. Shields, and Lynn E. Cowart, clerical assistants.

Also present: Gerald Stacy, assistant to Senator Culver; Greg Pallas, assistant to Senator Exon; Beth Gilman, assistant to Senator Goldwater; Christopher Lehman, assistant to Senator Warner; Arnold Punaro, assistant to Senator Nunn; Jim Dykstra, assistant to Senator Cohen; and Mike Donley, assistant to Senator Jepsen.

Senator WARNER. Senator Nunn is unavoidably detained. He asked if I would begin this hearing.

Our distinguished colleague, Senator Strom Thurmond, of South Carolina, will be called as the first witness.

I cannot think of a more important question than trying to rectify what I and others perceive as a gross inequity that has been thrust upon a most distinguished group of Americans for many years. I intend to sponsor this legislation with Senator Strom Thurmond to see whether or not this can be corrected and expeditiously followed. Thank you very much.

[The bill, S. 91 follows:]

S. 91, 96th Congress, 1st session

A BILL 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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1451(a) of title 10, United States Code, is amended to read as follows:

“(a) If the widow or widower is under age 62 or there is a dependent child, the monthly annuity payable to the widow, widower, or dependent child who is entitled under section 1450(a) of this title to an annuity shall be—

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

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

When the widow or widower reaches age 62, the monthly amount shall be reduced by an amount equal to 50 percent of the amount of any survivor benefit which the widow or widower receives under subchapter II of chapter 7 of title 42 based

solely upon service by the person concerned as described in section 410(l)(1) of title 42 and calculated assuming that the person concerned lived to age 65. The reduction prescribed by the second sentence of this subsection shall not be made if the only service by the person concerned as described in section 410(l)(1) of title 42 involved periods of service of less than 30 continuous days for which the person concerned is entitled to receive a refund under section 6413(c) of title 26 of the social security tax which he had paid."

SEC. 2. Section 1452 of title 10, United States Code, is amended by adding at the end thereof a new subsection as follows:

"(g) The reductions in the retired pay as prescribed by this section shall be increased at the same time and by the same percent as retired or retainer pay is increased under section 1401a of this title."

SEC. 3. (a) Notwithstanding any other provision of law, any individual who on or before September 20, 1972, was a widow of a person who (1) was entitled at the time of his death to retired or retainer pay because of service in the uniformed services, and (2) had served on active duty in the uniformed services for a period of not less than 20 years, shall be paid an annuity by the Secretary concerned in the amount prescribed in subsection (b) unless such widow is eligible to receive an annuity under subchapter II of chapter 73 of title 10, United States Code.

(b)(1) Subject to the provisions of paragraphs (2), (3), and (4), the amount of the annuity paid to any widow under this section shall be an amount equal to 55 percent of the amount of retired or retainer pay to which her spouse would have been entitled to receive on September 20, 1972, had he lived to that date.

(2) Each annuity payable under this section shall be increased on the effective date of this Act by the percentage increase in retired and retainer pay under section 1401a of title 10, United States Code, since September 21, 1972.

(3) Whenever there is an increase in retired and retainer pay under section 1401a of title 10, United States Code, each annuity payable under this section on the day before the effective date of that increase shall be increased by the same percentage as the percentage of that increase, effective on the effective date of the increase.

(4) The annuity paid to any widow under this section shall be reduced by any amount such widow is entitled to receive as an annuity under subchapter I of chapter 73 of title 10, United States Code, death compensation under subchapter III of chapter 11 of title 38, United States Code (or under any prior corresponding provision of law), dependency and indemnity compensation under section 411(a) of such title 38, or pension under subchapter III of chapter 15 of such title 28 or under section 9(b) of the Veterans' Pension Act of 1959.

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

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

SEC. 4. Notwithstanding any other provision of law, any person who is entitled to retired or retainer pay on the effective date of this Act and who did not elect to participate in the survivor benefit plan as prescribed by subchapter II of chapter 73 of title 10, United States Code, may, within 270 days after the effective date of this Act, elect to participate in such plan and continue his participation under subchapter I of that chapter, except that the total of the annuities elected may not exceed 100 percent of his retired or retainer pay.

SEC. 5. The provisions of this Act and the amendments made by this Act shall be effective on the first day of the second calendar month following the date of enactment of this Act, and shall apply to annuities payable by virtue of such amendments for months beginning on or after such date. No pay shall accrue to any person by virtue of enactment of this Act for any period before the date of enactment of this Act.

Senator WARNER. Senator Thurmond.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman. I wish to thank you for those kind words. You have proved to be not only a true Virginian but a great American.

Mr. Chairman, it is a pleasure for me to testify before your subcommittee today in support of my survivor benefit bill, S. 91. I appreciate your conducting a hearing on this vital legislation. I especially commend you for your followup to consider those important SBP provisions which were not adopted by the subcommittee last year.

Mr. Chairman, as we all know, this legislation concerns a very nominal survivor annuity for the widows of deceased military retirees who served our Nation for 20 years or more. It was a big disappointment to me and to thousands of retirees and widows when we failed to remove most of the remaining inequities in the SBP last year.

The House had unanimously approved a similar measure in September 1977, and the House also previously had passed a comparable measure by an overwhelming vote in the 94th Congress in 1976.

I can appreciate the subcommittee's dilemma last year caused by conflicting reports on costs involved in my bill, S. 623, and H.R. 3702. However, I was pleased that we made some progress in Public Law 95-397, September 30, 1978.

Mr. Chairman, your sustained efforts to secure reliable cost data, which are now available, on the remaining inequities are appreciated and commendable. I know that you are deeply concerned and fully aware of the importance of this legislation. I am pleased and honored, Mr. Chairman, to have you join as a cosponsor here on this bill, as you indicated in your opening remarks.

My bill, S. 91, as you know, contains the provisions which were not accepted last year plus an annuity for the forgotten widows. I am pleased to advise the subcommittee that Senators Laxalt, Hart, Goldwater, Armstrong, and Durkin are cosponsors of S. 91, and that many of our other distinguished colleagues have indicated their support. As you know 43 Senators supported a similar measure I offered on the Senate floor last year.

Mr. Chairman, although I am confident everyone here is fully aware of the significant provisions of S. 91, I would like to enumerate them for reference purposes, as follows:

One: Reduce the social security offset for widows from 100 percent to 50 percent at age 62;

Two: Eliminate the social security offset entirely when there is a dependent child and when social security benefits are based on the widow's, or widower's, own earnings;

Three: Apply cost-of-living adjustments in the same manner for both military and civil service retirees so both pay the same amount for the same SBP coverage;

Four: Eliminate the social security offset for reservists in cases where social security payments were refunded;

Five: Authorize SBP benefits for pre-1972 forgotten widows whose husbands had no opportunity to participate in the SBP before their deaths, including dependency and indemnity compensation—DIC—widows; and, finally,

Six: Authorize an open enrollment period of 270 days for retirees who declined to participate in the plan because of existing inequities.

Mr. Chairman, in the interest of time I will not elaborate on all of these provisions. I am confident the subcommittee has extensive supporting data. In my judgment—and, I believe, everyone will

agree—one of the most unjust, inequitable provisions in the current law and the reason half of the retired military community have declined participation in the survivor benefit plan is the gross unfairness of the widow's social security offset at age 62.

In spite of the fact that the participants contribute to both social security and their widow's SBP annuity, the current law reduces the widow's annuity by an amount equal to 100 percent of her social security based on the retiree's military service.

In the case of some enlisted retirees it is possible for the social security offset to completely eliminate the SBP annuity. In many cases the annuity is reduced to a pittance with the offset. For instance, in the case of a noncommissioned officer in the grade of E-6 who retired in 1978, his widow's SBP annuity would be reduced from \$233.81 to \$43.89.

To add insult to injury, some widows would also be denied the benefit of their own social security based on earnings. In my judgment this is incredible and, in my own personal opinion, there should not be any offset whatsoever. But to make this legislation acceptable to most of our colleagues and to the Budget Bureau, my measure recommends a general reduction of the social security offset from 100 percent to 50 percent and its elimination in a few specific instances.

Mr. Chairman, another gross inequity in the current law which must be removed is an unintentional discrepancy based on different interpretations of the law between the cost of the SBP to a military retiree compared to the cost to a civil service retiree for an identical annuity plan. This differential is caused by use of a different formula to calculate the cost-of-living increases based on the Consumer Price Index—CPI.

It was clearly the intent of Congress when the SBP became law in September 1972 that the cost to a military retiree be the same as the cost to a civil service retiree for the same plan. However, the law needs clarification because the Defense Department and the Office of Personnel Management do not interpret the law in the same way. These costs to the military retiree become progressively greater than costs to the civil service retiree as the years go by and are now almost \$17 per month more.

Mr. Chairman, one of the most important provisions of S. 91 is an annuity for the forgotten widows. They became widowed before the survivor benefit plan was passed September 21, 1972. As a group, they are older women, 60 to 90 years of age, whose husbands retired with 20 to 40 years of service. They suffered many hardships of military life, and now many of them exist in poverty.

It is noted that in 1958 the civil service survivor benefit plan was made retroactive to include all pre-1948 widows. The military SBP law was passed in 1972, but it was not made retroactive.

Mr. Chairman, it is estimated that there are about 40,200 of these forgotten widows, and their numbers are rapidly diminishing. The Defense Department estimates that by the year 2000 the forgotten widows will number about 12,000. Although the initial cost will be about \$109 million, it declines rapidly to about \$32 million by the year 2000.

It is argued that their husbands had an opportunity to participate in annuity plans prior to 1972. However, we all know that the costs of these plans were prohibitive compared to the benefits, and very

few participated. I strongly urge the subcommittee to adopt the provision for the forgotten widows.

Mr. Chairman, another key element is an open enrollment period of 270 days. By removing the inequities and making other improvements in the SBP, many more retirees and future retirees will participate if given the opportunity. This will mean many more millions in contributions to the U.S. Treasury by the new participants.

There are approximately 600,000 retirees who are not participating in the SBP. Although Defense estimates about 144,800 new participants, I believe that more of these eligible retirees will participate in an improved SBP if S. 91 is approved by Congress.

In addressing the open enrollment period, I believe it would be advisable for the subcommittee to include some additional language. Since new participants would be given a chance to enroll without paying for the past 7 years, I believe some financial penalty provision might need to be incorporated in the bill.

A minimum amount of a monthly payback charge could possibly be added to the annuity premium for new participants. In addition, the benefits of the 270-day open enrollment might be deferred for 1 to 2 years to avoid deathbed election. Congressman Bob Wilson's bill, H.R. 3314, which is a companion bill to S. 91, contains some language in this regard.

I recommend that the subcommittee amend S. 91 to provide some restrictive language pertaining to the open enrollment period for new participants.

Mr. Chairman, although S. 91 does not include a provision for current participants to change their annuity plan, I believe the subcommittee should consider this. Therefore, I recommend that the current participants also be given 270 days to submit a change to their plans. This would be only fair since new participants would be allowed to participate.

Some of those in the program now may want to reduce their annuities or change their options but, I believe, most of them would like to increase their annuities, which would mean greater contributions to the U.S. Treasury.

Mr. Chairman, this brings me to my final point, which should convince the committee and the Senate to pass this vital legislation. I cannot recall any other Government program which almost pays for itself by participant contributions rather than by tax dollars. As a matter of fact, the U.S. Treasury in 1976 under the current program had savings of over \$58 million because retiree contributions were much greater than the amounts paid out in annuities according to the Defense report.

According to figures submitted in the Defense Department's second actuarial study, the Government will make a cumulative profit of \$3.5 billion by the year 2000 with the 100-percent offset. This is the difference between reductions in retired pay and benefits paid to widows. In my judgment it is an injustice for the Government to make a profit on this vital program.

Costs versus contributions will fluctuate through the years, but these differentials are in millions, not billions. Current Defense data indicates that the costs of the present SBP are being borne by member contributions and that the program is operating to the benefit of the Government with a net gain. Over the next 40 years there will be

times when the Government will have greater net gains and at other times the Government's share will be greater than contributions.

Mr. Chairman, in conclusion I want to thank you again for this opportunity to testify and for your extensive work on this important legislation. I strongly urge your subcommittee to approve S. 91 with the modifications I have suggested in behalf of the current participants in the SBP.

Mr. Chairman, I am due on the floor on the military construction bill as ranking member at 10:30. If there are any questions I can answer quickly I will be glad to do it. If not, Congressman Bob Wilson is here, and he has done a fine job on this bill. I am sure he will take care of any questions that might arise.

Senator WARNER. I would like to ask one or two questions. First, how many years have you been working toward correcting this inequity?

Senator THURMOND. Mr. Chairman, I have been working on this matter 4 or 5 years. The committee, last year, didn't approve it. I took it to the floor. We lost it there by only three votes.

Senator WARNER. With your background and knowledge of the hearings in the Department of Defense, why is it that the Department of Defense, which is really a caretaker not only for the persons on active service but persons on retired status—why has that caretaker trusteeship, fiduciary relationship, not been filled by the Department of Defense?

Senator THURMOND. My understanding is that the Defense Department has had much difficulty taking a position on these amendments because the Office of Management and Budget has opposed it. There is no question in my mind the Defense Department officials would favor the bill if they are allowed to speak their feelings.

Senator WARNER. So it is a question, again, of OMB superimposing its judgment on the Secretary of Defense?

Senator THURMOND. I think it is. I think they want to impose their judgment on the Defense Department in order maybe that they can have money to use for various social programs or something else. I do not think that is right. These are people who served their country. These are people who have worn the uniform. These are the people who have risked their lives for the country. These are the people who have been transferred all over the world. I think if anybody has to have priority, that they ought to.

Senator WARNER. As I understand from studying the record, the primary reason why OMB, the Secretary of Defense, or a combination thereof has not come forward in support of this legislation in the past is because they have not had the time to make the calculations—or the ability to make them. We hope to clarify that today, but do you believe we should wait and give OMB and the Secretary of Defense more time?

Senator THURMOND. I say we shouldn't. Many of these people, especially widows, will pass away and it will be too late.

Senator WARNER. You think we should move promptly?

Senator THURMOND. I think we should move immediately. We should have moved long ago. I do not think it should be delayed.

Senator WARNER. Thank you, Senator Thurmond, and we will insert the remainder of your questions in the record, without objection.

Senator THURMOND. I wish to thank you, Mr. Chairman, for your courtesy. I appreciate your fine support of this legislation.

Senator WARNER. I am delighted to cosponsor it with you.

Senator THURMOND. I will ask unanimous consent that the distinguished Senator from Virginia be allowed to cosponsor the bill.

Senator WARNER. We will place in the record at this point the opening statement of Senator Sam Nunn, chairman of this subcommittee. [The statement follows:]

PREPARED STATEMENT BY SENATOR SAM NUNN

The Subcommittee meets today to hear testimony on the military Survivor Benefit Plan.

The military Survivor Benefit Plan is an integral part of the military retirement system and an important benefit available to retirees and their survivors. The 1972 law establishing the Survivor Benefit Plan corrected serious deficiencies in the Retired Serviceman's Family Protection Plan (RSFPP) and created a survivor program for military personnel similar to that provided for federal civilian employees.

CHANGES SINCE 1972 IN THE SURVIVOR BENEFIT PLAN

The Armed Services Committee has recommended through the years a number of changes to the 1972 survivor benefit plan which were ultimately enacted into law.

Last year the Committee acted favorably on a number of changes to the survivor plan which were also ultimately enacted into law. These included:

- (1) Cost-of-living adjustments and other increases for annuitants under the Retired Serviceman's Family Protection Plan;
- (2) Elimination of the Social Security offset for working widows who are eligible for Social Security;
- (3) Increases in the minimum income guarantee for certain needy widows; and
- (4) A major survivor program for reservists.

The Committee deferred action on a number of other proposed changes to the survivor plan which involved significant costs because of the large discrepancies and great uncertainty about the costs of these provisions.

DOD REPORT ON SURVIVOR BENEFIT PLAN

Because of the complexity of the survivor program and the lack of reliable cost data, the Armed Services Committee last year requested that the Department of Defense undertake a comprehensive study of the survivor benefit plan including actuarial analyses. This study was submitted to the Committee on February 1, 1979 but did not contain any recommendations by the Department on changes to the plan as had been requested by the Committee. In addition, the Department stated in its covering letter with the February 1 report that, and I quote, "* * * further validation of the assumptions and projections (of the study) will be provided by a second actuarial firm", end quote. This second actuarial validation was submitted to the Committee on May 16, 1979.

The Subcommittee has also requested the Congressional Budget Office to review the cost data submitted by the Department of Defense. CBO has been working on this complex subject for some months now and just recently submitted to the Subcommittee portions of its findings having to do with outlay costs for various proposed changes.

DIFFERENCES BETWEEN CBO AND DOD COST ESTIMATES

There are large differences between the cost estimates in the Department's February 1 and May 16 reports. For example, the difference between the February 1 and May 16 reports of the cost of a 50 percent Social Security offset in some years is over \$2 billion, and yet the Department has indicated that both of these reports were reviewed by actuaries. In addition, Congressional Budget Office cost estimates differ significantly with DOD estimates. Under current law CBO estimates a net cost to the government of the survivor plan of about \$4.5 billion between now and the year 2000 whereas the revised May 16 DOD report indicates a savings to the government of about \$3.5 billion for fiscal year 1980-2000. This is a cost difference of approximately \$8 billion in these estimates for the period fiscal year 1980-2000 under current law alone.

A summary chart with DOD and CBO cost estimates is before each member.

S. 91

S. 91, introduced by Senator Thurmond, provides for a number of changes to the survivor benefit plan which the Subcommittee will want to consider. Specifically, S. 91 provides for:

(1) Reduction in the Social Security offset from 100 percent to 50 percent, when a widow reaches age 62 and becomes eligible for Social Security, the amount of the Social Security benefit attributable to her husband's military service is deducted from the survivor annuity. The proposed change would deduct half instead of the full offset amount.

(2) Elimination of the Social Security offset when there is one dependent child;

(3) Elimination of the Social Security offset when the widow earns Social Security based on her own earnings;

(4) Elimination of the Social Security offset for certain reservists who serve less than 30 continuous days of active service;

(5) A change in the methodology of calculating the military retiree's cost under the survivor plan to make it parallel to that used for the federal civil service plan;

(6) Survivor coverage for those widows whose husbands died prior to September 20, 1972;

(7) An open enrollment period of 270 days for those retired military personnel who did not elect coverage under the survivor plan at the time of retirement.

HEARINGS

It had been my hope to hold hearings shortly after the receipt of the Department of Defense's February 1 report but these hearings were necessarily delayed. As I have said, the February 1 DOD report did not make any recommendations and indicated that the cost data in the study needed to be revalidated by a second actuarial study which was received a short time ago. In the meantime, the Congressional Budget Office has been hard at work in coming up with cost estimates on S. 91.

I am pleased to be able to hold these hearings today and hope that we can get at the merits and facts of this complex but important subject of survivor benefits for our retired military personnel so that the Subcommittee will be in a position to make an informed judgment on this issue.

Senator WARNER. Our next witness will be Congressman Bob Wilson. I think he needs no introduction whatsoever to the committee or to the persons here in this room today. During my long experience with the Department of Defense he has always stood out as a leader.

We welcome you, Congressman Wilson.

STATEMENT OF HON. BOB WILSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, ACCOMPANIED BY KAREN HEATH, LEGISLATIVE ASSISTANT

Representative WILSON. Thank you, Mr. Chairman. I would like to ask permission for my legislative assistant, Mrs. Karen Heath, to join me. She is probably the foremost expert on Capitol Hill on survivor benefit legislation. She is my brains if you really want to know the truth.

Senator WARNER. Your modesty is appreciated.

We welcome your distinguished legislative assistant, Mrs. Heath, to this hearing.

We have now been joined by the chairman of the Subcommittee on Manpower and Personnel, the distinguished Senator from Georgia, Sam Nunn. I will, however, continue to chair through the balance of Congressman Bob Wilson's presentation.

Representative WILSON. It is a privilege for me to be here with you, Senator Warner and Senator Nunn and, of course, Senator Thurmond,

with whom I have worked through the years on all classes of armed services legislation. Senator Nunn is a tremendous person in his own right. I happen to have known one of his relatives, who was chairman of the House Armed Services Committee, Carl Vinson, for many, many years. I admired him greatly. I enjoyed working with him.

Mr. Chairman, having known you for years, even before your service as Under Secretary of the Navy and Secretary of the Navy, I know there is probably no one in the Congress who knows specifically more about this legislation than you do.

It is a pleasure for me to be here. I know you are anxious to keep this testimony as short as possible. Unfortunately, the survivor benefits plan lends itself neither to brevity nor simplicity but I will try.

Senator NUNN. Congressman, if you will yield for a moment.

Senator WARNER, first let me thank you for going ahead with the hearings. I apologize for delaying them, but I have been on the House side testifying before the House Judiciary Committee on the judicial tenure bill.

I am delighted to have you here, Congressman Wilson. I know of your tremendous work in armed services matters and you have been a pillar in supporting national security for many years.

Mr. WILSON. Thank you.

Because of the integration of the social security system with the survivor benefit system it has become one of the most complex programs that Congress has managed to devise and then repeatedly revise.

The survivor benefit plan was first established by Congress in 1972 and was closely patterned, in terms of both costs and benefits, on the survivor program already in existence for a number of years for civil service retirees. The original premise of the plan was to supplement the survivor coverage provided by social security, in which the military has participated since January 1, 1957. The actual meshing of the two systems, particularly now that the full military career is covered by social security, has become a financial nightmare.

Here is how the plan works, or does not work: When the widow reaches age 62, the social security eligibility age, her survivor benefit plan payment, for which the retiree paid during his lifetime through monthly deductions in retired pay, is offset—or, in plain English, reduced on a dollar-for-dollar basis—by any social security to which she is entitled based on the late husband's military service.

I have a file drawer overflowing with letters from all over the country illustrating the application of the offset and have attached one example to my testimony. The particular case cited in appendix I is a graphic demonstration of the problem because the individual had very little social-security-covered military service—less than 4 years—and the reduction for his widow is already more than \$100 per month. For those with a few more years of social-security-covered military service, this figure increases dramatically.

Perhaps by some Washington standards an offset of \$100, \$150, or \$200 per month may not be considered great. I doubt that most elderly widows, one of the Nation's largest though often overlooked poverty groups, would see it that way.

It is not fair also, Mr. Chairman, that the civil service retirement system has no offset for those who have in one way or another achieved social security retirement privileges. I am told that the latest figures

show that 64 percent of civil service retirees are also drawing social security without any offset of any kind.

Here we have a 100-percent offset for any social security payment. It is just not fair. These two groups are not treated equally and they should be treated equally.

When we established the survivor benefit plan in 1972 we particularly wanted to make it possible for those with limited financial resources to provide a basic level of coverage for their survivors at very low cost. Additional protection was made available at higher premium rates.

The tragic irony of the current law is that those for whom the plan was designed to provide a modest degree of survivor coverage at reasonable rates and the group most in need of such coverage, enlisted personnel, would often be ill-advised to join. The price tag is simply too high for the benefit received.

The effect of this is obvious: Participation continues to plummet and those who do join are often signing up for the lowest amount possible. Present law provides that the wife receive notification if her military spouse elects not to join the survivor benefit plan. While a very good safeguard, this leads many retirees, who wisely question the financial value of SBP or simply do not understand the conflicting information presented, to elect only the minimum amount of coverage in order to maintain domestic harmony.

Unfortunately the widows of those providing just the basic amount are unlikely to ever receive any benefit since, as a rule, the social security offset will completely wipe it out. It is significant to note that, according to data provided by the Navy Finance Center, the extent of minimum participation—in other words, taking the very lowest amount possible under the law—among Navy enlisted personnel was 42.7 percent in March 1979.

While there has always been considerable interest in establishing a funded retirement program, this is generally envisioned as a contributory system during the working years rather than in a backhanded manner through reductions in retired pay that will never be recouped.

I am attaching several appendices which discuss in greater detail some aspects of the survivor benefit plan; also I am attaching a summary of my bill, H.R. 3314. In the interest of the subcommittee's time constraints I will not go into these at this time but hope you will take a few minutes to review them prior to marking up S. 91.

To digress on the question of cost, it is obvious that, regardless of whose projections you are using, the cost-benefit ratio is not working as Congress intended. With the present 100-percent offset, the Defense Department study shows a cumulative profit to the Government of \$3.5 billion by the year 2000.

We are really looking ahead to the year 2035. It is ridiculous in my opinion to try to project that far ahead. To the year 2000 is 20 years. If you go back to the year 1940—and we are talking about 2035 in some of our projections as to what the figures will be at that time—if you go back 40 years, the entering pay for a private in the Army or a seaman in the Navy was \$21 a month. Now it is \$400 a month. Who could have dreamed in 1939 or 1940 that any entering seaman would ever be paid \$400 a month?

Why do we get so much concerned about what the cost in 2035 is going to be? We ought to be worried more about the cost between now and, say, the year 2000.

Senator NUNN. If you will yield on that point, one of the things pointed out in my opening statement that is perplexing to me is that we received a February 1 report from the Department of Defense in which they basically said that they were going to have another report.

They submitted a second report on May 16. The difference in the cost estimates between the February 1 and May 16 reports of a 50-percent social security offset in some years is over \$2 billion—and this is, as you suggested, between now and the year 2000.

Both of these reports were closely reviewed by actuaries. Indeed, we asked the Congressional Budget Office to come up with their figure. They estimated that the cost to the Government of the survivor benefit plan would be about \$4.5 billion between now and the year 2000, whereas the revised DOD figure in the May 16 report indicated, as you pointed out, a savings of about \$3.5 billion between the year 1980 and the year 2000.

So the difference between the Congressional Budget Office figure that we have and the DOD figure, if you take a plus \$3.5 billion on on the DOD side from the May 16 report minus \$4.5 billion by the CBO, the total is \$8 billion difference between now and the year 2000.

That is about as much frustration as I have had with any piece of legislation. They can't come within \$8 billion in their estimates. It is a very serious thing. I can share the frustration of the widows and the people who see this thing going on and on.

We thought they would finally come up with figures. It is awfully hard to legislate with any degree of fiscal responsibility when there is an \$8 billion gap as to what it is going to cost.

Representative WILSON. I think you have to consider that this obviously is an inexact science when you get that kind of discrepancy. But the Department of Defense used experienced actuaries. Actuaries are difficult to hire. I know that our committee has tried to hire one.

The Congressional Budget Office has a responsibility for every function of the Government. They have a hundred or so, 200 people; I don't know how many they have, but they are in no way capable of trying to actually estimate these costs. They can run them on the computer and garbage in and garbage out. That is exactly my opinion of the Congressional Budget Office estimates when you project that far ahead.

I think the Department of Defense understands better how these retirement systems work, and CBO is brand new and they have some very fine people but they have a responsibility that covers every agency—Commerce, Interior, every agency of the Government. There is no way they can be as expert as the Department of Defense or even our committees. Our committee staff certainly knows far more than they do in this area.

Senator NUNN. This relates to current law, not proposed changes.

Mr. WILSON. The percent of participation and all this sort of thing and estimates of what the inflation will be—all these things are factors that are just wild guesses. That is a big part of it.

Senator NUNN. The problem was that DOD used an inflation rate of 4 percent for this year in their estimates. That does not exactly inspire confidence when the rate is running around 12 percent.

Representative WILSON. No. We have attached figures where we have changed inflation rate from 4 percent to 10 percent, applied to a base of \$16.32 a month on a semiannual basis—illustrating the effect of various rates of inflation.

I think there is reason to be careful of what we are doing, but obviously the CBO has not given full consideration to all of the factors involved. I believe they should do so.

Senator NUNN. I don't know what the answer is on this. I want to do everything we possibly can to help these deserving people. By the same token, Congress' record in terms of projecting costs—for instance, on the social security system—is about as abysmal a record as can be found in the history of mankind.

That is why we are in such dire straits now with the social security system. That is why we have to tax the young people who are in the program now very severely—because we did not start projecting ahead some years ago.

Representative WILSON. You talk about social security taxing. The cost-sharing ratio originally for the survivor benefit plan was designed to be similar to that in operation for civil service—60 percent payment by the retiree and 40 percent by the Government. According to the new DOD study, an enlisted member retiring in 1987 will assume 236 percent of the costs for survivor protection while the typical officer will assume about 110 percent. That is completely unfair. No wonder the whole system goes out of the window if it continues in this direction. I don't believe it should.

I don't think the Survivor Benefit Plan is a bad investment for everyone, of course. We presently have a program which is a good buy for general officers, since their retired pay is high, and for reservists who do not elect coverage until age 60, and disability retirees, since they often die before making substantial contributions to the program. For the average enlisted man and many lower-ranking officers it is a disaster.

Unless we reform the program now and provide a new opportunity to enroll and to increase participation or switch options for those already in the program, we are going to face the specter not too many years down the road of another group of forgotten widows. In the long run the Government will bear the burden through welfare programs rather than through the shared-cost concept embodied in the survivor benefit plan.

I would also urge that during the course of these hearings the subcommittee take a look at the continuing plight of the forgotten widows. My bill does not include legislative relief for this long-suffering group. I do have a separate measure, H.R. 817, but the thrust of both is similar; and I am confident that, if your committee passes the forgotten widows bill, that portion of it in S. 91, we can get it passed by the House, too.

In conclusion I would ask you Senators to pose to yourselves the question of what you would say to your next-door neighbor or your nephew or your son if he asked your advice on whether or not to join the survivor benefit plan. If you would, in good conscience, hesitate to enthusiastically endorse the Survivor Benefit Plan with a resounding "Yes, indeed," then I don't think that your vote on S. 91 can be anything other than wholeheartedly in the affirmative.

This legislation, Mr. Chairman, has passed the House twice. The last time, it passed unanimously. It is on the Senate's doorstep. The ball is in your court now. We have not taken any action this year. We are waiting for you to act first this year. I think that is only fair. We

have been up to bat twice. We have hit home runs on our side twice, but you have not been able to get any legislation through.

I sincerely hope that you can support this legislation, that the Senate will support it, and I will guarantee that the House will support companion legislation once the Senate takes action.

[Mr. Wilson's prepared statement and appendixes follow:]

PREPARED STATEMENT OF CONGRESSMAN BOB WILSON

Mr. Chairman: I recently related to the House a personal experience of a young man planning to retire from the Navy who asked my advice as to whether or not he should participate in the Survivor Benefit Plan. The best I could do was give him the odds of our chances of correcting the serious inequities which still plague the program. He has since retired and I, frankly, have never asked his ultimate decision. In this case, the young man was an officer so that his widow would probably have reaped some benefit from his contributions to the Survivor Benefit Plan. Had he been an enlisted man, my advice would have been more difficult. As I told my colleagues in the House, it's a sad state of affairs when a senior member of the Armed Services Committee would hesitate to advise a retiring serviceman to participate in a government-sponsored program to provide for his widow.

I know that the Subcommittee is anxious to keep testimony as short as possible. Unfortunately, the Survivor Benefit Plan lends itself neither to brevity nor to simplicity. This is because of the integration with the Social Security System, one of the most complex programs which the Congress has managed to devise and then repeatedly revise over the past few decades.

The Survivor Benefit Plan, as established by Congress in 1972, was closely patterned in terms of both costs and benefits on the survivor program already in existence for a number of years for Civil Service retirees. The original premise of the plan was to supplement the survivor coverage provided by Social Security in which the military has participated since January 1, 1957. The actual meshing of the two systems, particularly now that the full military career is covered by Social Security, has become a financial nightmare.

Here's how the plan works. When the widow reaches age 62, the Social Security eligibility age, her Survivor Benefit Plan payment—for which the retiree paid during his lifetime through monthly reductions in retired pay—is offset or, in plain English, reduced on a dollar-for-dollar basis by any Social Security to which she is entitled based on the late husband's military service. I have a file drawer overflowing with letters from all over the country illustrating the application of the offset and have attached one example to my testimony. The particular case cited in Appendix I is a graphic demonstration of the problem because the individual had very little Social Security-covered military service—less than four years—and the reduction for his widow is already more than \$100 per month. For those with a few more years of Social Security-covered military service, this figure increases dramatically. Perhaps by some Washington standards, an offset of \$100–\$150–\$200 per month may not be considered great. I doubt that most elderly widows, one of the nation's largest, though often overlooked poverty groups, would see it that way.

When we established the Survivor Benefit Plan in 1972, we particularly wanted to make it possible for those with limited financial resources to provide a basic level of coverage for their survivors at very low cost. Additional protection was made available at higher premium rates. The tragic irony of the current law is that those for whom the plan was designed to provide a modest degree of survivor coverage at reasonable rates, and also the group most in need of such coverage—enlisted personnel—would often be ill-advised to join. The price tag is simply too high for the benefit received.

The effect of this is obvious: participation continues to plummet and those who do join are often signing up for the lowest amount possible. Present law provides that the wife receive notification if her military spouse elects not to join the Survivor Benefit Plan. While a very good safeguard, this leads many retirees, who wisely question the financial value of SBP or simply do not understand the conflicting information presented, to elect only the minimum amount of coverage in order to maintain domestic harmony. Unfortunately, the widows of those providing just the basic amount are unlikely to ever receive any benefit since, as a rule, the Social Security offset will completely wipe it out. It is significant to note

that, according to data provided by the Navy Finance Center, the extent of minimum participation among Navy enlisted personnel was 42.7 percent in March 1979. While there has always been considerable interest in establishing a funded retirement program, this is generally envisioned as a contributory system during the working years, rather than in a backhanded manner through reductions in retired pay that will never be recouped.

I am attaching several appendices which discuss in greater detail some aspects of the Survivor Benefit Plan, as well as a summary of my bill, H.R. 3314. In the interest of the Subcommittee's time constraints, I will not go into these at this time, but hope you will take a few minutes to review them prior to marking up S. 91.

To digress on the question of cost, it is obvious that, regardless of whose projections you are using, the cost-benefit ratio is not working as Congress intended. With the present 100 percent offset, the Defense Department study shows a cumulative profit to the Government of \$3.5 billion by the year 2000. The cost-sharing ratio was designed to be similar to that in operation for Civil Service—60 percent for the retiree and 40 percent for the Government. According to the new DOD study, an enlisted member retiring in 1987 will assume 236 percent of the costs for protection, while the typical officer will assume about 110 percent.

It is my understanding the Congressional Budget Office figures, to which I have not been privy, take issue with these projections. Even if CBO shows a cumulative net loss to the Government, we must keep in mind the legislative history of the program. The Survivor Benefit Plan was not designed to be a profit-maker at the expense of widows or even to be actuarially sound like the Retired Serviceman's Family Protection Plan, the dismal failure which preceded it. The intention was that the Government would share the cost of the ultimate benefit to the survivor by subsidizing the individual's monthly reductions in retired pay. I hope that the dispute over whose crystal ball is more accurate in calculating long-term cost projections will not be allowed to obscure the obvious inequities in the present structure of the program. The uncertainty about the future rate of inflation alone provides a wide variance in cost predictions. (For example, the chart which I have attached in Appendix II shows the compounding over the next 10 and 20 years of the present difference in cost for a military and Civil Service retiree at various rates of inflation and is a simple illustration of the discrepancy which can develop with only one variable factor.) I am confident that those who have prepared the conflicting sets of figures will concede that they can only give us their best guesstimates. Additionally, it is important to remember that we are talking massive amounts of dollars, particularly when viewed in terms of the inflated value of the dollar by the year 2000 or 2035. I wholeheartedly share the Subcommittee's concern over the long-term implications of any Government benefit program, but would hope that the cost figures, based on the economic uncertainties of the next quarter and half century, will not become an excuse for failure to correct the glaring inequities in the Survivor Benefit Plan.

SBP is not a bad investment for everyone, of course. We presently have a program which is a good buy for general officers, since their retired pay is high, and for reservists who do not elect coverage until age 60 and disability retirees, since they often die before making substantial contributions to the program. For the average enlisted man and many lower ranking officers, it is a disaster.

Unless we reform the program now and provide a new opportunity to enroll and to increase participation or switch options for those already in the program, we are going to face the specter not too many years down the road of another group of "Forgotten Widows." In the long run, the Government will bear the burden through welfare programs, rather than through the shared-cost concept embodied in the Survivor Benefit Plan.

During the course of these hearings, I would also urge that the Subcommittee also take a look at the continuing plight of the "Forgotten Widows." Senator Thurmond includes legislative relief for this long-suffering group as a part of S. 91. I have introduced a separate measure, H.R. 817, but the thrust of both is similar. I am very pleased by the provision added to last year's Survivor Benefit Plan amendments, which will provide a cost-of-living factor for the Minimum Income Widows. As the Subcommittee knows, this group encompasses the most poverty-stricken of the pre-Survivor Benefit Plan widows. In order to qualify as a Minimum Income Widow, however, the widow must meet the means test of the Veterans Administration. There are many who exist at poverty's doorstep, but whose resources are a little too great to qualify for bona fide destitution, as the means test requires. The cost-of-living provision for Minimum Income Widows was an important step, but it by no means solved the financial plight of the "Forgotten

Widows," and I would urge the Subcommittee to address this issue as well. While the first few years of outlays may be more than we would like, the cost will diminish rapidly since we are talking about an elderly group whose numbers are rapidly decreasing. They endured the low pay and frequent family separations attendant to a military career long before the days of the All-Volunteer Force and should be able to live out their declining years with dignity and pride.

In conclusion, I would ask you to pose to yourself the question of what you would say if your next-door neighbor, or your nephew, or your son asked you advice on whether or not to join the Survivor Benefit Plan. If you would, in good conscience, hesitate to enthusiastically endorse the Survivor Benefit Plan with a resounding "yes, indeed," then I don't think that your vote on S. 91 can be anything other than wholeheartedly in the affirmative.

APPENDIX I. APPLICATION OF THE SOCIAL SECURITY OFFSET TO AN INDIVIDUAL WITH MINIMAL SOCIAL SECURITY COVERED MILITARY SERVICE

This illustration involves an Army Master Sergeant, who retired from the military in September 1960; in other words, he had only three years and nine months of Social Security-covered employment in the military. He subsequently worked in private industry under Social Security and retired in September of 1977 at age 65. He is presently 67 years old and his wife is 65. With less than four years of coverage under Social Security in the military, the assumption would be that his offset will be quite minimal. As outlined in the attached letters from the Army Finance Center, as of March 1979, the amount of the Social Security offset would be \$111.41 out of the Survivor Benefit Plan annuity of \$268.32. It is important to reemphasize that this individual had less than four years of military service under Social Security. The offset is 42 percent of the Survivor Benefit Plan payable.

It is interesting to note that the amount of the Social Security benefit attributable to this Sergeant's military service is substantially different when determined by the Social Security Administration, as outlined in Social Security's January 31 letter. Social Security states that his $3\frac{3}{4}$ years of military-earned credits affect his monthly Social Security payments by \$32.30. The amount of his widow's benefit based on those same military years would be 82.9 percent of his benefit or \$26.78.

This is quite unlike the \$111.41 offset quoted by the Army Finance Center. The reason lies in the complexity of the Social Security System and the methodology used to compute benefits. When the Social Security Administration figures an individual's benefit, it is based on his total Social Security-covered work career. Some of the lowest earnings' years are disregarded, with the actual number depending on the individual's age and years of participation in the system. For example, in the case of the Master Sergeant illustrated here, his Social Security payments were figured on the highest 18 out of the last 20 years that he worked under Social Security.

By contrast, the Defense Department looks at the military-earned Social Security credits in total isolation and does not consider them as part of the overall Social Security earnings' career. This procedure means that the amount of Social Security attributable to military service is disproportionately high in comparison to the actual effect of such service on the ultimate Social Security payment. The reason for this is very simple. The Social Security System is heavily weighted toward those at the lower end of the earnings scale. An individual's Averaged Indexed Monthly Earnings (AIME) are used to determine the Primary Insurance Amount (PIA) on which the Social Security entitlement is based. Benefits do not go up proportionately with increases in the Average Indexed Monthly Earnings rate, however. An individual with a low AIME receives a substantially greater proportional benefit than another worker whose AIME may be double or triple. This weighting toward those at the lower end of the earnings' scale was a conscious decision on the part of the Congress to assure a higher level of benefits to lower paid workers.

When the amount of a Social Security entitlement based on military service is determined under this weighted system, however, the figure is generally much larger than the actual effect of those military years on an overall Social Security benefit. Thus, in the case cited, the Sergeant's military-earned credits, when considered as a separate entity, would produce a widow's benefit of \$111.41 as a result of the weighting in the system. The actual impact of these military credits on his total Social Security entitlement, however, is \$32.30 for the Sergeant and \$26.78 for his widow.

DEPARTMENT OF THE ARMY,
U.S. ARMY FINANCE AND ACCOUNTING CENTER,
Indianapolis, Ind., March 28, 1979.

Subject: Survivor Benefit Plan (SBP).

1. Reference your letter of 20 February 1979.
2. Information furnished in our letter of 19 January 1979 was correct.
3. Cost-of-living adjustments are provided for retired pay and Survivor Benefit Plan (SBP) accounts on March and September of each year when a rise is indicated in the Consumer Price Index. Accordingly, effective March 1979, the SBP annuity payable is \$268.32 and the estimated Social Security offset would be \$111.41. The offset amount is changed when an increase in Social Security benefits become effective.
4. We regret a more favorable reply cannot be made. If we may be of further assistance to you, please advise.

For the commander:

R. TILLIS,
(For Major M.L. Ellerman, FC
Chief, Pay Services Division, Retired Pay Operations.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
January 31, 1979.

DEAR _____: Your military service from 1957 through the first nine months of 1960 affect your wife's monthly Social Security payments by \$13.60 (The effect on your monthly payments is \$32.30)

The provisions for widow's payments under Title II of the Social Security allow your wife, in the event of your death, to draw a larger portion of your Social Security. There is no exception to this law under which we could deny payments to your wife following your death.

The military service per year affects your payment approximately \$8.61 for each year of service. The present affect on your wife's monthly payment is \$3.62.

For further information feel free to call or come by our office. We will have this information on file for the next ten days should you wish to examine it.

Sincerely yours,

Service Representative.

DEPARTMENT OF THE ARMY,
U.S. ARMY FINANCE AND ACCOUNTING CENTER,
Indianapolis, Ind., January 18, 1979.

Subject: Retired pay.

1. Reference your letter of 19 December 1978.
2. The Survivor Benefit Plan (SBP) annuity payable is subject to offset by the entitlement to Social Security payments attributable solely to your active military service after 1956.
3. The computations necessary to determine the net amount of your survivor's income resulting from a combination of Social Security entitlement and reduced SPB annuity are complex and depend upon many variables. Therefore, an estimated amount of offset can only be given under current Social Security rates.
4. Based on the current rates, the SBP annuity payable is \$258.25 and the estimated Social Security offset would be \$111.41 monthly.

For the commander:

MAJ. LAWRENCE J. HERBERT SR.,
(For M. L. Ellerman, FC, Chief, Pay Services Division, Retired Pay Operations.)

APPENDIX II. CORRECTION OF THE CALCULATION ERROR

With each semi-annual Consumer Price Index increase, the amount of retired pay, the survivor benefit and the reduction in retired pay are recalculated. Although the intent of the law was that the cost for the Civil Service and military retiree be identical, the actual wording of the Survivor Benefit Plan statute means that the military retiree is paying more. This amount increases with each CPI raise. S. 91 and H.R. 3314 revise the language to provide for use of the Civil Service procedure in the future. As a result, those joining the Survivor Benefit Plan after

the date of enactment will pay the same amount as a civil servant electing identical coverage. It is important to note, however, that there will still be considerable differences in the amounts paid for current participants and this will continue to be compounded with each CPI increase.

Presently a military retiree who entered the program upon its inception in September 1972 is paying \$16.32 per month or \$195.84 per year more than his Civil Service counterpart. The following chart illustrates the future effect of this difference at various annual inflation rates at ten and twenty year intervals. It is important to note that the calculation assumes the passage of the correction embodied in S. 91. In other words, this shows simply the compounding of the current discrepancy.

When reviewing the various cost estimates of correcting the calculation error, it is important to keep in mind that this change is the very minimum which should be contemplated.

EFFECT OF COMPOUNDING \$16.32 PER MONTH ON A SEMIANNUAL BASIS AT VARIOUS RATES OF INFLATION

Annual rate	10 yr	20 yr
4 percent.....	\$291.00	\$432.42
5 percent.....	320.90	525.84
6 percent.....	353.70	638.84
7 percent.....	389.68	775.38
8 percent.....	429.10	940.22
9 percent.....	472.30	1,139.06
10 percent.....	519.62	1,378.70

APPENDIX III. SUMMARY OF H.R. 3314

[From the Congressional Record, Wednesday, Mar. 28, 1979]

SURVIVOR BENEFIT PLAN FOR MILITARY PERSONNEL—PUTTING IT BACK ON THE TRACK

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Mr. Bob Wilson) is recognized for 5 minutes.

Mr. BOB WILSON. Mr. Speaker, a young man I have known for many years, who is planning to retire from the Navy in the near future, recently asked my opinion as to whether he should participate in the survivor benefit plan for military personnel. Frankly, I was hard-pressed to respond. A few years ago, my answer would undoubtedly have been in the affirmative. Such advice would be glib today. As our conversation progressed, in fact, I felt more and more like Jimmy the Greek, giving odds on the likelihood of correcting the several remaining serious inequities in the survivor benefit plan, rather than a senior member of the House Armed Services Committee.

It is a sad state of affairs when you would hesitate to advise a retiring serviceman to participate in a Government-sponsored program to provide for his widow. The purpose of the bill I am introducing today is to correct that situation.

This is basically the same legislation which the House passed overwhelmingly on two previous occasions. Although the Senate has subsequently approved some portions of the House-passed measures, they have failed to come to terms with the meat of the legislation and the heart of the problem in SBP—the dollar-for-dollar social security offset.

The survivor benefit plan, as established by Congress in 1972, was closely patterned in terms of both costs and benefits on the survivor program already in existence for a number of years for civil service retirees. The plan was designed to make it possible for every retiree, particularly those with limited means who could not afford adequate private insurance, to take a reduction in retired pay during their lifetimes in order to assure at least a minimal income for their widows in the event of death. The cost of the program was structured so that a basic amount of coverage could be offered at low cost, with higher premiums for those who wanted to pay for more protection.

The original premise was to supplement the survivor coverage provided by the social security system, in which the military has participated since 1957. The actual integration of social security and SBP for the widow, however, is a prime example of the "best laid plans" going astray. In practical application, this is several hundred dollars each month out of an elderly widow's pocket.

Although SBP was designed for all retirees, we were particularly interested in making the plan an attractive buy for lower ranking retirees who would have the least access to other financial assistance for their survivors. The sad irony of the present situation is that we have achieved the exact opposite. The offset is so disadvantageous to much of the enlisted force that an ever-growing number of enlisted retirees each year are opting not to participate. Increasingly, SBP is becoming a Government-subsidized survivor plan for the officer corps.

The legislation I am introducing today will put the survivor benefit plan back on track. It includes the same provisions which the House approved unanimously in September 1977, plus several additional corrections which have come to light since that time. The major thrust of the bill is a reduction in the social security offset.

As mentioned previously, SBP is a voluntary program whereby the retiree elects to reduce his retired pay in order to provide a certain percentage of that retirement to a designated survivor. When the widow reaches age 62, and becomes eligible for social security, every dollar which she receives from social security, based on the late husband's military service, is deducted from her survivor benefit plan annuity. In the case of enlisted retirees, it is possible for the social security offset to completely eliminate any SBP payment whatsoever. The determination of the amount of the offset is made considerably more complex by the heavy weighting toward those at the lower end of the earnings scale which exists in the Social Security System. The net result is a substantial loss of income to the widow. The legislation I am proposing would reduce the offset or reduction from 100 percent to 50 percent, based on the fact that both the Government and the serviceman have contributed toward the ultimate social security benefit.

The inequity most often cited to me is the case of a widow who has worked for many years and paid sufficient social security taxes to be entitled to benefits based on her own earnings. Under present law, she may not receive both a widow's and a worker's benefit, even though she and her late spouse paid taxes for both, but only the higher of the two. Logic would dictate that a widow receiving no benefits from the late husband's account would not be subject to an offset, but this is not the case. Because she is technically entitled to a benefit based on the husband's military service, even though she receives no payment from his account, nonetheless, the offset applies. In this instance, my bill would eliminate the offset entirely. Also removed would be the offset for a widow under age 62 with one child, since widows with two or more children are already subject to no offset, and the offset for Reserve retirees whose only active service after 1956 consisted of short periods of training.

As previously mentioned, the intent of Congress was to pattern the military survivor program closely on the civil service plan in terms of both costs and benefits. Because of the manner in which semi-annual Consumer Price Index raises are calculated under the two systems, however, the military retiree is currently paying \$16.32 per month more for the same coverage. As a result, this legislation includes language, which was also a part of the last House-approved measure, to assure that the formula used to apply cost-of-living increases to the reductions in retired pay is the same as that used for civil service.

Last year Congress made one additional revision in the civil service survivor plan and I am including a similar change in the military program. As a result of an improvement enacted several years ago, the retiree is not "locked into" the survivor program and reductions in retired pay cease when there is no longer an eligible survivor through either death or divorce. Should the individual remarry, coverage for the second spouse is automatic. The pension entitlement and other financial resources of the new spouse may be considerably different, however, so that a survivor annuity is neither needed or desired. Public Law 95-317 granted civil service annuitants the right to elect 1 year after remarriage whether to reinstitute survivor coverage. Section 2 of my bill provides a similar opportunity to the military retiree to decline survivor coverage for a new spouse.

Section 8 of my bill is a series of conforming amendments. The minimum income widows' program established by the 1972 survivor benefit plan law is tied closely to the nonservice-connected pension program of the Veterans' Administration. At the end of the 95th Congress, we enacted Public Law 95-588, the Veterans' and Survivors' Pension Improvement Act of 1978, which represents a substantial restructuring of VA pension programs. This necessitates some redesignation of sections in the minimum income widows' portion of the code, which would be accomplished by the technical amendments incorporated in the final section of my bill.

When the House Armed Services Committee originally looked at the survivor benefit plan several years ago, we felt that the changes approved by our committee were so significant and made the plan so much more attractive that it should be reopened for participation by those who had originally opted not to join. Projected enrollment in SBP, at the time of enactment, was 85 percent, based on the Civil Service plan. Unfortunately, the actual percentage is barely 50 percent because of serious shortcomings, primarily the "lock in," which has been removed, and the 100 percent Social Security offset, which we hopefully will eliminate this year. With these major improvements, we should reopen the plan and I feel that this would be advantageous to both the retiree and to the Government in the long run.

In SBP, we have a program where the retiree elects to provide insurance for his survivor through payment of premiums, namely the reductions in his retired pay. The present low participation is a time bomb with a short fuse. We see this situation all too clearly in the current "Forgotten Widows," the widows of pre-SBP retirees who did not join the previous survivor plan because it was very costly in comparison to the meager benefits provided. If more retirees do not opt for SBP, we will face the specter of another group of unprotected widows not too many years down the road. The Government will ultimately bear nearly all the burden through welfare programs, rather than through the shared-cost concept embodied in SBP.

I am, therefore, proposing that we reopen the survivor benefit plan for 9 months for all current retirees not presently enrolled. There is some question in my mind as to whether this should be an unconditional reopening, however, in fairness to those currently participating and I have been weighing several alternatives. It would be possible, for example, to require a larger reduction from retired pay for new enrollees, in the same way that private insurance plans charge a higher premium rate the longer the period of time that an individual delays coverage. The logistics of designing an equitable penalty system mitigate against this approach, however. Another option would be to simply impose a waiting period during which the designated survivor would be ineligible for benefits. I have incorporated in my bill a third alternative. The criticism has been made that a new enrollment period would result in a rash of deathbed elections by elderly or seriously ill retirees who did not sign up the first time around. Obviously, this does not contribute to the long-term fiscal viability of the program, nor to the best interests of the majority of participants. As a result, I propose that we exclude from death benefits those joining under the new open period who have any preexisting condition, sickness, disease, or injury.

Preexisting condition would be defined as one for which medical treatment was rendered or recommended by a currently licensed physician or surgeon within 12 months prior to the effective date of enrollment under the plan. This preexisting condition would no longer be a bar to the receipt of SBP benefits by the survivor after a lapse of 12 months from the time of enrollment during which no medical treatment was necessary for the condition or a period of 24 months from the enrollment date, regardless of the individual's health at that time. With such a restriction, we would eliminate the possibility of deathbed elections and encourage the participation of younger, healthy retirees who would contribute to the system for a number of years before their survivors began to draw benefits. This approach is based on similar language incorporated in the serviceman's group life insurance program enacted for reservists several years ago.

Now is the time to explore various ways to open enrollment and I welcome both comments and criticism of the several options I have outlined, as well as other recommendations. We will make a tragic mistake if we do not endeavor to make SBP participation as high as possible, while the program is still in its formative years.

I have incorporated two final revisions in this legislation. First, some retirees elected only minimal coverage in the plan because of the "lock in" and the 100-percent offset. With the corrections incorporated in this bill, I feel that they should be given the opportunity to increase the amount of their coverage and, of course, the amount of the reduction from their retired pay. It would be illogical to reopen enrollment and not permit the election of a higher benefit for those already in the plan. Second, last year's SBP revision, Public Law 95-397, provided cost-of-living raises for widows receiving benefits under the old program, the retired serviceman's family protection plan. Such cost-of-living adjustments will only be applicable, however, to widows whose husbands died prior to the expiration of the original sign-up period for SBP, March 20, 1974. Those widowed subsequent to that date will continue to receive fixed annuities. If we are going to provide an additional

enrollment period, then, in all fairness, the termination of eligibility for cost-of-living protection under RSFPP should be the end of the new open period.

Enactment of this legislative package will correct the remaining inequities and omissions in the military survivor benefit plan and make it a fiscally responsible program, both for the military family and for the Government, for many decades to come. I hope we will be able to see it enacted before the end of 1979.

Senator WARNER. Thank you very much, Congressman Wilson. How many years have you been working on this project?

Representative WILSON. Since it first became a problem, which was about 1974. Of course, I have been in Congress 27 years and I have worked on all of this legislation. I have caused some of the problems by voting for it in the first place. Now I am trying to correct some of the problems by defining the inequities.

It is discouraging. I hate to see the widows of men who have given their lives or at least risked their lives on behalf of their country reduced to the poverty level, actually getting less income than people on food stamps, which we voted out of the House yesterday. It is a black mark on the face of the United States. I think we must do something about it. I sincerely hope that the Senate will adopt S. 91.

Senator WARNER. Have you provided the committee with all of your thoughts with respect to why the Department of Defense has not taken a leadership role on this and left it up to the Congress to take a leadership role?

Representative WILSON. I have left several examples of where the Department of Defense has been wrong in their computations and so forth. I have asked unanimous consent to include that as a part of my testimony.

Senator WARNER. It has been granted.

Representative WILSON. I just don't understand why the Department of Defense has not taken this into account. It seems to me retirement to a normal family is one of the most important aspects of adult life. If you can't be sure of what you are going to be doing after you are retired from your job, you are going to be a less efficient worker and you are going to be inclined to move on to something else.

I think one of the reasons that we have a low reenlistment rate and a high attrition rate of dedicated men and women in the services is because of things of this type where we are letting down and not delivering on what we promised in the first place.

Senator WARNER. Senator Nunn?

Senator NUNN. I have just one question. I agree with your arguments on equity. I think this is one of the most inequitable situations that exist in the Government today.

I know that whatever the committee does and whatever we do in the subcommittee, when we get to the floor the question is going to be: How much is it going to cost? As chairman, I have to be able to answer that question. I don't believe I can conscientiously take a bill to the floor of the Senate if I cannot give somebody an estimate of how much it will cost.

We have talked about great differences in the estimates of CBO and DOD under current law as to what it will cost between now and the year 2000. Forgetting that for a moment, what is your estimate of what it will cost to pass this legislation from now to the year 2000?

Representative WILSON. Well, by taking the DOD study and then having their independent actuary go over it, the cumulative cost we

show which includes all of the things that we are mentioning—reduction of the offset to 50 percent, elimination of the offset for a widow earning her own social security, a widow with one child, a reservist with less than 30 days' active duty where taxes were refunded and correction of calculation differences with the Civil Service—we estimate that the cumulative cost for a 55-percent participation rate, which is not enough, we need a much bigger participation rate, but even with that it will be averaging \$200 million from now to the year 2000.

If we get 65 percent, if we make this a retirement system that military people really want to join, that reduces down to a total of \$3.4 billion, which is roughly \$150 million a year. If we get 75-percent participation, it is down to a cost of a little over \$100 million a year.

Now, that is very little contribution by the Defense Department to insure a good survivor system for the military. It is far less than it would be for the Civil Service which pays 40 percent of all survivor annuities. It pays 40 percent of my survivor's benefit.

Senator NUNN. Let me ask staff. You are familiar with these figures, and I want to make sure the record is correct. Congressman Wilson's projection was \$200 million a year from now until the year 2000 based on a 55-percent participation rate.

Representative WILSON. I will give you the total figures to the year 2000: \$4.073 billion; 65 percent participation, \$3.437 billion; 75-percent participation, \$2.801 billion.

Senator NUNN. Fifty-five percent participation was what figure?

Representative WILSON. \$4.073, just a little over \$4 billion over the total period.

Senator NUNN. We have staff for minority and majority. Do your two agree on what the figures are?

Mr. LEHMAN. Yes.

Senator NUNN. What did you say the figures are and what is your source? Congressman, let me ask you your source of that estimate first.

Representative WILSON. That is what the independent contract actuary working for the Department of Defense came up with.

Senator NUNN. Can you furnish us those names for the record?

Representative WILSON. I will be very happy to.

[The information follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington D.C., July 19, 1979.

Hon. SAM NUNN,
*Chairman, Subcommittee on Manpower and Personnel,
Senate Armed Services Committee.*

DEAR SENATOR NUNN: During your Subcommittee's hearings last Tuesday, I advised that I would submit further information for the record with respect to the estimate which I cited relative to the cumulative cost of revising the Social Security offset provision in the Survivor Benefit Plan.

My figures were based on the validation of assumptions and projections prepared by Towers, Perrin, Forster and Crosby, independent actuarial consultants. As I outlined in response to your questions, my computation encompassed the four changes proposed in the Social Security offset, as well as the correction of the calculation error. These are the five provisions which have been approved on two previous occasions by the House Armed Services Committee and the full House of Representatives. It was somewhat difficult to comment on the figures prepared by the Subcommittee's staff indicating both DOD and CBO cost estimates, since I was not furnished a copy of the paper from which you were reading. Now that

I have had an opportunity to see the calculations you were citing. I find that our differences are due primarily to two factors.

My \$4.037 billion calculation basically paralleled the figures cited in your staff's compilation from the DOD (revised) estimate. In determining Item 1 (the change to the 50 percent offset), we did not incorporate the loss of savings reflected on Chart No. 3-13R of the DOD report. With the addition of this projected savings, my estimate from Item 1 would have been \$5.146 billion, thus making a total for Items 1 through 5 of approximately \$7.5 billion cumulatively, rather than the \$4.037 billion figure used.

The second and major difference in our figures resulted from the fact that the \$11 and \$12 billion costs you cited included three additional provisions. While I am fully supportive of the equities of all three of these and have incorporated a conditional open enrollment period in my bill, these provisions had not previously passed the House and were not among the five items which I enumerated. Now that I have had an opportunity to see the results of CBO's calculations, I am pleased to know that the final CBO and DOD estimates of the overall package costs are closer together than originally anticipated. I have been of the opinion that the Defense Department had far greater actuarial input in making its projections than the Congressional Budget Office. I am interested in more information as to the specifics of CBO's methodology, however, which I will pursue further with them.

In response to your question to me relative to how I would defend the various cost estimates on the Floor, I would like to make several recommendations.

First, I wonder whether the \$11 to \$12 billion figure reflects the provisions likely to emerge from final Committee consideration or whether the final total might be at least \$2½ to \$3 billion lower. Additionally, I think it's important to keep in mind that we are talking in terms of inflated dollars. Were we to speak in terms of the money we all understand—constant 1979 dollars—the figures would be half that amount. A good comparison could perhaps be made with current Federal programs with a price tag in the \$4 to \$6 billion range for only one fiscal year, while we are talking about a cumulative total to the end of the century. For example, the spending for the Food Stamp Program for 1979 under present law will be \$6,158,900,000. With the increase in the ceiling approved by the House last week, this would rise to \$6,778,900,000 for the fiscal year 1979 alone. The purpose of this comparison is not to denigrate the Food Stamp Program, but merely to illustrate the relative cost of the Survivor Benefit Plan changes by contrast. Another point of comparison might be the \$5.5 to \$6.6 billion cost for losses based on waste, fraud, and abuse in Federal welfare programs as determined by the Inspector General of the Department of Health, Education, and Welfare and cited in their 1978 Annual Report issued March 31, 1979. A breakdown of the losses by subject area is attached.

As a final observation, I think it would be worthwhile to contrast the costs of the military Survivor Benefit Plan with the Civil Service Survivor Annuity Plan. Figures for Fiscal Year 1978 show that the Federal Government is footing the bill for \$1.423 billion in payments to Civil Service survivors and, unlike the military program which is producing a surplus, this is costing the government \$1.1 billion because total contributions are only \$320 million. Neither the CBO nor the actuary of the Office of Personnel Management has apparently done any calculation of the future cost of the government's share of survivor annuities for Federal retirees on either a long or short-term basis. In view of the Carter Administration's plans to revise the compensation package for Federal employees in the future, I would hope that more information with respect to the extent of the Civil Service subsidy on survivor benefits would be generated. One point deserves note, however. The military program was designed to have a cost-sharing ratio of 60-40 between the annuitant and the government for the price tag of the ultimate survivor benefit. On the average, the ratio has been substantially exceeded for military retirees so that some personnel, particularly enlisted men, are now paying more than 100 percent of the value of the survivor annuity. Within this context it is interesting to note that the office of the Actuary of the Office of Personnel Management has advised that the present cost-sharing ratio in the Civil Service Plan for survivor benefits is 25 percent for the retiree and 75 percent for the government. Since this is a mature system, major variations in this figure would seem unlikely.

I appreciate your invitation to submit supplementary data with respect to cost calculations and hope that this material will be useful to the Subcommittee.

Needless to say, I stand ready to assist you in any way possible in achieving passage of the important corrections in the Survivor Benefit Plan proposed by S. 91 and my bill, H.R. 3314.

With kind personal regards.

Sincerely,

BOB WILSON.

Enclosure.

*Revised Estimates for Waste, Fraud, and Abuse Costs in Federal Welfare Programs—
Fiscal Year 1977¹*

Health care (medicaid/medicare)-----	\$3.9 to \$4.2 billion.
Aid to families with dependent children (AFDC)-----	\$468 million.
Social Security Administration (SSA)-----	\$713 to \$866 million.
Supplemental security income program (SSI)-----	\$292 million.
Social services-----	\$188 million.
Student financial assistance (SFA)-----	\$321 million.
Elementary and secondary education, title I-----	\$97 million.
Indirect cost negotiations-----	\$107 million.

Total HEW-related losses----- \$5.5 to \$6.6 billion.

¹ From the HEW 1978 Annual Report, released Mar. 31, 1979.

Senator NUNN. We may have to get a panel of actuaries in here.

Representative WILSON. It is a little difficult. We tried to get the CBO to give us their records. I do not know how you conned them out of it but we never could get them over on our side. I do not know where they are coming from or whether you have greater power over them but I cannot get them from CBO.

Senator NUNN. I think we got it from CBO yesterday.

Senator WARNER. We do have both these gentleman on the staff.

Senator NUNN. The question is: What are the comparable figures we have on the estimated cost from now until the year 2000 on a 55-percent participation and give us the source of that.

Mr. CONNEELY. The figures we have here show DOD's revised figures and CBO's estimate. On the 55-percent participation, the net cost of this bill, DOD shows a net cost of \$11.3 billion, CBO shows a net cost of \$12.6 billion. They are very close on the net cost of the provisions of S. 91.

Where they differ is on the net cost of current law of about \$8 billion.

Senator NUNN. Which is what I pointed out.

Mr. CONNEELY. DOD and CBO are fairly close on the net cost of S. 91 between now and the year 2000, \$11.3 billion for DOD and \$12.6 billion for CBO.

[Chart referred to follows:]

SUMMARY CHART, NET COST OF PROVISIONS OF S. 91

[In millions of dollars]

	Fiscal year 1980-2000	
	DOD (revised)	CBO
1. 50 percent offset of social security-----	5, 147	3, 501
2. Change in cost formula-----	1, 911	2, 382
3. No offset for mother with 1 dependent-----	84	661
4. No offset for certain reservists-----	8	(¹)
5. No offset for widows earning social security on their own-----	385	225
6. 270-day open enrollment payment-----	1, 100	2, 387
7. Survivor benefits for pre-1972 widows whose husbands died on active duty-----	324	376
8. Survivor benefits for pre-1972 widows whose husbands died in retirement-----	2, 338	3, 042
Total fiscal year 1980-2000-----	11, 297	12, 574

¹ Negligible.

Representative WILSON. I think we are comparing apples and oranges.

Mr. CONNEELY. They are comparing indential provisions. They do have differences on mortality rates, for example.

Representative WILSON. That makes a lot of difference.

Mr. CONNEELY. They are very close however. The two totals are very close.

Senator NUNN. Chuck Conneely is representing the majority. Let me hear from the minority counsel. Is there any disagreement between the minority and majority on this point?

Mr. LEHMAN. I agree that we received these figures. [Laughter.]

Senator NUNN. I will get laughed off the floor of the Senate if I am asked by Senator Muskie, who does his duty as the Budget Committee chairman, "What will this cost?" And I reply, "The committee is for it; the House has passed it. On the one hand, we have a \$4 billion figure that the actuary announced on Thursday. On the other hand, we have an \$11 billion figure from DOD. On the other hand, we had a \$12 billion figure from CBO." I could not get the votes to get the bill passed on the Senate floor.

This is right where we were last year. I asked DOD, "Please come up with a report by February 1." They came up with one and then said they were coming up with another one. Somehow we have to get these various people together. Maybe you cannot ever come down to \$1. There will always be some differences, but this is a 50-percent difference.

Senator WARNER. How do you handle that same question on the House side when your colleagues inquire of you as to the cost? What has been your response?

Representative WILSON. The House side shows great confidence in the Armed Services Committee. These are our figures, our estimates. I maintain we are right. I do not know out of the blue sky where these came from.

Frankly, I will look them over and see why the projections are so far off. These are based primarily on the DOD study with confirmation by independent actuaries. It just does not make sense.

Senator WARNER. We have been joined by Senator Jepsen who is ranking minority member on this subcommittee.

Congressman Wilson, we thank you for giving us your time and for the long period of time during which you have diligently fought to correct this inequity. I am sure my colleagues join with me in thanking you.

Representative WILSON. Thank you, Mr. Chairman. You are very courteous. Obviously, we have some discrepancies here that must be worked out. I will just say, assuming that I am 100 percent wrong and you are 100 percent right—

Senator NUNN. It is not me. I do not take credit for any of these figures.

Representative WILSON. I am just talking about the figures that have been kicked around; \$12 billion over a 20-year period to maintain a program that has integrity as far as the personnel for the armed services are concerned is a very low figure if you compare the Government participation in civil service.

I do not know what 40 percent of total survivor benefits of every one of the millions of Government workers would amount to but it would probably be hundreds and hundreds and hundreds of billions of dollars. We are talking, as a maximum, about \$12 billion. I still maintain our figures are more accurate than yours.

Thank you very much.

Senator WARNER. Before calling the next witness, I would like to call on Senator Jepsen, the ranking minority member, of the the Manpower and Personnel Subcommittee of the Senate Armed Services Committee for a few opening remarks expressing his viewpoint. Senator Jepsen.

Senator JEPSEN. Thank you, Mr. Chairman. I will not take up much time. I am concerned and share the concern that the Chair has, and others, for the inequities that have existed for some time. The cause, unfortunately, is the way our system works in this country. The World War I veterans and widows have been overlooked and forgotten and something must be done about these and other inequities.

Hopefully, we can proceed on that basis. I want to try to make these things work. It is unfortunate that we have such a wide difference in the estimates of cost but we will get those ironed out too.

Senator WARNER. That is our responsibility, working with the executive branch to see if we can refine those figures. It certainly is not the responsibility of the beneficiaries of the proposed law.

As I understand, we have Mr. Richard Danzig, Acting Principal Deputy Assistant Secretary of Defense. He will be joined by Colonel Hirsh, Director of Military Compensation. Gentlemen, we welcome your presence.

STATEMENT OF RICHARD DANZIG, ACTING PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE, MANPOWER, RESERVE AFFAIRS AND LOGISTICS, ACCOMPANIED BY COL. LEON S. HIRSH, JR., USAF, DIRECTOR OF MILITARY COMPENSATION

Mr. DANZIG. Mr. Chairman, I am Richard Danzig, Acting Principal Deputy Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics. With me is Col. Leon S. Hirsh, Director of Military Compensation.

I have asked to appear here on short notice, with Colonel Hirsh, our regularly scheduled witness, because I want to emphasize that the subject of your hearings today, proposed revisions to the military survivor benefit plan, is of great concern to the Department of Defense and to the administration generally.

Though in many aspects dreadfully technical, the questions at hand involve large sums of money, equities and inequities of great concern and emotions of great intensity. The Department of Defense view is that the present system has debilitating flaws and that the legislation before you goes a considerable way toward correcting many of them.

In his prepared statement, Colonel Hirsh will elaborate on this point. In this introduction, I want only to comment on our most central concern.

As you know, Mr. Chairman, the present military survivor benefit plan provides that the annuities that would otherwise accrue to survivors must be reduced at age 62. The offset is measured by 100 percent of the amount of social security receipts that the survivor would be entitled to as a result of the deceased's contributions to social security during his or her military service.

However appropriate or inappropriate this policy was at the time of its enactment, it raises two serious difficulties at present. First, as a result both of the radical readjustment in social security benefits effective on the first of the year and the more gradual annual adjustments of those benefits to keep pace with real wage growth, this offset has bit more and more deeply into the value of the survivor benefit program with each passing year.

I understand that the legislative history suggests, Mr. Chairman, a congressional intent to structure the survivor benefit program so that 60 percent of the costs would be borne by the participating member, in the form of reduced retirement annuities during his or her lifetime, and 40 percent by the Government.

As the social security offset has swelled, the costs of the program have proportionately declined. Because, however, the premiums for participation are legislatively set, the percentage of the cost borne by the member has steadily risen. We now estimate, to our dismay, that though officers bear some 76 percent of the cost of their participation, roughly proportional to the original intent, enlisted members pay some 110 percent of these costs.

The enlisted proportion is particularly high because their lower retirement annuities are more heavily decremented by the relatively higher social security payments. Our present distress about this situation is compounded by projections suggesting that enlisted payouts may rise as high as to 236 percent of the cost of the program by 1987.

Second, the variable nature of the social security offset is distressing because it makes uncertain all calculations of the future offset and, therefore, masks the true value of participation in the survivor benefit program.

Both of these problems need to be fixed. Neither, unfortunately, is resolved by the proposal before you, S. 91. The adjustment to a 50-percent social security offset provided in this proposal would temporarily restore the ratio of payments to about 60-40.

But future alterations to the social security system will almost certainly create distortions in the new system, just as they did in the old. Further, planning and cost-benefit assessment would be no more certain under the new system than it has been under the old.

Finally, intense discussions within the administration leave us quite concerned about both the costs and the precedent of an enduring 40 percent subsidy.

You will understand, I am sure, that there are many competing considerations with respect to this question. The original program was apparently designed to achieve a 60-40 cost sharing between the retiree and the Government. The existing civil service analog to this program runs on just such a basis.

At the same time, however, the administration's recent proposals on civil service total compensation comparability would have the

effect of adjusting the pay of civil servants to take account of this subsidy.

Beyond this lies the unavoidable fact that the difference in cost between a military survivor benefit system 40 percent subsidized by the Government and one wholly paid for by its members involves tens of millions of dollars. The administration cannot endorse such a substantial subsidy in the face of constrained resources, many demands on the Defense budget and strong anti-inflationary concerns.

S. 91 could be amended to be acceptable to the administration. The amendment we would favor would require that for all new participants the survivor benefit program be operated on an actuarially neutral basis—one that has neither an overpayment from members nor a subsidy from the Government.

This can be achieved by legislative language, which my staff would be pleased to discuss with yours, stating the principle and indicating that the premiums of all future participants will be adjusted annually on the advice of an independent actuary to make the system actuarially neutral—that is, neither a cost nor a profit to the Government.

With this provision the administration would accept either a 50-percent social security offset as proposed in S. 91, or a 100-percent offset as at present. Moreover, with this provision, but only with this provision, the administration would support the provision of a 50-percent offset for all present participants in the survivor benefit program without adjustments to their premiums.

Let me add that the kind of questions you were raising, Senator Nunn, about the difficulties predicting the cost of the program bother us very greatly. The essence of this notion is that we would do better, given that uncertainty, instead of trying to price the program once and for all now, which I think is an impossible job, to create a mechanism which would incrementally make the decisions over the years about what that cost will be because of the incremental variation in premium cost to the individuals associated with it.

I have focused in these comments on the central question of social security offsets. There is much else in the bill that we find commendable. Since my knowledge of these other aspects of the bill is limited—and I might add rather recently acquired—I will with your permission, Mr. Chairman, ask Colonel Hirsh to round out this statement by commenting on them.

Senator WARNER. Thank you very much.

I notice your prepared statement, Colonel Hirsh, which incidentally we will include in the record. Are you able to condense this statement and parallel your comments with those of Mr. Danzig in such a way that you do not have to read your statement in its entirety?

Colonel HIRSH. Mr. Chairman, I am prepared to make a few opening remarks that will summarize that statement, and I ask that it be inserted in the record without my reading it to you this morning. [The prepared statement of Col. Leon S. Hirsh follows:]

PREPARED STATEMENT OF COLONEL LEON S. HIRSH, Jr., USAF

Mr. Chairman and members of the committee: I am Colonel Leon S. Hirsh, Jr., Director of Military Compensation, from the Office of the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics. It is a pleasure to appear before the Committee in support of your consideration of the revisions to the Survivor Benefit Plan (SBP) for members of the uniformed services as set forth in S. 91.

Since 1972 when the Survivor Benefit Plan (SBP) was enacted, the Department of Defense has considered the SBP a valuable item of military compensation. It has allowed members to assure a level of income protection for their survivors through a reduction in their retired pay. In many respects, this type of survivor protection parallels trends that are occurring in private pension plans throughout the Nation.

We strongly support the continuation of the Plan as a needed item of the military retirement system.

In order to assist the Committee, I would like to summarize the various features of the bill and provide a brief analysis on each one. The amendments to the Plan would;

Eliminate the social security offset when there is one dependent child;

Reduce the social security offset required when the survivor attains age 62 from 100 percent to 50 percent;

Eliminate the social security offset if the only military service performed is for periods of less than 30 continuous days;

Eliminate the social security offset when that benefit is based on the surviving spouse's covered earnings;

Revise the calculation of required reductions in retired or retainer pay to a method identical to that for participation in the retired civil servant survivor annuity program;

Provide an annuity to survivors of members who were deceased on or before September 20, 1972, if that deceased member was entitled to retired or retainer pay, and had served on active duty for not less than 20 years, unless the survivor is presently eligible for a SBP annuity;

Provide a 270 day "open period" for members entitled to retired or retainer pay who did not elect to participate in the SBP

Provide no retroactive payment by virtue of enactment.

The amendments offered by S. 91 are the same as those addressed in our report to the Committee on the SBP for members of the uniformed services submitted earlier this year. That report discusses the features in some detail and highlights the estimated impact of the proposed changes. Generally, these amendments to the Plan would liberalize the Plan and would result in more advantageous protection for survivors of members.

As the report stresses, the Department is concerned that our rate of participation is declining among new retirees, especially among our enlisted population. Enlisted participation rates are at about the 50 percent level and are expected to decline. Although the officer rate is in the 77 percent range, it too has experienced a downward trend and may be expected to follow that track. We are concerned that these trends indicate that, in the judgment of our members, the SBP does not provide the survivor protection as was originally intended or promised. Although each Service stresses the valuable protection offered by the Plan, it appears that members are perceiving that there are undesirable features in the Plan that do not warrant their participation.

Mr. Chairman, under the current construct of the law, reductions in retired pay, or the cost to the members as a whole, are exceeding the benefits being paid to survivors. In fiscal year 1980 we estimate that the government will realize cost avoidance of about \$190 million dollars. In the long term, reductions in retired pay will exceed survivor payments by over 1 billion then-year dollars. Since this situation stems from more recent changes in the Social Security program and unexpected economic conditions, this inversion was not anticipated when the Plan was originally established.

This has had a dramatic effect on members. Today, the typical enlisted member assumes about 125 percent of the cost, and the officer about 76 percent. Projecting into 1987 when all military service will be covered employment for social security purposes, we find that the typical enlisted retiree will be carrying 236 percent of the SBP cost through his contributions, while the typical officer would have assumed 110 percent of the costs.

Eliminate the social security offset when there is one dependent child

For the purposes of the SBP, 75 percent of the social security Primary Insurance Amount (PIA) based on the member's active service is offset from the survivor's SBP payment when the surviving family consists of a survivor and one dependent child regardless of the survivor's age. This is the Mother's Benefit entitlement, based on military service, under social security. This offset occurs only if the surviving spouse is entitled to the Mother's Benefit based on the member's total lifetime social security covered employment. The social security Mother's Benefit

is dependent upon the covered earnings of the member and is not proportioned to the number of children.

By contrast to the required offset when there is one dependent child, there is no corresponding offset in the survivor annuity in the case of a surviving spouse with two or more children. These survivors are exempt from the offset of the social security benefits from their Survivor Benefit Plan annuity. When originally considering this feature the Senate Committee on Armed Services indicated that when there are two or more dependent children, the Committee believed "*** that in these high-expense years when the burdens of rearing a family are thrown wholly on a widow, the payment for the full 55 percent survivor annuity based on the husband's military retired pay plus the social security survivorship benefits is justified." For example, as of January 1979, the Air Force had 488 survivors who were experiencing this offset when there is one dependent child. The average monthly offset applied to an average \$225 SBP annuity was \$144. The number of survivors affected and the amount of the offset can be expected to increase as the military service earnings of future participants in the SBP is increasingly covered by social security. As this occurs, the Mother's Benefit will increase as will the offset applied to the SBP for this one category of annuitants.

We estimate that the cost of eliminating this offset would be as follows after first full year implementation:

Net disbursement:

Fiscal year:	Millions
1981-----	\$1. 2
1982-----	1. 5
1983-----	1. 8
1984-----	2. 1
1985-----	2. 4

Reduce the social security offset required when the survivor attains age 62 from 100 percent to 50 percent

Presently, there is an "offset" of social security benefits from the SBP annuity required by section 1451, Title 10, United States Code. The "offset" is a reduction in the survivor benefit payable by the Department of Defense to the spouse at age 62 equal to the amount of a social security benefit to which she or he would be entitled, calculated solely on the basis of the member's military service.

The annuity of a widow or widower age 62 or over with no dependent children is reduced by the amount of the social security Old Age and Survivors Insurance widow's benefit to which she would be entitled based solely on the deceased member's military service. Presently, the "offset" is based on "entitlement" rather than "receipt" of the social security benefit.

Under the social security law, the widow's social security benefit is 100 percent of the deceased member's Primary Insurance Amount, derived from the Average Indexed Monthly Wage, reduced by 19/40 of one percent for each month the widow is younger than age 65. Under this calculation, the survivor would be considered entitled to 82.9 percent of the member's Primary Insurance Amount. When the survivor attains age 62, the survivor annuity is offset by 82.9 percent of the Primary Insurance Amount based solely upon the member's military service and assumes that the member lived until age 65.

When the SBP was being developed, it was intended to integrate the annuities payable under the Plan with the benefits of social security. Although the Department of Defense proposed a 50 percent offset, a 100 percent offset feature was included in the enacted law. At that time, it was recognized that both the member and the government contribute to social security by an equal amount. Additionally, it was intended that the government would share 40 percent of the benefit costs and the member 60 percent.

The relationship of the SBP to the social security system was significantly affected by changes to the latter system. As of January 1, 1979, the calculation of the PIA social security purposes was changed. On or after that date, the average monthly wage, upon which the PIA is based, will be indexed to reflect present value of past earnings attributable to military service. The calculation of the PIA to which a member would be entitled, and the determination of the average monthly wage by an indexing technique, has a direct impact on the amount of the Social Security benefit and therefore on the offset provision in the SBP law. An additional consideration is the fact that the social security tax rates and maximum taxable wages are increasing.

The Third Quadrennial Review of Military Compensation investigated the extent to which retired member's earnings are covered by social security and the resulting change to the cost sharing ratio between the participating member and the government. Projections showed that, on an aggregate basis, officers who retired in 1974 would pay for 61 percent and enlisted members would pay for 72 percent of the eventual SBP benefit. When incorporating the revisions to retired pay adjustment mechanism and the SBP, the 1977 DoD Review of the SBP indicated that officers retiring in 1974 would pay for 64 percent of their survivor's benefit and enlisted members would pay for 82 percent. Looking to the future when all military service is completely covered by social security, our analysis reveals that for members retiring in 1987, officer cost sharing will be 110 percent and the share of cost for enlisted members may reach 236 percent.

While the proportion of offset, the changes in the level of social security benefits, and the conditions and methods of integration have received continuing attention, the relation of the Survivor Benefit Plan benefits after integration to the "premiums" paid in the form of annuity reduction has altered considerably without similar visibility.

The estimated cost projections for this feature of the bill are as follows after first full year implementation:

(In millions of dollars)

	Reductions in retired pay	Benefit payout	Net disbursement	Net cost due to change
Fiscal year:				
1981	406.4	247.7	-158.7	22.1
1982	439.9	296.9	-143.0	29.9
1983	474.3	349.9	-124.4	39.4
1984	509.2	405.8	-103.4	51.9
1985	544.7	466.0	-78.7	66.3

Eliminate the social security offset if the only military service performed is for periods of less than 30 continuous days

Section 1451 of Title 10, United States Code, requires a reduction in the Monthly Survivor Benefit Annuity by an amount equal to the amount of the social security survivor benefit, if any, to which the surviving spouse would be entitled based upon the member's military service and calculated assuming that the member lived to age 65. Except as provided by Public Law 95-397 which permits some actuarially adjusted earlier participation options, a member of the Reserve Component was eligible to participate in the Survivor Benefit Plan only when they had attained age 60 and was thereby eligible to receive retired pay. These Reserve members must have met the age and years of service criteria as set forth in section 1331 of Title 10, United States Code. Once eligible to receive retired pay, these Reserve retired members were also eligible to participate in the Survivor Benefit Plan under the same laws and regulations applicable to other retired members and to designate a portion of their retired pay as a survivor annuity.

Frequently in a Reserve member's career, the only periods of active duty are less than 30 consecutive days. Normally members participate in weekend drills, plus a two-week annual drill period. During such active duty, Reserve members receive the basic pay rate commensurate with their pay, grade and years of service. A member serving on active duty for less than 30 days is entitled to pay at $\frac{1}{30}$ th the monthly rate for that grade and years of service for each day actually served. Only basic pay received for the performance of active duty or active duty for training is subject to the taxes prescribed by the Federal Insurance Contributions Act or FICA. The FICA tax is automatically deducted from the Reserve member's basic pay and an equal tax amount is paid by the Department of Defense as the "employer".

In most instances, military service in the Reserve Components is "secondary employment". The Reserve member's "primary employment" is in a civilian occupation or profession which he or she pursued on a full-time basis. In their civilian work, Reserve members are subject to the FICA tax at the same rate and on the same maximum amount of wages earned, if such wages are for covered employment for social security purposes. In many instances, an individual will pay the maximum amount of FICA tax based on his or her civilian earnings from "primary employment". Correspondingly the "primary employer" pays an equal amount of tax. If the FICA taxes paid from primary and secondary employment exceed the maximum amount of tax, the individual receives a refund of that

exceeded amount in the form of a deduction from annual income taxes. In such cases, the FICA tax paid on military basic pay as "secondary employment" becomes an income tax deduction.

Under these circumstances, the basis for social security entitlement is determined by the taxes paid on primary employment in the civilian sector. The taxes paid on military basic pay for Reserve service do not generally relate to the individual's social security entitlement or the survivor's entitlement to those benefits.

It is estimated that, in the first five years after implementation, this feature will affect three to six hundred members at an annual cost of approximately \$100,000.

Eliminate the social security offset when the benefit is based on the surviving spouse's covered earnings

Under the construction of the current Survivor Benefit Plan, an offset of social security benefits, based solely on the member-spouse's military service is required based on the "entitlement" to that benefit. The offset is applied to the military survivor annuity at the surviving spouse's age 62. There is no consideration given to the fact that the surviving spouse may be eligible for social security benefits based on his or her own earnings or that the surviving spouse has delayed receipt of such benefits until age 65. The offset is applied to the military survivor annuity when the survivor reaches age 62 by an amount that is 82.9 percent of the social security benefit derived from the covered earnings of the member's military service, assuming the member was age 65 at death. S. 91 would eliminate this offset when the social security benefit received is not based on the member's service.

In today's cultural environment, an increasing number of the spouses of members have wages that are covered by social security. The spouse's wages have no social security benefit value unless they produce a benefit level exceeding that to which the member's covered earnings would produce. When, however, the surviving spouse's income pattern yields a social security benefit level which exceeds that of the member, the member's wages have no benefit value for social security benefits to the surviving spouse. When this occurs, any future social security benefit would be based entirely on the covered wages of the surviving spouse not the member. The amount of the benefit resulting from the surviving spouse's covered wages would be calculated in exactly the same manner as that for any other wage earner.

In instances where the surviving spouse's social security benefits derive from his or her own covered earnings, the social security tax paid by the military member and the Department of Defense on the member's wages has no relevance to the surviving spouse's social security benefit. Under these circumstances, the surviving spouse and his or her employer have paid the social security tax based on his or her covered earnings and the taxes paid by the member and the Department of Defense do not correlate to the surviving spouse's benefit.

The estimated cost projections are as follows:

Number affected:

Fiscal year:

1981	761
1982	952
1983	1,177
1984	1,462
1985	1,766

Net disbursement:

Fiscal year:

	Millions
1981	\$1.1
1982	1.5
1983	2.0
1984	2.7
1985	3.6

Revise the calculation of required reductions in retired or retainer pay to a method identical to that for participation in the retired civil service survivor annuity program

The costs of participation in the SBP for members of the uniformed services, as in the survivor annuity program for Federal civil servants, are assumed by the retiree in the form of reductions to retired pay. Under both the military and civilian plan, the initial cost of participation is the same. However, it is only at the initial calculation do the retirees' costs remain the same. When cost-of-living

adjustments occur to retired pay, differences in the costs for participation in each program also occur. Under the SBP, the full amount of the retired pay increase is applied to the base amount, and the cost for SBP participation is recalculated on the new adjusted base amount. By contrast, the civilian program applies the cost-of-living increase only to the amount of retired pay that was reduced for participation in the civilian program. The reduction is not recalculated, as is done under the SBP. Consequently, the required SBP cost calculation has the effect of disproportionately increasing program costs relative to the civilian program.

The amendment made by section 2 of S. 91 would revise the current SBP cost calculation technique to one like that for the civilian program.

The estimated cost projections for this amendment are as follows after first full year implementation:

Fiscal year:	Millions
1981-----	\$28. 3
1982-----	36. 2
1983-----	44. 1
1984-----	58. 5
1985-----	74. 5

Provide an annuity to survivors of members who were deceased on or before September 20, 1972, if that deceased member was entitled to retired or retainer pay, and had served on active duty for not less than 20 years, unless the survivor is presently eligible for a SBP annuity

Section 3 of S. 91 would extend entitlement for an annuity to the survivor of a member who was deceased on or before September 20, 1972, and at the time of death (1) was entitled to retired or retainer pay, and (2) had served on active duty for 20 or more years. The amount of the annuity would be equal to 55 percent of the retired or retainer pay to which the deceased member would have been entitled on September 20, 1972, had the member been alive on that date. This amount would be increased by the percentage increase that has occurred in retired or retainer pay since that date, and be increased by the same percentage applicable to future retired or retainer pay adjustments. The annuity payable is to be offset by the amount of any Retired Serviceman's Family Protection Plan annuity, death compensation, dependency and indemnity compensation, and nonservice connected pension payable by the Veterans Administration. There would be no offset in the amount of the annuity, as there is under the SBP, by the amount of the social security benefit attributable to military service. A saved pay provision is included to ensure that no survivor sustains a reduction in the total amount of benefits payable prior to enactment of this feature.

Except for those members who died before enactment of the Uniformed Services Contingency Option Act of 1953, all retired members had the opportunity to provide a form of annuity protection to their surviving spouses. For twenty-five years, a form of survivor protection has been in existence and available for members. Those who did not elect into the plans made those decisions on an individual basis. As such, to provide the expanded entitlement feature of section 3 may be considered a windfall benefit.

As a technical matter, we note that the language of S. 91 would extend SBP benefits only if the deceased member was entitled to retired or retainer pay, and had served not less than 20 years active service. These criteria would not extend SBP benefits to survivors of members retired for disability reasons with less than 20 years of service.

There is no requirement for the Military Departments to maintain records on the survivors to whom the features of section 3 would apply. Consequently, no precise date can be obtained as to the number of survivors that would be affected. By extrapolating from secondary source data and applying appropriate actuarial assumptions, it may be estimated that over 39,000 survivors will be alive in fiscal year 1980.

A projection of the estimated costs for this feature of the bill are as follows:

Net disbursement:	Millions
Fiscal year:	
1981-----	\$114. 2
1982-----	116. 2
1983-----	117. 9
1984-----	119. 5
1985-----	120. 4

Provide a 270-day "open period" for members entitled to retired or retainer pay who did not elect to participate in the SBP

Section 4 of the bill provides members entitled to retired or retainer pay who elected not to participate in the SBP the opportunity to enter the Plan within 270 days following the date of enactment. It is our understanding that (1) a member not participating in any survivor protection plan could elect SBP coverage; (2) a member participating in the RSFPP could cancel that participation and elect to participate in the SBP; or (3) a member participating in the RSFPP may continue that participation and, in addition, elect to participate in the SBP, except that the total of the annuities elected could not exceed 100 percent of retired or retainer pay.

When the SBP was established in 1972, a 12-month period, extended to 18 months, was provided during which members entitled to retired or retainer pay on or before September 21, 1972, could elect into the SBP. If members participated in the RSFPP, they could continue such participation and elect to participate in the SBP, however, the combined annuities could not exceed 100 percent of retired pay on the effective date of the election. If a member elected to participate in both plans, but election of the maximum base amount under SBP caused the total survivor benefit to exceed 100 percent, the member could reduce the RSFPP coverage by the amount of the excess. Additionally, a retired member participating in the RSFPP could cancel participation and elect into the SBP. A refund of contributions under the RSFPP was not authorized for members cancelling RSFPP coverage and electing SBP participation. Any existing delinquent costs continued to exist, with interest. The 270-day open-period proposed by S. 91 parallels the earlier open-period that was previously provided.

As a technical matter, it is noted that the 270-day open-period will authorize those members who have not heretofore participated in the SBP to elect to participate in the Plan. Members who are participating, but at less than the maximum, will not be authorized to increase their participation.

We further note that there is no precondition for electing initial participation in the SBP. Under certain circumstances, such preconditions have in the past been included. Presently, there is a one-year waiting period when a second spouse is acquired.

The latest data and statistics indicate that there are significant numbers of retired members who are not participating in the Survivor Benefit Plan.

Under the proposed revision to provide a nine-month open-period within which nonparticipants could elect to enter the Survivor Benefit Plan, it is estimated that as many as one-sixth of those who are in neither the Retired Serviceman's Family Protection Plan or Survivor Benefit Plan may be expected to take advantage of the new opportunity for electing into the program. Additionally, it is estimated that approximately 80 percent of those still in Retired Serviceman's Family Protection Plan will elect to switch to the Survivor Benefit Plan due to cost/benefit trade-off advantages.

Cost projections on the impact of a 270-day open period are dependent upon the final amendment enacted. In addition, the officer/enlisted mix and the age differentials that are introduced will also have an impact on the projected costs. Depending on the various alternatives and assumptions used, we estimate that the annual costs to the government due to increased reductions in retired pay annuities without offsetting benefit payouts will be reduced as indicated:

Fiscal year:	<i>Millions</i>
1981.....	-\$28.7
1982.....	-25.4
1983.....	-22.1
1984.....	-18.1
1985.....	-14.2

Mr. Chairman, this concludes my remarks on the provisions of S. 91. I hope they will be helpful to the Committee in your further deliberations.

STATEMENT OF COL. LEON S. HIRSH, JR., USAF, DIRECTOR, COMPENSATION, OFFICE OF THE DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY PERSONNEL POLICY, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR MANPOWER, RESERVE AFFAIRS AND LOGISTICS, OASD (M.R.A. & L.)

Colonel HIRSH. Mr. Chairman and members of the committee, I am Col. Leon S. Hirsh, Jr., USAF, Director, Compensation, from the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics). It is a pleasure to appear in behalf of the DOD before the committee in support of your consideration of S. 91.

I have a statement that addresses the bill in some length. In view of the committee's commitment to other witnesses, and in order to conserve time for your questions, I have submitted the formal statement for the record.

Senator Thurmond's bill, S. 91, incorporates amendments to the SBP that have been previously considered by the committee.

The Department of Defense fully recognizes that the current survivor benefit plan has developed some major deficiencies, most of which are related to the changing relationship between the SBP and the social security program with which it is integrated.

The Department agrees that these problems need correction and, in connection with our upcoming proposals on military retirement, are undertaking to redirect the survivor benefit aspect to more reasonably meet its objectives.

Mr. Chairman, our analysis of this question indicates that the following data pertain:

We find that the Government is, in effect, making money under the current construction of the SBP. Presently, and for some time into the future, reductions in retired pay are exceeding annuity payments by rather startling amounts. For fiscal year 1980, reductions in retired pay will exceed payouts by well over \$150 million. By 1990 the excess drops substantially as more beneficiaries from early participants appear but the negative cost to the Government begins to rebuild in the outyears as we approach steady state.

It was not intended that the SBP be financed entirely by participating members. That was one of the major inadequacies of the predecessor to the SBP and specifically led to the establishment of the current plan.

It was intended that the costs of the SBP be shared by the member and the Government. That is not occurring. Major changes in the social security program, which is fully integrated with the SBP, have created some unforeseen but significant imbalances.

Presently, members are basically subsidizing the entire amount of coverage and will pay in through annuity reductions an increasingly greater amount relative to the expected benefits.

The changes which I mentioned in the social security benefits structure have had, and will have, ramifications with respect to the integration of social security with the SBP. We are finding that increased covered employment under social security and expanded benefits under the social security system, together with the new method for determining social security benefits, are materially reducing the worth of the SBP as a survivor protection plan.

The current offset feature, in many cases, eliminates or substantially reduces any potential benefit under the SBP to which the member is contributing. This is especially true for the enlisted force, since social security benefits are weighed to the advantage of lower levels of income.

While the original concept contained integration features, we find that the current method is not maintaining the expected balance among members' costs, annuities payable, and the offset required.

For example, in fiscal year 1980 we estimate that the reductions in retired pay will exceed \$370 million, while benefit payouts will approximate \$200 million, leaving a difference of \$170 million.

While estimating techniques may cause these numbers to vary to some extent, the balance is clearly tipped heavily in the Government's favor.

Our statistics further indicate that the SBP is turning into an officer program. Officer participation rates have remained at the 70-percent level, while enlisted participation has declined to nearly 50 percent. This emerging situation is not compatible with the intent of the original law.

And, finally, we are finding that an increasing number of retiring members are electing not to participate in the plan. Since the establishment of the SBP in 1972, our overall participation has dropped substantially from the original 60 percent. Given the current structure of the plan, we anticipate a continuing decline in future participation rates.

Consequently, an increasing number of survivors will not be afforded the protection that the SBP was intended to assure.

The committee has been most concerned with the assessment of costs associated with these amendments and my statement for the record contains near-year cost projections.

In summary, we predict that the change in total costs resulting from the provisions of S. 91 during the first 5 years—excluding the feature concerning pre-1972 widows—will range from \$24 million in 1981 to \$133 million in 1985.

The effect of these costs will be to reduce the surplus expected for those years to \$157 million in 1981 and to \$12 million in 1985.

Senator NUNN. Excuse me. Is that the cost of your compromise, or is that the cost of the bill we have before us?

Colonel HIRSH. That is the cost of the provisions of the bill that you have before you, sir.

Senator NUNN. Then, you would not have a net cost for the first 5 years.

Colonel HIRSH. No, sir. In the first 5 years the cost of the enactment of S. 91 would reduce the surplus that the Government might be expected to receive during those 5 years.

Senator NUNN. Are you going to address what happens after that?

Colonel HIRSH. Yes, sir.

Mr. Chairman, I would like to turn to the question of the validity of these projected cost estimates, a question that has proven particularly troublesome.

Over the past years the Department of Defense has been projecting the cost effects of changes to the SBP similar to those we are considering today. At the same time, the Congressional Budget Office has also been occupied in assessing cost impacts in the outyears. Unfortunately, their results and ours are somewhat different.

You have asked that we consult with the CBO to determine why the numbers do not tell the same story and to resolve what differences we can. Toward that end, my staff and I have been in close consultation with the analysts at CBO who have been working on these cost projections.

Although we have both used the same general approach, our results have been different, due to varying applications of future assumptions and the manipulation of the data itself. While these projection data show differences in the future costs of the current SBP for reasons which I will summarize in a moment, it is especially significant and interesting to note that our estimates and theirs relative to the cost of the changes proposed in S. 91 are usefully similar.

For example, excluding the 270-day open period provision, which we both computed separately, and the pre-1972 widow feature, our estimates of the cost data attributable to S. 91 for 1981 are only \$8.5 million different, and for 1985 less than \$20 million in inflated dollars.

Our projections of the costs of the present system now differ from those of the CBO by slightly under \$1 billion in the year 2000 in inflated dollars. This difference is \$350 million in 1979 dollars. Some 80 percent of this variance may be isolated into five major areas:

One: We generate lower estimates of future retirement annuities than does CBO, principally because we depart from a different base point than they do. By the year 2000 this creates a \$150-million gap in our estimates.

Two: We estimate somewhat higher levels of social security benefits over the years than does CBO. This difference seems to stem from variations in modeling methods and represents a year 2000 difference of \$280 million.

Three: CBO utilized military specific mortality tables for members and a civilian-oriented set of tables projected into the future for survivor mortality. We used the military specific tables for the members and a factored version of the military table for survivors. This difference creates small variations in the near years but a \$70 million gap by the year 2000.

Four: The treatment of reserve survivor benefits, including mortality, pay, and social security benefits, generated variations because of generally the same diversities enumerated for the active force. This produces a \$100 million gap in our estimates for the year 2000.

Five: We used OMB circular A-76 inflation and wage growth figures, while CBO used their own. This creates an expanding gap which exceeds \$210 million by the year 2000.

Senator NUNN. Which set of figures used the higher rate of inflation?

Colonel HIRSH. The Congressional Budget Office, sir. That difference in inflation rates, as I recognized, tends to be exaggerated. CBO used 5 percent inflation; we have used 4 percent inflation. We both departed from data that was actual data in 1977.

The Congressional Budget Office, as I understand it—and I am trying to interpret what they told me as we consulted with them—used actual inflation rates to bring that data forward to 1980, and we projected using it at the same rates solely for the purpose of consistency.

There were a number of other, more minor differences which led us both to corrected numbers; and there are still some variances which

related to assumptions, data source and model design, and they collectively account for the other 20 percent.

In sum, Mr. Chairman, we believe our estimates are reasonable indicators of future costs. The differences between our figures and those of CBO are due to judgments on model parameters and, while I am providing you with the results of my best judgment, I am sure they are as well.

Our differences can be characterized as providing two solutions to the same problem. In effect, the committee has the benefit of two detailed and complex sets of analysis that provide the parameters into which future facts will probably fall.

Mr. Chairman, this concludes the summary and comments on the cost projections.

Senator WARNER. Thank you.

I am going to change the order of questions. The Chair will yield to Senator Nunn to lead off on questions.

Senator NUNN. Mr. Danzig, what is the estimate of what the administration's new proposal—I would call it a compromise proposal—will cost between now and the year 2000?

Mr. DANZIG. Because the proposal relates to savings accrued from people who newly enter the program, most of the bite of those savings occurs further out; for example, around the year 2000. Our estimate is that it would save on the order of \$100 million a year in the year 2000, but in the immediate short term in 1980, 1981, it does not make significant difference in the cost.

Senator NUNN. What would be the overall cost? We have a figure from DOD on this particular bill, S. 91, of about \$11 billion, and a figure from CBO of approximately about \$12 billion.

What is the comparable figure for the Administration's new position?

Mr. DANZIG. Precisely for the reason you indicated, the divergence of the numbers and level of detail, I will yield to my keeper of the figures.

Colonel HIRSH. The \$11 and \$12 billion figures are I believe a summation of the cost between the current year and the year 2000 in inflated dollars. As Mr. Danzig points out, the provision we are talking about with respect to future retirees would have no significant effect in that same period of time. We project the provisions of S. 91 generating something on the order of 500 to 600 million dollars' worth of cost in the year 2000 in then-year dollars.

This provision would reduce that on the order of \$90 to \$100 million.

Senator NUNN. What I am searching for is something to compare with the \$11 and \$12 billion figure.

Colonel HIRSH. That would be a zero.

Senator NUNN. It would have no effect?

Colonel HIRSH. It would have no effect during the same period of time that the \$11 or \$12 billion represent.

Senator NUNN. Your savings would come after the year 2000?

Colonel HIRSH. Yes, sir.

Senator NUNN. In the next 20 years the cost will be about the same?

Colonel HIRSH. Yes, sir.

Senator NUNN. That would be just dealing with the offset provision?

Colonel HIRSH. Yes, sir.

Senator NUNN. What about the other provisions of S. 91?

Mr. DANZIG. With the exception of the proviso for the pre-1972 widows, the so-called forgotten widow provision, we support the other aspects of S. 91.

Senator NUNN. You support everything in S. 91 except the 50-percent offset as it is now constructed? Can you offer a compromise to that?

Mr. DANZIG. Yes. Bear in mind that the compromise from our standpoint, the support for those other items, is premised on the notion that we could set up a system on an actuarially neutral basis in the future.

Senator NUNN. For pre-1972 widows whose husbands died in retirement. What is your position on that item?

Mr. DANZIG. We do not support the inclusion of that item in the bill. Our feeling is that that item was considered in the 1972 legislation that Congress acted on. At that time no provision was made for widows in that circumstance. The retirees who have left widows in that circumstance had the option of participating in the previous contingency plan but did not do so. Presumably they made other arrangements. To the extent they did or did not make other arrangements, we think it is unfair to people who did participate in the alternative programs to now turn around and award benefits to people who did not enroll.

I might add we are quite concerned about the cost. That also factors very significantly into our position.

Senator NUNN. What is the cost of that single item?

Mr. DANZIG. The cost varies from year to year. In the near years we estimate those costs range around \$110 million a year.

Colonel, do you agree with that?

Colonel HIRSH. Yes, sir.

Our cost projections indicate they range during the next 5-year period from \$114 million up to \$120 million per year.

Senator WARNER. I will now turn to Senator Jepsen.

Senator JEPSSEN. Mr. Danzig, although Congress enacted the military survivor benefit plan on the assumption that the Government would subsidize the program by 40 percent as it does with the civil service plan today, you state, "The Administration cannot endorse such a substantial subsidy in the face of constrained resources." Are you willing to continue to endorse the civil service subsidy and not the military subsidy?

Mr. DANZIG. No. The civil service subsidy, as you put it, would be corrected by the total compensation legislation that the administration has introduced or is introducing to Congress in this session.

Senator JEPSSEN. Do you mean the administration is going to introduce legislation that is going to state or dictate that people who have been on civil service, who have been saying they are going to receive such and such an amount, will no longer receive it but will receive something less?

Mr. DANZIG. No. The total compensation comparability legislation says that in taking account of the pay raises that civil servants should be afforded, one should take into account not simply of their current pay but of the whole portfolio of benefits: Health benefits, holidays, et cetera, retirement benefits and survivor benefits, that the members of the civil service are afforded.

As a result, no matter how high that subsidy might ever be for the participation of the survivor benefit program, the fact of that subsidy

would be calculated into the total pay envelope that civil servants got, and would be a debit to that. In essence, new legislation that the administration will introduce and that we actively support would, in effect, remove the inequity that would be generated if you had a civil program that provided a subsidy and a military program which did not.

Senator JEPSEN. I am not tracking with you.

Mr. DANZIG. I am sorry, it is not simple.

Senator JEPSEN. Did I understand you to say that the administration is going to introduce legislation that takes something away from civil service to make something equitable over here rather than adding something over here to make it equitable?

Mr. DANZIG. The total compensation legislation is not animated by any concerns about equity. The total compensation legislation was introduced for entirely separate reasons.

Given that it was introduced and is the proposal that the administration supports, the question we are now talking about is what is the effect of that legislation on the subsidy for survivor benefits for civilians? The answer is that the subsidy for survivor benefits for civilians will continue, but the fact of its existence will be recognized and civil servants will, in effect, pay for it on other ways.

Therefore, what it really does is cease to be a subsidy and becomes simply one form of payment as compared with other forms.

Senator JEPSEN. I was in the insurance business for 25 years and I am a little bit puzzled. There is no such thing as a free lunch. If you are going to do something, somebody will have to lose. Are you taking something away?

Mr. DANZIG. There is no proposal to change the survivor benefit program for civilians. It is the case that in their future pay raises, civil employees will enjoy less pay raises as a result of having a survivor benefit subsidy than they would have otherwise enjoyed. It means that this is not a free lunch for civilians. Since there is not a free lunch for civilians, I am not particularly worried about the fact there will not be one for the military.

Senator JEPSEN. I was not saying anybody was getting a free lunch. Let me approach it this way. Has the administration or the Defense Department taken a position as to whether the military survivor benefit program should be equal to the civilian survivor benefit program?

Mr. DANZIG. Our position is that we think that there should not be in the future—I am putting aside everybody who presently participates—there should not be in the future for the military survivor benefit program a subsidy from the Government. Our position is that the subsidy for civilians, such as it is, should be paid for, should be recognized in civilian pay as it exists and they, therefore, should not, to use your phrase, get a free lunch.

Senator JEPSEN. I am sorry I brought up that free lunch.

Mr. DANZIG. I will drop it.

Senator JEPSEN. All I want to know is a simple kind of direct answer to the question which I will repeat. Have the administration and Defense Department taken a position as to whether they feel that the survivor benefit program should be equal to the civilian survivor benefit program system?

Mr. DANZIG. I would really like to give a very simple yes or no answer. Unfortunately, throughout this area the case is complicated.

Senator JEPSEN. Have they or have they not? That does not take a sophisticated, technical, scientific, or any other kind of answer. Does the administration and the Defense Department feel they ought to be treated equally or not?

Mr. DANZIG. Our position is that we feel there should be no subsidies for future participants in these programs unless they are taken account of—

Senator JEPSEN. You are not answering my question. Does the Department feel they ought to be equal or not? Do you think the military people ought to be treated like the civil service folks? Or vice versa? Do you think they ought to be equal?

Mr. DANZIG. My problem in answering your question perhaps is that I see that when you talk about equality, you talk about one small portion of the puzzle. I don't think that all the small portions have to match up identically. Should there be overall equality with respect to this kind of thing? Yes.

Senator JEPSEN. That is fine.

Thank you. I am so overwhelmed by that I have to wait to see if I have something else.

Senator WARNER. It is regrettable that the staff of the Senate Armed Services Committee did not have an opportunity to examine the proposals submitted by the Department of Defense until this morning. That was the time we had the first knowledge of these proposals, ladies and gentlemen. Therefore, I suggest at this point that I defer to the chairman of the subcommittee to comment with respect to the leadership that you are going to provide on this matter.

I am confident that you as well as other members of the subcommittee want action. We want to go forward. We want to do something.

Senator NUNN. I would like to ask Colonel Hirsh a couple of questions. As you know, your statement was not received by the subcommittee until just shortly before the hearing. I understand that the administration's position on this whole subject was in doubt until yesterday.

This is difficult to understand. The Armed Services Committee requested in report language dated August 22, 1978, that the Department undertake a detailed study of the survivor benefit plan, including actuarial analysis, and make recommendations for changes in the law. The report was filed on February 1, 1979, as required but contained no recommendations. A covering letter of that report indicated the administration would take a position on this legislation when requested.

This committee requested an administration position on S. 91 on January 22, 1979. Yet as late as yesterday morning there was no administration position on S. 91.

Colonel, my question is, why has it taken the administration this long to give us any kind of position on this legislation?

Mr. DANZIG. Senator, if I may, one reason I wanted to come this morning was because it is obviously a legitimate question and I was concerned that Colonel Hirsh not be exposed to it. I think his efforts on this have been extraordinarily commendable. If it is all right with you I would like to respond to that.

Senator NUNN. You anticipated that question?

Mr. DANZIG. Not only did I anticipate it, but I suspect I will long remember it.

I think the point of agreement in the confusing dialog that Senator Jepsen and I had is that there is a remarkable connection and interconnection between different aspects of the retirement system that functions, and the survivor benefit systems that exist.

The administration has gone through extraordinary amounts of effort to derive the total compensation comparability scheme with respect to civilians that we were talking about. At the same time, as you know, the administration has put a considerable amount of effort in arriving at a scheme for a military retirement system. Both of those two pieces of legislation, very recently emerging, seemed to us and to other people in the administration to be intertwined with this issue. The position that we found ourselves in was that we felt we could not think through the proper position in relation to this action without knowing the answers to those other actions, not only conceptually knowing them, but also knowing what the administration decision was going to be on them. To that I might add we had the difficulties that you spoke about earlier. We had difficulties to begin with, with the actuarial evidence generated for us in the first go-round. We submitted another report on the analysis. When you secured that actuarial evidence, you quite usefully and appropriately asked CBO for their comments. The figures have been exceedingly slippery. Those two things, policy problems on the one hand, and calculations about the facts on the other, have lead to what I freely concede is a very regrettable, and I really do apologize for it, difficulty on our side in generating a position.

Senator NUNN. There were considerable cost differences between the Department's February 1 report and the Department's May 16 reevaluation of that report. For example, there is a difference in some individual years of over \$2 billion. Yet the Department has indicated both of these reports were reviewed by actuaries. How much actuarial influence was there in your February 1 report and your May 16 reevaluation of that report?

Colonel HIRSH. In the report we filed the first of February the data were generated using the services of a contract actuary who assisted in trying to evaluate the positions taken in earlier reports and revising those data to provide the answers that you sought.

Subsequent to that we thought it very important, because of some of the difficulties we had during that period of time prior to the first of February, to consult with an independent actuary, which we did. We contracted with another firm. They took our data and took our computer models and went through them with a fine-tooth comb. The result was that we found some regrettable errors in the initial material. I wish that we had not had them there. I wish that our efforts with the earlier actuary had been successful in ferreting them out. They were not. We therefore sent the corrected material to you, on which we have since worked with the Congressional Budget Office. I have personally developed quite a comfortable feeling with them. The differences that we have with the CBO I think are explainable and they are principally—

Senator NUNN. Mr. Danzig, I guess we could go into a lot of details. I have some detailed questions which I will submit to you for the record.

Let me just ask a question and see if I understand the administration's position today.

As far as the 50-percent offset on social security you have proposed a fresh new compromise on that?

Mr. DANZIG. Right.

Senator NUNN. You have said that the President would sign a law passed that would contain, in essence, what you have just outlined here before the subcommittee.

Mr. DANZIG. Yes.

Senator NUNN. You have said that if that provision is a fundamental part of whatever law emerges on survivor benefits then what I have labeled items 2 through 7, change in the cost form, no offset for mother with one dependent, no offset for certain reservists, no offset for widows earning social security on their own, 270-day open enrollment period, survivor benefits for pre-1972 widows whose husbands died on active duty—those are the other provisions of S. 91—you are saying if your compromise today is accepted, is part of the law, that you would accept items 2 through 7 that I have outlined?

Mr. DANZIG. That is basically right Senator but I think Colonel Hirsh needs to comment on No. 7 if he may.

Senator JEPSEN. What is No. 7?

Senator NUNN. I would call the survivor benefit pre-1972 widows whose husbands died on active duty.

Colonel HIRSH. We have in our consideration of that provision treated it in the same manner as we have pre-1972 widows whose husbands had passed away but were eligible for retirement at the time, as opposed to the active duty.

In lumping your items 7 and 8 together, we do not suggest that that portion of the bill be enacted for the reasons Mr. Danzig talked about earlier.

Mr. DANZIG. That is right.

Senator NUNN. You would accept the change in the cost formula?

Mr. DANZIG. Yes.

Senator NUNN. That is the administration's position, you would accept that? You would accept the no offset for a mother with one dependent?

Mr. DANZIG. Yes.

Senator NUNN. You would accept no offset for certain reservists?

Mr. DANZIG. Yes.

Senator NUNN. You would accept no offset for widows earning social security on their own?

Mr. DANZIG. Yes.

Senator NUNN. You would accept a 270-day open enrollment period?

Mr. DANZIG. Yes.

Senator NUNN. You would not accept the survivor benefit for pre-1972 widows whose husbands die on active duty?

Mr. DANZIG. That is correct.

Senator NUNN. You would not accept survivor benefits for pre-1972 widows whose husbands died in retirement?

Mr. DANZIG. That is correct.

Senator JEPSEN. The last two remarks, which were alluded to in my opening remarks, dealt with the World War I veteran. In heaven's name, with the amount you are talking about I don't understand why these problems can't be taken care of. Those people are really hurting. I don't understand that. I think they are probably the people who can least do anything about it. What is the reasoning behind your Department's position?

Mr. DANZIG. I think what animates our viewpoint is not any sympathy or lack of sympathy with a lot of individual cases that in their particulars are quite poignant. It is a sense of what is a fair way to run a system and a reasonably efficient way of expending a very large amount of money which very large numbers of people in the public at large are concerned about.

Our sense is to take the people whose husbands in most cases have decided not to participate in a program and award them benefits as though they had participated in the program would be, from our standpoint, not defensible, not defensible as policy, and not defensible as equity, as against those people who did participate in the program.

Senator JEPSEN. Are the widows and the people that we are talking about, the World War I people, adequately taken care of?

Mr. DANZIG. My sense, Senator, is like one I think I experienced when I went to law school and studied the kind of cases that the judges got where the individual circumstances were terribly appealing but where, if you would like, the rule of law pointed the other way.

I feel the same way about that in this case. I think you could convince me that a number of individuals are exceptionally worthy and exceptionally troubled by this circumstance. You may as a Senator choose to invest public funds, and so forth, to rectify those individual cases of distress, but as a policy matter, as a general matter, it seems to me to be bad policy and a bad idea.

Senator JEPSEN. Thank you.

Senator WARNER. Will the administration's emerging military compensation package be adjusted upward, taking into account your compromise proposal to eliminate any subsidy for military SBP if we accept and enact the proposal?

Mr. DANZIG. Whatever the Congress does with SBP with reference to the present circumstance we will adapt the military retirement package to make it consonant with that. The compromise that we have described in S. 91 or, if you would like, the present system, all are compatible with the new retirement system and we would strive to continue that compatibility.

Senator WARNER. If there are no further questions of these witnesses, we thank them for coming forward and expressing what I detect is a sentiment of compromise to make this thing work and let us get on with it.

Do I understand you correctly?

Mr. DANZIG. That is right. I appreciate your putting it this way.

Senator WARNER. At this time I will turn the chair over to Senator Nunn.

Senator NUNN. I think we have had so many changes here this morning and there are so many last minute developments that we are going to have to regroup with our staff to see where we go from here.

I would like to hear from the other witnesses. I would ask you to the extent you can to summarize your statements. We will put your complete statements in the record.

I believe our next witness will be Mr. Robert Nolan, national executive secretary, Fleet Reserve Association. Mr. Nolan, we are glad to have you. If you have associates with you, you can introduce them for the record.

**STATEMENT OF ROBERT W. NOLAN, NATIONAL EXECUTIVE
SECRETARY, FLEET RESERVE ASSOCIATION**

Mr. NOLAN. Thank you Mr. Chairman.

Once again I am pleased to appear before this committee representing 12 military organizations. I have the privilege of speaking today for the Air Force Association, for the Air Force Sergeants Association, Disabled Officers Association, Fleet Reserve Association, and its Ladies Auxiliary, the National Association for the Uniformed Services, Navy League of the United States, Naval Enlisted Reserve Association, the Naval Reserve Association, the Non-Commissioned Officers Association, the U.S. Coast Guard Chief Petty Officers Association, and the U.S. Coast Guard Chief Warrant and Warrant Officers Association.

Collectively the combined membership of our organizations and their dependents comprises more than 2 million members of today's military community.

Mr. Chairman, if I might digress and follow your request, which is not to go through the points of our testimony, because No. 1, I base our testimony on a pure simple fact of American life and that is equity, your comments here this morning along with your colleagues, plus Mr. Thurmond's and Mr. Wilson's statements sincerely convince me and my members that you are well aware and agree with the equity of the issue.

I would like to speak if I may on a personal note and I don't wish to have my comments taken in the light that I am patting myself on the back.

Of the people sitting here in this room I believe I am the only gentleman, the only person who knows almost every facet of the legislative history of the survivor benefit plan. The reason I say that is because a member of my association brought the original inequity between the civilian Federal employees survivor benefit plan and the military survivor benefit plan to my attention and this caused my association to launch the program we called widows equity in 1968 and I had the privilege of drafting the first piece of legislation introduced on this which Mr. Charles Gubser, former Congressman from California, introduced on February 5, 1968.

Now, by this I do not mean to imply that I consider myself an expert. Far from it. I am a retired chief commissaryman with 22 years of service. My actuarial and financial ability probably, very honestly, is limited to pounds and ounces and to making sure when I was feeding my crews aboard ship during my active service that I stayed within the allotted ration, which I believe at the time I retired was \$1.05 a day per man. However, I have learned quite a bit about the financial implications of the program.

I am particularly pleased this morning, after 11 years of legislative consideration enacted on this program, to see the Department of Defense witness come forward with a positive proposal.

To my mind this is the first time that it has happened. However, I am not surprised that their positive proposal is in the negative which is to make the social security offset resolution be an actuarially sound resolution, because of course if this is done, once again you have compounded the problem, you have another group of inequities. In the future you will have some people paying this and some people paying that and on down the road. It absolutely puzzles me, after 16 years of experience in this city, how in the world Department of Defense, which has a wealth of expertise, computers, the whole bit, how their actuaries can never seem to have any trouble whatsoever in coming up with programs that will take something away from the military man and his family but they seem to have an awful lot of difficulty in getting accurate cost estimates of giving something to those who are working members of this Nation's society, taxpaying members, and giving a lot more than many citizens of this country.

If you wish to search the actuarial soundness of the program, you check the history of the active retired serviceman's family protection plan. That program started in 1953 as the Contingency Option Act. It was amended several times and liberalized up through 1972.

At the time that SBP was enacted our RSFPP had not more than 15 percent of the military retirees participating and only about 11 percent of enlisted personnel participating. That is why the Congress, particularly the House, initiated and worked to pass SBP.

At the same time this fine actuarially sound program was really in the black, and I mean in the black—I forget the figures but the last time figures were released on it I believe was about 1970 and a retired general had to threaten to take appeal through the courts to get a copy of what the actual balance was in the budget. I am sure with a little research we can find that information.

In concluding my statement, I will turn to the last couple of pages which I spoke of on cost. I wish to give you the military community's view of the current survivor benefits and the issue of projected cost.

Now, the military community, as I said, are taxpayers. In fact, I am often reminded many times by my members that a lot of them are paying more in taxes each year than they receive as military retired pay. I remind them that this is a mark of the greatness of this country that they can do this.

My dad taught me if you did not make a dollar you would not have to pay taxes on it. I am very proud to pay my taxes. But the military community is somewhat getting a little tired of the fact of cost estimates constantly delaying a justifiable inequity being corrected.

Now regardless of the cost implications, \$12 billion, \$11 billion, \$3 billion, \$2 billion, the basic fact is that you have a gross inequity here. You are not treating military people the way you should and that is why you are having problems with an all volunteer force. That is why you are having problems with retention, of second- and third-term men not reenlisting in the services. That is why you are having those close to retirement barely hanging on with their fingernails to make qualified retirement and go home.

I was informed yesterday by the Air Force in the next 3 months they estimate 5,000 of the three top grades of the senior enlisted personnel are going to retire.

Now the Congress entered into this plan knowing it was going to cost money. The House in reporting on the legislation estimated the program would require Government funding by 1990. The Senate committee report estimated it was going to require Government funding in 1987. We hear no one challenging the unfunded liability of the survivor benefit plan for the civil service.

The military community regards itself as being composed of productive, actively employed people paying taxes and good citizens. Very frankly they doubt the validity and relevance of cost projections to the year 2035. Are you asking us to believe that what action you take in this committee will not be changed in the next 55 years? So I conclude by saying that as a fair employer the U.S. Government by virtue of this committee, the Senate and the House should change its policy and figure out some equitable way to assure that the military man has a truly equitable survivor benefit program and that includes those who were widows before 1972 and those who will become widows in the year 2072. Thank you, Mr. Chairman.

[The prepared statement of Mr. Nolan follows:]

PREPARED STATEMENT OF MSC ROBERT W. NOLAN, U.S.N. (RET.)

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 today as the spokesman for twelve national military associations. Our joint testimony is in support of Senate bill S. 91 to make the provisions of the military Survivor Benefit Plan (SBP) equitable with the provisions of the Survivor Annuity Plan (SAP) now afforded to civilian federal retirees.

The twelve national military organizations and their individual total memberships I am speaking for are:

Air Force Association.....	150,000
Air Force Sergeants Association.....	130,000
Disabled Officers Association.....	4,100
Fleet Reserve Association.....	147,684
Ladies Auxiliary, Fleet Reserve Association.....	24,000
National Association for the Uniformed Services.....	26,000
Navy League of the United States.....	40,000
Naval Enlisted Reserve Association.....	14,000
Naval Reserve Association.....	20,000
Non-Commissioned Officers Association.....	175,193
U.S. Coast Guard Chief Petty Officers Association.....	4,500
U.S. Coast Guard Chief Warrant and Warrant Officers Association....	3,198
Total membership.....	738,675

Collectively, the combined memberships of our organizations and their dependents, comprises more than two million members of today's military community.

In representing these hardworking American taxpayers, I am somewhat reluctant to ask this Committee to change the only profit making program the U.S. Government is operating. As you know, the program was not originally intended to be profit-making. However, both the Department of Defense and an independent civilian actuary firm have determined the program's financial stability far exceeds the original cost projections. We are requesting this Committee to initiate action which will restore the original cost-sharing provisions to assure the military Survivor Benefit Plan is truly comparable to the plans afforded civilian federal retirees.

We sincerely appreciate this hearing because the military community is eagerly awaiting the results of the sincere interest in resolving the current inequities which the Committee demonstrated in the hearing last August 17.

With your permission, the individual Associations will submit their complete statements, including the Fleet Reserve Association's comprehensive position paper on the legislative history of the military Survivor Benefit Plan and the rationale for the passage of U.S. Senator Strom Thurmond's bill (S. 91), for inclusion in the record and our joint statement will address the justification for the passage of S. 91's seven provisions.

THE JUSTIFICATION FOR THE PASSAGE OF THE SEVEN PROVISIONS OF S. 91

The Inequity of the 100 Percent Social Security Offset

The provision of current law (Public Law 92-425) requiring a dollar for dollar offset based on the value of militarily earned social security is the basic inequity of the program. Keep in mind the offset is effected when the annuitant achieves Entitlement to social security benefits.

While it is true this provision adversely affects the current military retiree who has active service after 31 December 1956, it is the military retiree whose entire military career is covered by social security who is the most adversely and unjustly affected.

This is due to the escalating nature of the social security tax rate, the contribution base, the future indexing to determine average monthly wage and government's flexibility to adjust the dollar amounts in the formula to calculate the Primary Insurance Amount. Because of this, under existing law, no one can adequately counsel retiring military personnel of the potential social security offset that will be applied to their survivor's SBP annuity. At present, the prospective military retiree can only be informed of the value of the survivor's social security benefit at the time of retirement. The chart on page 4-17 of the Department of Defense's SBP study of 1 February 1979 gives striking proof of the unfairness of the 100 percent offset.

The unknown effects of future changes in the social security laws for those already retired is clearly demonstrated by what has happened to one military retiree. He retired in 1962 and elected full SBP coverage with Public Law 92-425's passage. The dollar value of his five years and eight months of militarily earned social security was originally estimated to be \$70 a month. Today, that \$70 has increased to \$120! Therefore, this survivor's monthly annuity will be reduced by that amount.

To add confusion to a complex situation, there is a distinct difference between the Department of Defense and the Social Security Administration on how to compute the offset. One military retiree set out to learn the dollar value of his three years and nine months of militarily earned social security. The Department of Defense informed him the monthly dollar value was \$111.41. The Social Security Administration estimates the dollar value to be \$3.62! There is little wonder that military personnel are confused about SBP benefits and many consider the program to be a "rip-off" by the government.

Because social security benefits are weighted in favor of the low wage earner, the enlisted retiree suffers the greatest loss under the offset. Furthermore, the unsuspecting prospective enlisted retiree is in many cases electing the \$300 minimum base amount for his SBP annuity. However in each instance, the value of his full career militarily earned social security will exceed his survivor's annuity. Therefore, when the surviving spouse attains age 62, there will be no SBP annuity!

The number of enlisted retirees electing the minimum SBP coverage is rapidly increasing. Official statistics from the Navy Finance Center reveal that of the number of enlisted retirees who elected SPB coverage, the number electing minimum coverage has grown from "a negligible amount" in fiscal year 1976 to a whopping 42.1 percent in the first half of fiscal year 1979! We are confident this holds true for the other Services. This fact is even more meaningful when you consider that less than half of all enlisted retirees are electing SBP coverage.

The independent actuarial consultant firm, Towers, Perrin, Forster and Crosby conducted an evaluation of the SBP. The evaluation clearly shows the average enlisted retiree participating in SBP is paying approximately 125 percent of the cost providing his widow the SBP annuity. The comparable cost to the commissioned retiree is approximately 76 percent. The actuarial firm states that unless the law is changed, the average enlisted careerist retiring in 1987 will have to pay 2½ times the value of his survivor's annuity. The cost to commissioned officers retiring then will increase to approximately 110 percent of the survivor's annuity.

Given these facts, it should be obvious that a program which was originally designed to closely parallel the civilian Federal employee's program, which requires the employee to pay sixty percent of the cost, has gone completely awry.

While it is true that civilian federal employees do not earn social security by virtue of their government employment as military personnel do, Social Security Administration statistics reveal that sixty percent of all civilian federal retirees also receive social security benefits they earned in private employment.

It is ironic that a program originally intended to provide survivor benefit protection to those military retirees who need it most, the enlisted personnel, contains so many provisions deterring them from participation in the program. Without a doubt, the cost of participating in SBP under today's law is an investment of questionable value.

The Elimination of the Social Security Offset in the Case of a Surviving Spouse and One Child

Under Public Law 92-425, in the event a surviving spouse is left with only one dependent child, the 100 percent Social Security offset, previously explained for widows at age 62, is effected and the survivor benefit for the two dependent survivors is reduced by that amount. There is no offset if the surviving spouse has two or more dependent children.

The original rationale for this provision was to maintain comparability between military survivor benefits and civilian Federal retirees' survivor benefits. Under the civilian Federal retirees' plan, Civil Service provides children's benefits based on a payment of \$996 per year per child with a maximum payment of that (\$2,988) for three children. However, it is important to keep in mind that the children's benefit is paid regardless of whether or not the civilian Federal retiree is participating in the Survivor Annuity Plan!

This inequitable offset should be recognized for what it is, a government money saving device at the expense of a dependent widow and child. The chart on page 4-33 of the 1 February 1979 Department of Defense SBP study dramatically shows the inequity of the offset for the surviving spouse and one child. On page 4-35R the future cost projections of eliminating this offset are given. It is estimated that for the next twenty years the average annual cost of eliminating this offset will be \$4.1 million.

In today's economy, the financial burden of rearing children is a heavy one, even with both parents contributing to the expense. When this burden falls solely to the widow, we sincerely believe the elimination of any social security offset from the SBP annuity is totally justified.

The Elimination of the Social Security Offset When the Surviving Spouse Receives Social Security Based on Personal Earnings

Under the Department of Defense's interpretation of Public Law 92-425 the 100 percent social security offset is effected when the surviving spouse attains age 62 regardless of whether the spouse is awaiting age 65 to apply for social security benefits or is receiving social security benefits based on personal earnings. The Department bases its action on the "entitlement" to a social security benefit based on the deceased's earnings.

We can appreciate the relevance of an offset for militarily earned social security. However when the surviving spouse's social security benefits are based on personal earnings, the social security tax paid by the government and the military members has absolutely no relevance.

In the fall of 1972, when we learned of this interpretation, we sought the counsel of the Social Security Administration who informed us they would not interpret the law in this manner. This action by the Department of Defense is grossly unjust! Particularly to the widows of our aged retirees who served on active duty in the days of exceedingly low basic pay rates which economically forced the wife to work so the family could make ends meet. In today's society, despite claims to the opposite, military pay is still low (lagging behind the Consumer Price Index by almost twenty percent) and it is the rule rather than the exception for the spouse to be employed.

Last year, this Committee initiated the elimination of the social security offset for surviving spouses who continue to work after attaining entitlement to social security benefits. Therefore, we cannot understand why it is not justifiable to remove the offset when social security benefits are based on the personal earnings of the surviving spouse.

The Elimination of the Social Security Offset for Reserve Active Duty Periods of Less Than Thirty Days

Under the provisions of Public Law 92-425 (Section 1451 of Title 10, U.S.C.), a military Reservist who has completed the required military service required by Section 1331 of Title 10, U.S.C. and attained age 60 is entitled to participate in the Survivor Benefit Plan once he receives Reserve military retired pay. The provisions of his participation in SBP are exactly the same as for other military retirees.

In many instances of a Reserve member's military career the only periods of active duty are less than thirty days. Normally, Reservists participate in weekend drills plus a two week annual drill period. While it is true that they earn a modicum of Social Security by their Reserve service, their primary employment and participation in Social Security is through their fulltime civilian employment. In the majority of cases, the individual pays the maximum amount of Social Security taxes based on civilian earnings. Consequently, the Social Security taxes paid on military basic pay by Reservists becomes an income tax deduction when the maximum amount of Social Security tax paid under "primary employment" exceeds the maximum annual tax amount.

Therefore, the basis for Social Security entitlement flows from their civilian earnings and the Reservist's militarily earned Social Security does not affect this Social Security entitlement. In view of this it is only equitable not to effect the Social Security offset on the survivor's SBP annuity. It is estimated that the cost of eliminating this provision would be \$8 million over the next twenty years.

Mr. Chairman, if I may digress for a moment, I would like to raise a vital point concerning the legislation granting survivor benefit protection to retired Reservists who have not yet attained age 60. Thanks to the support of this Committee, the legislation was enacted into Public Law 95-397. The law provided that all eligible reservists were to be notified of the options and given until 30 September 1979 to elect into the plan. However, the individual Services have only been able to publicize the options available to retired Reservists in the last few weeks. Needless to say, the options are complex and difficult to explain and understand. This will require the eligible retired Reservists to seek counseling. Since the elections will be irrevocable, it is important that the individual be given sufficient time to analyze the several options and their costs which are available to him. The current enrollment deadline of 30 September 1979 does not allow that time. Therefore, we believe that deadline should be extended 270 days to correspond to the open enrollment period provided for regular retirees in the provisions of S. 91.

The Justification for Revising the Method of Calculating SBP Premiums Under C.P.I. Increases

It was clearly the intent of the U.S. Congress that the cost of participating in the military Survivor Benefit Plan be identical to the civilian federal employees' cost of participating in his Survivor Annuity Plan. The cost formula in the two laws is identical. But once again, the Department of Defense has interpreted the language differently as it applies to the cost calculations under Consumer Price Index increases to federal retired pay. Under the Department of Defense's method of recalculating the increase in SBP premiums, the CPI increase is applied to the full amount of military retired pay and the SBP premium is completely recomputed on the new total amount of retired pay. Under the Civil Service recalculation formula, the CPI increase percentage is applied to the reduced retired annuity only.

Considering that such calculations result in compounded charges similar to compounded interest, one can quickly recognize the military retiree's escalating costs of leaving his survivors an annuity of equal value. A comparison of the premiums a military retiree and a civilian federal retiree must pay for electing an initial minimum survivor's annuity in 1973 reveals that the civilian retiree's initial premium has grown from \$7.50 to \$12.94 while the military retiree's \$7.50 premium has increased to \$29.76!

As an equal opportunity employer, the government should treat all employees the same. The cost calculation injustice should be corrected immediately.

The Justification of Providing an "Open Enrollment Period" Under S. 91

The military retiree's acceptance of SBP can be measured by the number of retirees participating in the plan. During the Senate's consideration of the enacting

legislation in 1972, the Department of Defense's testimony projected an estimated participation rate of 85 percent if the law required only a fifty percent Social Security offset. Needless to say, with the current 100 percent offset, the plan has never achieved the projected level of participation. The fact is that less than one-half of enlisted retirees are participating in the program.

A second major factor in the low participation rate is the inability of military counselors to fully explain the complex provisions of the law. In the first place, the majority of the military counselors recognize the gross inequity of the Social Security offset. They know that all active duty members now have a full career of militarily earned Social Security, and as Social Security benefits increase, their dependent survivors will receive little, if any, benefit from SBP as the law currently stands. In good conscience, they cannot endorse the program fully.

From 1953 to 1972, the government operated an actuarially sound survivor benefit program for its military retirees and a subsidized program for its civilian retirees. The actuarially sound program had less than a fifteen percent participation. The subsidized program had an eighty-five percent participation rate. The Congress recognized that the Government as a fair employer should sponsor comparable plans to both groups of retirees. It took the first step to do so by enacting Public Law 92-425. The passage of S. 91 will be a major step in achieving that goal. Just because one-half of today's military retirees recognized the inequities in the current SBP and elected not to participate is not justification to exclude them from participating in a more equitable program. Their need to provide for their dependents and the government's obligation to make that possible is just as great today as it was in 1972.

Therefore, we believe S. 91's nine-month enrollment period coupled with a massive information campaign on the part of the Department of Defense, the individual Services and the military associations will suffice to attain the maximum participation in the program and give every military retiree a chance to participate in a survivor benefit plan that is truly comparable to the program the government affords its civilian employees.

The Inequitable Treatment of the "Forgotten" Military Widows

Public Law 92-425 and subsequent liberalizing legislation contained no provisions for benefits for the military widow who was widowed prior to 21 September 1972 and whose limited income prevented her from qualifying for a widow's pension from the Veterans Administration thereby meeting the means test for the destitute widows provision of Public Law 92-425. These ladies are the "forgotten" widows.

Thanks to the work of U.S. Senator Strom Thurmond we have for the first time, a reliable estimate of the number of these widows. Their numbers range from 40,200 today to a diminishing number of 300 by the year 2020.

One must realize that the vast majority of these widows are unable to pursue full-time employment in today's society. They were at their husband's side during the years of low-military compensation. They supported this nation's national security to the same full degree as their spouses and endured the same personal sacrifices and self-deprivations. Because of this, their cry for equity should not be rebuffed or ignored. They should not be shunted aside and forced to seek their just desserts from our welfare programs. These are proud Americans who have already rendered full service.

For the past decade, with each convening Congress they have had their hopes raised only to see those hopes dashed against a wall of bureaucracy. To those who would compare the provisions for these widows with those of other widows of military retirees point for point, we remind you that this group has been forgotten during the past SBP decade. If Senator Thurmond's resolution to their plight seems comparatively over generous to some, let them realize the apparent generosity is to compensate for their being "forgotten" while the needs of other military widows were being addressed. On this point, it would be well to remember the last paragraph of President Lincoln's Second Inaugural address:

"With malice toward none, with charity for all, with firmness in the right as God gives us to see the right, let us strive on to finish the work we are in, to bind up the Nation's wounds, to care for him who shall have borne the battle and for his widow and for his orphan."

In keeping with those sentiments, we urge the Congress to enact Senator Thurmond's provisions on behalf of the pre-1972 military widows so that they shall no longer be remembered as the "forgotten" military widows.

The Projected Cost Estimates of S. 91

The military community appreciates the concern for the projected costs of an equitable survivor benefit program. However, it is growing a little weary of conflicting cost estimates which delay the just resolution of the inequities in the current law. We are growing weary because:

(1) Regardless of cost implications, the gross inequities of the current law are easily recognizable and cry out for correction.

(2) The U.S. Congress entered into this plan with its eyes wide open. It knew the program would cost money. The House report on the legislation (H.A.S.C. Report 91-68) estimated the program would require government funding in 1990. The Senate report (Senate Report 92-1089) calculated the program would require government funding in 1987.

(3) We hear of no one challenging the unfunded liability of the Survivor Annuity Plan for civilian Federal retirees. Furthermore, inasmuch as their program requires no social security offset and the premiums are calculated at a lower rate, that unfunded liability must be proportionately greater than SBP's.

(4) The military community regards itself as being composed of productive employees who work and pay taxes and regard equal survivor benefits as a legitimate part of their retired pay.

(5) We doubt the relevance and validity of cost projections through the year 2035. Are we to believe the SBP program will not be changed in the next 55 years?

(6) As a fair employer, the Government should not afford greater survivor benefits to its civilian retirees while continuing to perpetuate the current SBP inequities on the military retiree of today and the future.

There are varying cost estimates on S. 91 from the Department of Defense, an independent civilian actuarial firm and the Congressional Budget Office. It is not surprising these estimates vary, the House and Senate cost estimates of the original legislation also varied greatly. But that did not prohibit the Congress from taking the first step towards achieving equitable survivor benefits for all federal retirees. Today, the passage of S. 91 will be the fulfillment of that goal.

Conclusion

Mr. Chairman, the U.S. Congress has already recognized the current inequities in the military Survivor Benefit Plan. The House has twice passed correcting legislation by overwhelming margins. Last year, Senator Thurmond's effort to amend the fiscal year 1979 Defense Authorization bill by adding the provisions H.R. 3702 failed by only three votes. Resolution of the issue cries out for enactment in the 96th Congress. This Committee must make the initial determination. We urge you to determine on the side of equality and justice.

We appreciate the opportunity to present our views. This concludes our statement. We stand ready to answer your questions. Thank you.

Senator NUNN. Thank you very much, Mr. Nolan.

Our next witness is Mr. George Hennrikus, the legislative counsel of the Retired Officers Association.

**STATEMENT OF GEORGE HENNRİKUS, LEGISLATIVE COUNSEL,
THE RETIRED OFFICERS ASSOCIATION**

Mr. HENNRİKUS. Thank you, Mr. Chairman.

I am Colonel Hennrikus of the Retired Officers Association. We are headquartered in Alexandria, Va. We have 268,000 members including 25,000 widows.

I am accompanied by two gentlemen who are considered experts and authorities on personal affairs in this country, Mr. Harry Hayman and Mr. Carl Franke. By the way they stand ready to help in any matter that concerns this committee.

This summary statement will be limited to our perception of the current plan and what we feel should be done to improve it. We view the plan as vastly superior to prior plans and absolutely essential to the future well-being of our survivors. As you know, one of the

greatest penalties of a military career is that it provides little or no opportunity to accumulate an estate.

Certainly the Congress recognized this fact in 1972 when they created the survivor benefit plan.

Our intention here is simply to support SBP as the most viable plan yet developed; to attest to the effect of changing conditions—conditions that could not have been foreseen 7 years ago, and to suggest ways to restore its viability.

I think you would agree that if a practical means is available for improving SBP within the structure of the basic plan without further burdening the taxpayer, we should dedicate ourselves to finding it and finding it quickly.

As you know, this plan was adapted from the civil service plan. Yet, it has not enjoyed the same success—93 percent civil service participation as opposed to 44 percent military.

The reason for this great disparity can be found in fundamental differences in the two plans; the social security interface; increased cost to the military participant due to the difference in computing CPI changes; the lack of an accounting system in the military plan.

We, therefore, recommend certain changes and amendments to that plan plus four other completely new provisions which we hope you will have a chance to look at in your consideration of the overall survivor benefits.

We presented some cost figures last year. Since then the Social Security amendments of 1977 have had a significant effect.

By the way, sir, with respect to cost and the concern for cost, it has struck me as personal observation that the Government seems to have, with respect to figures, no memory but great farsightedness. In this case, the government has probably sustained a tremendous profit, probably the greatest profit of any program that the Government operates that I know of.

In discussing cost figures for the future we are discussing two programs for which only a psychic could know where they are going to go.

One is the inflation and any effect on SBP, one is social security. With the new indexing system, I think it is downright impossible. I understand your need to have some figures to present to your colleagues; however, I would disagree with anyone who would stand up and say it is going to be thus and so for the next 10 years. I don't think anyone can do that unless the Senate has a seer somewhere on its staff.

With respect to the credibility of the two organizations submitting these estimates, I would direct your attention to your report from the last committee hearing last August in which Mrs. Rivlin noted that she deferred to the Department of Defense for their figures since she did not have the capability to come up with an exact and complete a report.

But the fact of the matter is that we have now a \$877.5 million surplus in deductions in the history of the plan. That is a historical fact.

By the way, if that amount had been invested at 6 percent annual interest, which is something we would strongly recommend, a separate accounting system and accounting for this fund would amount to at least \$3.5 billion by the year 2000. Combined with projected accumulations, it would amount to \$10.4 billion by the year 2000. This would

offset, to a great degree, even your highest estimates of \$11 to \$12 billion cost between now and the year 2000.

It was the clear intent of those who framed the survivor benefit plan to adapt the civil service plan, including an approximate 60/40 individual/Government cost-sharing ratio. Yet table 1 of the Senate Report 92-1089 shows that the average military retiree contributes 10 years longer to his survivor annuity than does his civil service counterpart.

Also, the chart shows that due to the difference in method in computing CPI changes, the military participants contribute more than the civilian participant. The difference has been cited earlier, \$600-some odd; \$180 of this difference accumulated since the last year. In last March's CPI adjustment, the military contribution increase was four times higher than the civil service counterpart.

By the way, the provision in S. 91 which would correct this variation should be amended to require recalculation of military participants' costs to date. Even with S. 91, the annual difference by the year 2000 will be \$830.

The greatest single reason for distortion of the cost-sharing formula, of course, is the social security offset applied to the military plan. According to the most recent Department of Defense study, in 1972 the typical officer assumed about 67 percent of the cost; today he's paying 76 percent, and in another 8 years, he will be paying 110 percent. The enlisted participant share during the same time period are 85 percent, 125 percent, and 236 percent.

Someone referred to the fact this has become an officer plan. I figured out, according to the latest mortality table, my own situation. I have the survivor plan, the full amount I had to have it because when I retired I had a lot of college years to pay for. Figuring it out yesterday, I am paying \$60,000 for a \$36,000 annuity, based on annuity figures and latest actuarial tables.

The real glaring problem here I think is in the minimum participation. We have a chart here showing that this individual will pay \$8,882 for a \$6 a month annuity. Now, if that is not an inequity I don't know what is.

Still another example of the impact of the offset is displayed on chart VI. It shows three men, born in 1917 who died in March of this year, whose wives were born in June 1917. All elected the minimum base amount in 1972, and their widows received identical annuities of \$285 per month. The similarity ended when the widows turned 62 last month. The 20-year retiree's widow now has a \$100 offset, while the 32-year retiree's widow receives a \$10 annuity after an offset of \$275 was applied.

As I noted earlier, Mr. Chairman, we don't have to depend entirely on projections. The impact is being felt now. Two service finance centers have advised us that there are now cases wherein the SBP annuity is totally offset. As a matter of fact, the most recent statistics available indicate that reduction of the offset to 50 percent is, at best, a temporary solution and that equity may demand complete separation of the two programs, or, at least, an annual review to maintain some control over future aberrations of this type.

With respect to open enrollment, chart VII is a partial summary of our freedom of information survey of service finance centers. Although the results were spotty and indicated a need for better recordkeeping,

we were able to conclude that, as of September 30, 1978, 44 percent of all retirees were participating in SBP.

Even more significant is the fact that between one-quarter and one-third of the participants are enrolled at a reduced level, which provides a negative benefit in the future for many of them. We conclude from this that increasing numbers of new retirees perceive SBP as being deficient. Whatever the cause, we feel that the open enrollment provision in S. 91 is completely justified and should, in fact, be amended to allow increased coverage election for those who have less than total election.

On the other hand, we feel any participant at the minimum level should be allowed to terminate his enrollment if the social security offset is not reduced.

When open enrollment was turned down in the 94th Congress by the House Appropriations Committee, the fear was expressed that it would invite deathbed enrollments which destroy the actuarial balance of the plan. Our response was, and is, that the protracted enrollment period at the outset of the plan brought many older retirees into the plan—individuals who were minimally affected by the offset—and the result was not a drain, but a surplus of \$877.5 million.

Also, the DOD study cites the increased viability of the plan with increased enrollment.

In summary Mr. Chairman, we support S. 91, with the amendments we've suggested. We further ask that you consider the following additional refinements.

First, the civil service plan was amended, in Public Law 95-317, to allow participants to elect continued participation or not, after 1 year of a second marriage. We feel this is a reasonable provision.

Second, Public Law 95-479 provides that the death of a 100-percent service-connected disability retiree, after 10 years in that category, is presumed to have died from service-connected causes. His widow receives dependency indemnity compensation, which is totally offset from her SBP annuity. Since, in many cases, the DIC is greater than the annuity, we recommend that participants in this category also be offered the option to disenroll from SBP.

There are some other items that are more technical. The bottom line is that we are having difficulty now, even with the military compensation system we have for the military, in maintaining an all volunteer force. You have cited time and time again the need possibly for a draft, or at least some form of conscription. Here we are taking a program which gives some stability to a military career in that when the man is forced out, and most of us are forced out—I was forced out after 32 years of service as a colonel in the Air Force—we know that our wives are provided for, that the home we were not able to buy because we were moving around, the savings we were not able to put away because of all this movement, and so forth, will be provided for by survivor benefit plan or some similar plan.

We disagree thoroughly with Mr. Danzig's suggestion for the administration that it be a neutral plan. This is asinine. We are going back 20 years to a plan that had a 15-percent participation. I think most of your committee will recognize that.

Thank you very much, Mr. Chairman. We appreciate this opportunity.

[The prepared statement of Col. George Hennrikus follows:]

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

Mr. Chairman and members of the subcommittee, I am Colonel George F. Hennrikus Jr., United States Air Force, Retired, Chief Legislative Counsel of The Retired Officers Association (TROA), which has its National Headquarters at 201 North Washington Street, Alexandria, Virginia. Our Association has a membership of over 268,000 retired, former and active duty officers of the seven Uniformed Services. Included in our membership are 25,000 widows of former members. On this occasion I am also pleased to represent the Retired Enlisted Association of Colorado Springs, Colorado.

We are very grateful for this opportunity to present our views with respect to the military Survivor Benefit Plan (SBP) as enacted under P.L. 92-425.

Accompanying me today are two members of our Association's personal affairs staff. They are Chief Warrant Officer Harry Hayman, United States Coast Guard, Retired, and Chief Warrant Officer Carl Franke, United States Army, Retired. Each is a recognized authority on survivor benefits. They were the first to detect the need for refinements in SBP and to predict the gross distortions that will make it meaningless within five years. It has been their expertise that has fueled our effort, since 1974, to make the plan what the Congress intended it to be. They stand ready to assist in your current investigation in any way you may deem feasible.

Since this committee has been intimately involved in military survivor benefit matters through the years, I intend to limit my comments to our perception of the current plan and to outline what we feel should be done to improve it so that it more nearly meets the Congress' original expectation.

First and foremost, it should be noted that we view the plan, as it was created by the 92nd Congress and modified by the 94th and 95th Congresses, as vastly superior to the prior plan. Also, it is absolutely essential to the future well-being of our survivors.

As this Subcommittee is well aware, one of the greatest single penalties of a career in the Uniformed Services is that it provides little or no opportunity to accumulate an estate. It does not, in and of itself, assure future security for the careerist's dependents. Various attempts to fill this void were unsuccessful until the Congress adapted the very successful civil service survivor benefit plan. At the time, it was hailed as the best possible solution. It not only offered the opportunity for the careerist to guarantee his survivor's future security, but it also provided protection against erosion of purchasing power. Our intention in this hearing is simply to support SBP as the most viable plan yet developed, to attest to the effect of changing conditions which could not have been foreseen seven years ago and, to suggest ways in which to restore its viability.

As I am certain you are painfully aware, less than fifty percent of all eligible retirees have elected to participate in the plan. Of those participating, an alarmingly high percentage have elected the minimum level, which literally means that their survivors will receive little or no benefit. Statistics from the Services will be presented as part of this statement to support this fact.

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 less than 50 percent today.

The reason for this great disparity can be found in the three 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.

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 profita-

bility 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 and the Retired Enlisted Association support S. 91 and the House counterpart, H.R. 3314. Our problem is that they do not go far enough—that is, they neither recognize, nor correct 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 August, 1978, Chart I was presented to this committee. It was based on a 1977 DOD study and projected that the military SBP would collect 2.5 billion dollars more than it paid out through the year 2000. The Chairman of the Senate Budget Committee presented this committee with data that conflicted with that figure and you widely sought to obtain better data. As you know, the Department of Defense has contracted with independent actuaries who have submitted revised data. It is not surprising that this new data should differ since the Social Security Amendments of 1977 have vastly altered the benefits.

Last year 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. Chart II summarizes the new predictions between the inception of the plan and the year 2000. It reflects excess deductions from the retired pay of military personnel of about 4.3 billion dollars. 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 six years of existence the present plan has produced net accumulated deductions of 877.5 million dollars. This money has merely been retained in the General Treasury of the United States. If this negative net disbursement from the first six years of operation had been invested at six percent interest, compounded only annually, it, by itself, would have grown to 3.5 billion dollars. Mr. Chairman, this is based on past performance, 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, it 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 government 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 I from pages 6 and 7 of the Senate Report 92-1089, Chart III, 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 10 years longer to his 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 IV clearly shows that in the first six years of the military SBP's existence the military man will have contributed \$631.35 more than a civilian who entered the civil service survivorship annuity program at the same time. Interestingly, he contributed \$180.00 of that difference since this committee held hearings last year on this subject. The difference will continue to widen. Note that this past March the civil service premium increased by 50 cents whereas the military deduction for an identical increase in protection was almost four times that amount. Mr. Chairman, I submit to you that this is wrong.

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 employees did not draw social security benefits. The fact of the matter is that about 63 percent of civil service retirees draw at least minimum social security benefits. 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 they contribute to theirs" as an explanation for the discrepancies between the annuities. The bottom line here is that two thirds 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, 10 years longer, and his survivor is receiving significantly smaller benefits.

Is it any wonder that military SBP is making a 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 a good starting point. It would:

Eliminate the present social security offset when there is one dependent child;

Eliminate the social security offset if the only military service performed is for periods of less than 30 continuous days;

Eliminate the social security offset when that benefit is based on the surviving spouse's covered earnings;

Reduce the social security offset required from 100 percent to 50 percent when the survivor attains age 62;

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;

Provide an annuity to survivors of members who were deceased on or before September 20, 1972, if that deceased member was entitled to retired or retainer pay, and had served on active duty for not less than 20 years, unless the survivor is presently eligible for an SBP annuity;

Provide a 270 day open enrollment period for members entitled to retired or retainer pay who did not elect to participate in the SBP; and

Provide no retroactive payments by virtue of enactment.

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. Four of the seven changes contained in S. 91 address this particular problem. Three of them would eliminate the offset in its entirety and the fourth would reduce it to 50 percent. The 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 76 percent, and, in another eight 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 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. TROA showed Chart V was shown to the Committee last August. Dramatic as those conclusions are—a total cost of \$8,882.39 for a net survivor annuity of \$6.00 per month—we felt then that it was constructed on reasonable assumptions.

Let me give you another example of the absurdities which can result from the Social Security offset. Chart VI assumes that three men, born in 1917, answered a call to duty in 1940, and decided to follow a military career. One retired in 1960 with 20 years service, one remained 25 years and retired in 1965, and the third served 32 years, retiring in 1972. All elected the minimum base amount of SBP protection in 1972. Their wives were all born in June 1917, and the three men were killed in a common disaster in March of this year. All have had identical amounts withheld from their retired pay. Each of their widows received an identical annuity of \$285.00 per month. However, as each widow turned 62 last month, the similarity ended. The wife of the 20 year retiree has a \$100.00 offset applied against her annuity leaving her \$185.00 per month. The widow of the man who remained on active duty for 32 years suffered an offset of \$275 per month making her net annuity a mere \$10 per month. Incidentally, Mr. Chairman, we don't have to wait for 1987 or 1993 to see gross results occur. Two 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 IV presents what has happened from 1973 to date. The military member electing coverage in 1972 has already contributed \$631 more than his civilian counterpart and the difference is currently \$16.31 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 \$180.00 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 presentation to your committee last August and again this March, 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 by the Army and Coast Guard were quite complete, it took months to gather the information, and it differed in content between services. It was 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 Chart VII. This does establish that, as of September 30, 1978, there were 1,212,157 retired military personnel and that 536,583 or 44 percent, were participating in the survivor benefit program. The other factor of note here is that between one quarter and one third of those personnel who elected to participate in SBP have done so at a 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 covered service and hence no appreciable social security offset, were given the opportunity to join. The result has not been a terrible drain; it has been an 877.5 million dollar excess of retired pay deductions 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 present SBP does not provide for termination or withdrawal except in the case of divorce or death of a spouse. Public Law 95-479 provides that the death of a veteran who is rated as having a 100 percent service-connected disability for a period of ten years shall be presumed to be service connected. This entitles the surviving spouse to Dependency and Indemnity Compensation which, in many instances, will be greater than the survivor annuity. The law provides for the refunding of money deducted from the retiree's pay to the survivor. The

question is, why should the member be compelled to suffer the deduction when no benefit will result? He should be able to use those dollars as necessary during his lifetime.

(3) The Social Security Amendments of 1977 provides 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.

(4) 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.

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 \$877.5 million in the first six years of the Survivor Benefit Plan from deductions from the retired pay of 536,000 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. The Retired Officers Association stands ready to render any assistance within our capability to you and your staff.

CHART I
SURVIVOR BENEFIT PLAN
COST PROJECTIONS, CURRENT LAW
[In millions of dollars]

Fiscal year	Deductions from retired pay	Payments to widows	Excess cost to retiree ¹
1977	293.3	111.6	+\$181.7
1978	327.7	138.4	+189.3
1982	449.9	265.6	+184.3
1990	795.1	677.9	+117.2
2000	1,379.9	1,453.3	-73.4
Cumulative total, through fiscal year 2000	18,371.0	15,855.7	+2,521.3
2035 (only)	6,861.1	2,279.8	+4,581.2
Cumulative total through fiscal year 2035	137,705.3	90,554.3	+47,151.0

¹ Retained in U.S. Treasury general fund.

Source: DOD SBP study, 1977.

CHART II
SURVIVOR BENEFIT PLAN
COST PROJECTIONS, CURRENT LAW
[In millions of dollars]

Fiscal year	Deductions from retired pay	Payments to widows	Excess cost to retiree ¹
1973-78	1,222.8	345.3	+877.5
1982	409.4	242.2	+167.2
1990	679.9	544.2	+135.4
2000	1,192.3	977.9	+214.7
Cumulative total, through fiscal year 2000	16,583.4	12,246.9	+4,336.5

¹ Retained in U.S. Treasury general fund.

Source: DOD SBP study, 1979.

CHART III
TABLE 1.—COMPARISON OF AGE, LENGTH OF SERVICE, AND FUTURE RETIRED LIFETIMES FOR MILITARY AND CIVIL SERVICE RETIREMENTS IN FISCAL YEAR 1970
[Retirements from active service only]

	Number of retirements ¹	Average number in active service	Percent	Average monthly retired pay	Adjusted age at entry ²	Average years of service ³	Average age at retirement	Average retired lifetime (Years)	Average terminal age ⁴	Average lifetime retired pay ⁵	Lump-sum equivalent ⁷
MILITARY RETIREMENTS											
Officers and enlisted:											
Nondisability-----	51,561	3,281,000	1.57	\$453	21.6	22.2	43.8	30.6	74.4	\$158,714	\$94,718
Disability-----	18,085	3,281,000	.55	319	22.4	11.5	33.9	20.8	54.7	78,539	48,482
All-----	69,646	3,281,000	2.12	418	21.9	19.4	41.3	28.1	69.4	138,126	82,845
Officers:											
Nondisability-----	14,440	409,000	3.53	792	23.1	24.1	47.2	27.6	74.8	255,266	157,221
Disability-----	3,655	409,000	.89	759	24.3	20.1	44.4	20.1	64.5	179,984	115,658
All-----	18,095	409,000	4.42	785	23.4	23.3	46.7	26.1	72.8	240,191	148,903
Enlisted:											
Nondisability-----	37,121	2,872,000	1.29	322	21.1	21.4	42.5	31.8	74.3	121,313	70,503
Disability-----	14,450	2,872,000	.50	207	21.9	9.4	31.3	20.9	52.2	52,826	31,455
All-----	51,551	2,872,000	1.79	290	21.3	18.1	39.4	28.8	68.2	102,367	59,701

CHART IV.—SURVIVOR BENEFIT PLAN—COST COMPARISON: MILITARY VERSUS CIVIL SERVICE

Cost of living increases	Survivor annuity	Monthly cost	
		Military	Civil Service
July 1973—6.1 percent	\$165.00	\$7.50	\$7.50
January 1974—5.5 percent	175.07	9.33	7.96
July 1974—6.3 percent	184.70	11.08	8.40
January 1975—7.3 percent	196.52	13.20	8.93
August 1975—5.1 percent	210.67	15.80	9.58
March 1976—5.4 percent	221.41	17.76	10.06
March 1977—4.8 percent	233.41	19.93	10.60
September 1977—4.3 percent	244.57	21.97	11.11
March 1978—2.4 percent	255.08	23.88	11.59
September 1978—4.9 percent	261.21	24.99	11.87
March 1979—3.9 percent	274.00	27.32	12.45
	284.70	29.26	12.95
Total annuity cost (June 1973 to June 1979)		1,389.19	757.84

Note: Additional cost to military retiree for identical coverage: \$631.35.

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

CHART V.—SURVIVOR BENEFIT PLAN—EFFECT OF SOCIAL SECURITY OFFSET

[Assume: Retiree and wife born 1928, retired June 1973 (age 45), elected \$165 a month annuity]

	Monthly cost	Monthly annuity	Widow's social security offset		Net SBP annuity
			Amount	Age	
June 1973: Initial base, \$300	\$7.50	\$165.00			
August 1978: Base, ¹ \$474.92	24.99	261.21			
1990: Age 62 base, ² \$760.38	53.54	418.21	\$342	62	\$76
1993: Age 65 base, ² \$855.33	63.03	470.43	464	65	6
Total cost (1973-93)	8,882.39				

¹ Actual cost-of-living increases from 1973-78.

² Assumed 4 percent inflation factor after 1978.

CHART VI

SURVIVOR BENEFIT PLAN
EFFECT OF SOCIAL SECURITY OFFSET

Year husband retired	Husband's age when retired	SBP annuity payable March 1979	Social security offset/widow age 62 June 1979	Net annuity payable July 1979
1960	43	\$285	\$100	\$185
1965	48	285	175	110
1972	55	285	275	10

CHART VII-1

SURVIVOR BENEFIT PLAN
TOTAL PARTICIPATION THROUGH FISCAL YEAR 1978

Service	Sept. 30, 1978			Fiscal year 1978		
	Total retired	Total SBP	Total minimum or reduced	Total pay withheld	Total annuity payout	Funds reverting to treasury
Army	400,557	176,405	28,126	\$122,589,771.52	\$57,115,909.24	\$65,473,862.28
Navy	307,713	163,593	¹ 40,735 (24.9)	71,119,458.98	35,486,362.52	35,633,096.46
Air Force	423,084	166,687	66,814	100,028,644.99	30,992,448.91	69,036,196.08
Marine Corps	62,401	22,783	² 7,900	12,744,920.41	4,659,777.99	8,085,142.42
Coast Guard	18,402	7,115	² 2,027	5,007,229.21	3,368,035.27	1,639,193.94
Total	1,212,157	536,583	145,602	311,490,025.11	131,622,533.93	179,867,491.18
Percent		44	27		42.3	57.7

¹ Interpolated from percentage figure obtained from service department.

² As of Sept. 30, 1977.

Source: Army, Navy, Air Force, Marine Corps, Coast Guard finance centers.

CHART VII-2
SURVIVOR BENEFIT PLAN
PERSONNEL RETIRING IN FISCAL YEAR 1978

Service	Officer electing			Enlisted electing			Total electing		
	Officer	SBP	Minimum SBP	Enlisted	SBP	Minimum SBP	Total retiring	SBP	Minimum SBP
Army.....	7,701	6,262	566	11,331	5,619	1,395	19,032	11,881	1,961
Navy.....	4,316	3,108	436	12,509	6,021	2,086	16,825	9,129	2,522
Air Force.....	4,882			10,683			15,565	10,562	3,648
Marine Corps.....	970	581	202	2,104	779	247	3,074	828	449
Coast Guard.....	272	191	4	718	399	11	990	590	15
Total.....	18,141	10,142	1,208	37,345	12,818	3,739	55,486	32,990	8,595
Percent.....			1.12		1.48	1.29		59	26

¹ Less Air Force.

Source: Army, Navy, Air Force, Marine Corps, Coast Guard finance centers.

Senator NUNN. Thank you very much.

We have to look at the overall national security problem. I don't know of any organizations that are represented here today that do not look at that, and support many programs that are not directly beneficial to your members but are beneficial to national security.

We have to somehow come to grips with the fact that unless the intelligence estimates are wrong, the Soviets are outspending us by 30 percent overall. When you take away the manpower cost, eliminate that, there is a 2 to 1 advantage by the Soviet in terms of procurement and research and development. That has been going on for 8 years. This Nation cannot really pretend any longer that we can allow this trend to continue without clearly being second, in terms of our national security capability.

So, we do have to look at the overall situation. We are going to have to put a lot more money in defense overall. We have to watch the overall amount of manpower costs. This is part of it.

As I said earlier, this is the area where there is more inequity than any I have ever seen in terms of any military program. It needs to be cured. At the same time, we cannot disregard cost. Even though estimates are always subject to being erroneous, for years Congress in many of these plans, and I am not talking about the military side of it but social security side, has ignored any estimates. That has led to the tremendous dilemma. Of course, one of the things that is making the survivor benefit plan so unattractive is the fact that social security payments are going up so rapidly. The other thing we have to consider, it cannot be divorced, is the fact that if you don't contribute directly to your retirement, it is taken account of in your pay.

In the civil service retirement plan there is a contribution being made to that by the civil service people. That does not excuse these inequities, but I am saying we have to look at the overall picture. No matter how we cut it, the purpose of national security is to protect the country. If we get to the point where everything is perfect in terms of manpower and volunteer forces working beautifully but we don't have any ships and planes. The people who are in the service may be well provided for but their lives will be at risk. So, we have to address that issue. I know you realize that. I think perspective has to be brought to bear in this overall consideration.

Colonel HENRIKUS. One comment.

We agree thoroughly with you sir. You have a very difficult compromise. But unless you can attract the proper people, the best weapons in the world will not suffice.

Senator NUNN. That is right.

Colonel HENRIKUS. We are not at a point where we are in a push-button situation where we have exotic weapons and black boxes to do everything. We need dedicated and responsible people and we are not getting them. We are losing them. We are losing the best of them in the middle grades because of just such things as this.

Senator NUNN. I agree. Thank you very much. Our next witness is Maj. Gen. J. Milnor Roberts of the Reserve Officers Association.

**STATEMENT OF MAJ. GEN. J. MILNOR ROBERTS, AUS, RETIRED,
EXECUTIVE DIRECTOR, RESERVE OFFICERS ASSOCIATION OF
THE UNITED STATES, ACCOMPANIED BY COL. LAWRENCE R.
O'GRADY, JR., USMCR, PRESIDENT, AND COL. ADOLPH H. HUM-
PHREYS, AUS, RETIRED, DIRECTOR RETIREMENT AFFAIRS**

General ROBERTS. Mr. Chairman, it is a pleasure for me to be here today with our new president of the Reserve Officers Association, Col. Lawrence O'Grady from Detroit, Mich., who is a marine colonel in the active reserve. His presence indicates the strong interest of all of our membership in this particular legislation. He may have a comment prior to Colonel Humphreys.

Senator NUNN. Fine. Thank you General.

We are delighted to have you as well.

Colonel O'Grady, we are delighted to have you and commend you on your leadership.

STATEMENT OF COL. LAWRENCE R. O'GRADY, JR., USMCR

Colonel O'GRADY. Thank you Mr. Chairman. We appreciate the opportunity to appear before you on this very important legislation. My presence before you is to display the interest of the ROA members and the importance they place on the legislation contained in S. 91.

Colonel Humphreys will present our statement.

Senator NUNN. Thank you.

STATEMENT OF COL. ADOLPH H. HUMPHREYS, AUS, RETIRED

Colonel HUMPHREYS. Good morning, Mr. Chairman and Senator Jepsen.

We would like to submit our written testimony for the record and make a short statement emphasizing a few points specifically toward reserve SBP.

This is a joint statement of the Marine Corps Reserve Officers Association (MCROA), Reserve Officers Association Ladies Clubs (ROAL), Reserve Enlisted Association, and our association, the Reserve Officers Association of the United States (ROA).

Although the National Guard Association has presented a separate statement they fully agree and support the position in this testimony S. 91.

First we would like to publicly thank the chairman and members of the committee for their action on H.R. 3702 in the 95th Congress

which finally resulted in Public Law 85-397 providing a survivor benefit plan for reservists.

We strongly support the position of the Fleet Reserve Association (FRA), as presented in their testimony pertaining to the reduction of social security offset against SBP and other provisions applicable primarily to active forces, as a matter of simple equity due to retiring soldiers, sailors and airmen. We will, therefore, concentrate on the impact of the offset on the guard and reserves.

Recently the full impact on the reserve components of the social security offset against SBP came into focus with the Army and Air Force notification, to eligible National Guard and reserve members, of the options available under the reserve SBP provisions of Public Law 95-397.

Both notifications read substantially the same regarding the offset:

The SBP annuity is reduced by the amount of social security provided by your active duty or active duty for training tours after 1956. The monthly reduction is approximately \$5 for every 30 days of active duty you served after 1956. If you have more than 5 years active duty, a more accurate estimate of the monthly reduction is \$50 per year of active duty.

This explanation of the offset has had a devastating effect upon our membership, and has resulted in many telephone calls and letters protesting the value of SBP for the Reserve Forces.

Unfortunately, we foresee the offset as currently prescribed will have a very unfavorable impact on participation by our members. Many of them see reserve SBP as a well-intentioned law reduced to a hollow benefit by the offset. This attitude is certainly justified in the minds of those who have substantial active duty subsequent to 1956, especially Air Guardsmen and Reserves who augmented the Active Forces during the Vietnam crisis in the airlift of badly needed supplies.

If a simple-minded approach is taken (disregarding the reduced annuity for election prior to age 60) using only the guidance provided in the Army and Air Force notification, the offset will exceed the amount of the annuity for members below the rank of brigadier general.

There is a chart in our written testimony, which gives you brigadier general, colonel, lieutenant colonel, E-9 and E-5 as examples.

Displeasure with reserve SBP can only get worse when the total service of Reservists is subsequent to 1956. This condition is further aggravated by the fact that most Guardsmen and Reservists have or will have earned their social security eligibility from employment in the private sector, which results in the FICA withheld for ACDUTRA being refunded by IRS on his annual income tax return. Yet despite this, it is charged against him for social security offset purposes.

This morning I received some numbers that I think are indicative of what I have been talking about. Of a community of enlisted personnel of 26,000 in the Air Force, only 31 percent have even responded to the Air Force's notification.

In the officer community, of 25,000, only 40.6 percent have responded with their forms on SBP.

In this regard I would like to quote from the DOD report as revised to establish the cost to the Government by eliminating the offset.

The effect of eliminating the Social Security Offset for certain Reservists is negligible. The increase to net government disbursements remains below \$9 million annually until the last year of this century.

We are convinced that the social security offset provisions in S. 91 are fair and equitable to both the Government and Reservists. We urge the committee to report favorably on this bill.

Colonel Dodenhoff of the Marine Corps Reserve Officers Association is here with us in the committee room. We now stand ready to respond to your questions and assist your committee and staff in the interest of this legislation.

[The prepared statement of Colonel O'Grady, General Roberts, and Colonel Humphreys follows:]

PREPARED STATEMENT OF COL. LAWRENCE R. O'GRADY, JR., USMCR, PRESIDENT; MAJ. GEN. J. MILNOR ROBERTS, AUS, RET., EXECUTIVE DIRECTOR; AND COL. ADOLPH H. HUMPHREYS, AUS, RET., DIRECTOR RETIREMENT AFFAIRS

Mr. Chairman and members of the committee: We appreciate this opportunity to appear before you and present a joint statement of the Marine Corps Reserve Officers Association (MCROA), the Reserve Officers Association Ladies Clubs (ROAL), Reserve Enlisted Association, and our Association the Reserve Officers Association of the United States (ROA): Although the National Guard Association has presented a separate statement they fully support the position in this testimony.

First, we would like to publicly thank the Chairman and Members of the Committee for their action on H.R. 3702 in the 95th Congress which finally resulted in Public Law 95-397 providing a Survivor Benefit Plan for Reservists who have completed 20 years of qualifying Service, but who have not reached their 60th birthday the age of eligibility for participation under the previous plan.

S. 91 covers provisions which were contained in the bill H.R. 3702 (95th Congress) and H.R. 11797 (94th Congress) which have twice passed the House of Representatives by resounding majorities (H.R. 3702 by a vote of 381-0). Yet in both instances the Senate deleted those provisions from the final legislation because of conflicting data and testimony submitted by offices of the Executive Branch. The Chairman requested during the hearings on H.R. 3702, and the Committee in its Report 95-1138, 95th Congress, that the Defense Department provide definitive actuarial data having a bearing on the provisions now under consideration and upon which sound judgments may be made by the Committee. Although the report as submitted by DOD did not contain recommendations, it does contain information which indicates the unfairness of the Offset and also its apparent effect on participation. Included in the report is a cost projection (page 3-13R of the DOD Revised Report) which we have attached to show the substantial income over benefit payouts by the year 2000, approximately 3.5 billion, based on 55% participation. We claim no expertise in this highly technical field and we do not have access to dependable or accurate data from which such projections may be computed; consequently, we must assume that DOD's estimate is valid.

We strongly support the position of the Fleet Reserve Association (FRA), as presented in their testimony pertaining to the reduction of Social Security Offset against SBP and other provisions applicable primarily to Active Forces, as a matter of simple equity due to retiring soldiers, sailors and airmen. We will, therefore, concentrate on the impact of the Offset on the Guard and Reserves.

Recently the full impact on the Reserve Components of the Social Security Offset against SBP came into focus with the Army and Air Force notification, to eligible National Guard and Reserve members, of the options available under the Reserve SBP provisions of Public Law 95-397.

Both notifications read substantially the same:

"SBP Annuity Offset (Reduction) for Social Security or DIC Payments"

"Certain social security payments affect the amount of an SBP annuity to a spouse. SBP annuity to a child or insurable interest person is not affected by social security benefits. The SBP annuity is reduced by the amount of social security provided by your active duty or active duty for training tours after 1956. The monthly reduction is approximately \$5 for every 30 days of active duty you served after 1956. If you have more than five years active duty, a more accurate estimate of the monthly reduction is \$50 per year of active duty."

This explanation of the Offset has had a devastating effect upon our membership, and has resulted in many telephone calls and letters protesting the value of SBP for the Reserve Forces. Unfortunately, we foresee the Offset as currently prescribed will have a very unfavorable impact on participation by our members. Many of them see Reserve SBP as a well intentioned law reduced to a hollow

benefit by the Offset. This attitude is certainly justified in the minds of those who have substantial active duty subsequent to 1956, especially Air Guardsmen and Reserves who augmented the Active Forces during the Vietnam Crisis in the airlift of badly needed supplies.

If a simple minded approach is taken (disregarding the reduced annuity for election prior to age 60) using only the guidance provided in the Army and Air Force notification, the Offset will exceed the amount of the annuity for members below the rank of Brigadier General. The examples below are members with 20 years qualifying Service with 3000 points accumulated subsequent to 1956 (6 years active duty plus 14 years inactive duty with two weeks active duty for training each year).

Brigadier General:	
Retired pay	668.00
Full annuity 55 percent	367.40
Soc. sec. offset	335.00
SBP ann. less 100 percent soc. sec. offset	+32.40
SBP ann. less 50 percent soc. sec. offset	+199.90
Colonel:	
Retired pay	511.00
Full annuity 55 percent	281.05
Soc. sec. offset	335.00
SBP ann. less 100 percent soc. sec. offset	-53.95
SBP ann. less 50 percent soc. sec. offset	+113.55
Lieutenant Colonel:	
Retired pay	463.00
Full annuity 55 percent	254.65
Soc. sec. offset	335.00
SBP ann. less 100 percent soc. sec. offset	-80.35
SBP ann. less 50 percent soc. sec. offset	+87.15
E-9:	
Retired pay	275.00
Full annuity 55 percent	151.25
Soc. sec. offset	335.00
SBP ann. less 100 percent soc. sec. offset	-183.75
SBP ann. less 50 percent soc. sec. offset	-16.25
E-5:	
Retired pay	159.00
Full annuity 55 percent	87.45
Soc. sec. offset	335.00
SBP ann. less 100 percent soc. sec. offset	-247.55
SBP ann. less 50 percent soc. sec. offset	-80.05

Obviously, the rule of thumb cannot work precisely for all grades but the member must assume the estimate is reasonably close to the actual offset which will be involved because it is included in the guidance from the services.

Displeasure with Reserve SBP can only get worse when the total service of Reservists is subsequent to 1956. This condition is further aggravated by the fact that most Guardsmen and Reservists have or will have earned their Social Security eligibility from employment in the private sector, which results in the FICA withheld for ACDUTRA being refunded by IRS on his annual income tax return. Yet despite this, it is charged against him for Social Security Offset purposes. The Social Security Offset makes it extremely difficult for those of us interested in promoting Reserve Forces SBP to do so with a firmness of conviction. We believe the rule of thumb guidance in the notification is an administrative matter and can be corrected within DOD; however, the Social Security Offset against SBP is a serious deterrent to Reservists participation in the plan which can only be corrected by legislation. In this regard I would like to quote from the DOD report as revised to establish the cost to the Government by elimination of the Offset:

"The effect of eliminating the Social Security Offset for certain Reservists is negligible. The increase to net government disbursements remains below \$1 million annually until the last year of this century."

Attached to this testimony is the table Page 4-50R which supports the DOD statement.

We are convinced that the several provisions addressing the Social Security Offset in S. 91 are fair and equitable to both the government and the Reservist and we urge the Committee to report favorably on the bill, in particular the following provisions.

Reduction of Social Security Offset from 100 percent to 50 percent based solely on military earnings;

Eliminate Social Security Offset of SBP where the survivor (widow) is eligible for Social Security based on his or her work record;

Eliminate Social Security Offset based on periods of active duty for training of 30 consecutive days or less.

Mr. Chairman, we believe that a favorable action on the part of this Committee and the U.S. Senate will have a decisive influence on Reserve SBP eligibles and probably alter their choices under the Plan. This concludes our brief testimony in support of S. 91.

Colonel George Dodenhoff, Marine Corps Reserve Officers Association, is with us here in the Committee Room and we stand ready to respond to your questions and to assist your Committee staff in the interest of this legislation.

COST PROJECTIONS¹ FOR SURVIVOR BENEFIT PLAN ELIMINATION OF SOCIAL SECURITY OFFSET RESERVISTS WITH LESS THAN 30 DAYS ACTIVE DUTY

[Dollar amounts in millions]

	Number affected	Net disbursements		Number affected	Net disbursements
Fiscal year:			Fiscal year:		
1980	274	0	1992	1,207	\$.4
1981	332	0	1993	1,289	.4
1982	395	0	1994	1,377	.5
1983	464	\$.1	1995	1,471	.6
1984	537	.1	1996	1,564	.7
1985	615	.1	1997	1,652	.8
1986	696	.1	1998	1,733	.9
1987	784	.2	1999	1,806	1.0
1988	871	.2	2000	1,876	1.1
1989	958	.2	2010	2,219	2.5
1990	1,045	.3	2025	1,978	4.4
1991	1,127	.3	2035	1,865	6.6

¹ The projections use 4 percent inflation for retired pay growth and social security benefit increase. Active duty pay growth of 5.56 percent was assumed. The assumptions are outlined in OMB Circular A-76. Participation of future retirees was assumed to be 55 percent.

**COST PROJECTIONS¹ FOR SBP
(55-percent participation)²**

[Dollar amounts in millions]

	Reductions to retired pay of members	Benefit payouts	Net disbursements
Fiscal year:			
1979 ³	\$345.4	\$159.3	-\$186.1
1980 ³	373.7	201.8	-171.9
1981	379.2	209.1	-170.2
1982	409.4	242.2	-167.2
1983	440.3	276.3	-164.0
1984	471.2	311.5	-159.7
1985	502.3	348.0	-154.3
1986	534.0	385.1	-148.8
1987	566.6	422.3	-144.3
1988	601.2	461.4	-139.8
1989	638.9	502.3	-136.6
1990	679.9	544.2	-135.7
1991	719.3	588.4	-130.9
1992	763.2	634.2	-129.1
1993	809.0	680.2	-128.8
1994	856.8	724.0	-132.8
1995	906.6	764.3	-142.3
1996	958.6	803.9	-154.8
1997	1,013.0	844.6	-168.4
1998	1,070.0	887.0	-183.0
1999	1,129.6	933.6	-196.1
2000	1,192.3	977.9	-214.4
2010	2,044.8	1,514.6	-530.2
2025	4,709.1	3,532.7	-1,176.4
2035	8,207.5	6,701.3	-1,506.2

¹ The projections use 4-percent inflation for retired pay growth and social security benefit increase. Active duty pay growth of 5.56 percent was assumed. The assumptions are outlined in OMB Circular A-76. Participation of future retirees was assumed to be 55 percent.

² Includes 100 percent social security offset provisions.

³ Budget estimates.

Senator NUNN. Thank you all for being here. We appreciate your contribution on this, as well as on many other pieces of legislation. We will continue to work with you; and any other input you or other organizations would like to have on this, we would welcome.

Thank you very much.

Our next witness is Dr. Kathryn Breese-Whiting, national president of the Society of Military Widows. We are delighted to have you.

STATEMENT OF DR. KATHRYN BREESE-WHITING, NATIONAL PRESIDENT AND DONALD E. CHANNELL, WASHINGTON COUNSEL, SOCIETY OF MILITARY WIDOWS

Dr. BREESE-WHITING. Thank you. It is our pleasure to be here. We appreciate the opportunity to present the views of the Society. We do support S. 91 in principal. We feel that the offset is very important, vitally important. However, our main concern is section No. 3, forgotten widows.

In the interest of your time we have submitted a written report to you. I also have copies of letters that have been sent to us from various parts of the country from the forgotten widows telling in their own words their particular plight.

After listening to the testimony of the previous witnesses, my concern today is not only the financial resources of the country but also the human resources.

We feel that leaving widows of men who have served 20 or 30 years for their country in service without any support at all and very little recognition does not speak well for the Government of the United States.

[The prepared statement of Dr. Kathryn Breese-Whiting follows:]

PREPARED STATEMENT OF DR. KATHRYN BREESE-WHITING

Mr. Chairman and members of the Subcommittee on Manpower and Personnel: I am Dr. Kathryn Breese-Whiting, National President of the Society of Military Widows. I appreciate this opportunity to present the views of the Society in support of S. 91, legislation seeking to correct inequities in the law pertaining to widows of certain members of the uniformed services.

The Society of Military Widows, a national non-profit organization, was founded in 1968. Its membership is composed of widows whose husbands served over 20 years in the uniformed military services and died either while in active military service, of a service-connected cause following disability retirement, or during nondisability retirement, as well as widows whose husbands died in the performance of their officially assigned duty before becoming eligible for retired pay. The Society has concerned itself with obtaining remedial legislation to correct the gross inequity in laws governing entitlements for dependent survivors of military personnel.

Of priority concern to the Society is the correction of the gross inequity in the law which affects widows whose husbands died prior to September 21, 1972, at which time the Survivor Benefit Plan became law. The 1972 Act precluded from its enrollment provisions the widows of otherwise eligible servicemen who died prior to its enactment. Section 3 of S. 91 would correct this inequity.

The military Survivor Benefit Plan (SBP), Public Law 92-425, follows the pattern of the 1948 counterpart survivor protection program for federal civil service employees. However, the SBP's predecessor program, the self-sustaining 1953 military Contingency Option Act, renamed the Retired Serviceman's Family Protection Plan (RSFPP) did not follow the pattern of the Government cost-shared federal civil service survivor protection program. RSFPP premiums were from 2½ to 5 times more expensive than the premiums for the 1948 counterpart civil service survivor protection program, as shown in enclosure (1), a table on Comparison of Cost of Retired Personnel Survivor Annuity Plans—Military versus Civil Service.

The whole structure of the RSFPP program was fraught with uncertainty. It required a commitment to participate in the program by annuity purchase before the end of the 17th service year. The annuity itself was based on an unknown quantity, that being the amount of future retirement pay entitlement. The prospective participant's expenses were uncertain due to changes permitted in annuity costs during the interval between election and retirement. Finally, inflation's erosion of the annuity's value produced inadequacies, complicated further by the fact that traditionally low military pay and forced mid-career non-disability retirement customarily prevented accumulation of individual estates. As a result, fully 85 percent of the retirees were effectively precluded from providing a part of their retired pay for their families. By contrast, the 1948 Government cost-shared counterpart survivor protection program for federal civil service employees had only a 10 percent non-participation factor.

In addition to the inequitable and very expensive RSFPP program the laws administered by the Veterans' Administration (VA) for widows of military careermen disregard salary and years of service in the formulas for service connected and non-service connected awards.

For service-connected deaths the VA dependency and indemnity compensation (DIC) formula determines DIC rates for widows by the husband's pay grade, as shown in enclosure (2), not by his retired pay and years of service. This formula causes the percentage of the widow's DIC to decrease in comparison with her husband's earned retired pay as years of service increase. Further, the VA uses the same DIC formula for military deaths resulting from the performance of officially assigned duties as for normal deaths during active military service. All non-military Federal Government employees' deaths that result from the performance of officially assigned duties are covered by the 1916 Federal Employees' Compensation Act (FECA), Public Law 64-267, administered by the Department of Labor's Office of Workmen's Compensation Program. Military Federal Government employees are not covered by FECA and are economically disadvantaged due to the difference between the FECA and DIC death compensation formulas. Before January 1957 the dependent survivors of certain Army reservists who were killed in action during the Korean War, and reservists who suffered accidental deaths as the result of training assignments, were awarded compensation under FECA. However, these families of Federal military employees are denied the periodic cost-of-living adjustments in their FECA compensation that are allowed for families of Federal non-military civil service employees. The denial of cost of living adjustments violates the trust the military reserve member had in our Government.

For non-service connected deaths the VA pension formula applies to eligible widows whose husbands had over 90 days of war service. VA pensions, like welfare programs, are based on need and are subject to income restrictions, regardless of the husband's duties, responsibilities, and accumulated years of military service. Enclosure (3) shows the VA pension rates for various annual incomes provided by Public Law 95-588, the Veterans' and Survivors Pension Improvement Act of 1977. Cost of living adjustments in VA pensions are generally canceled out because whenever social security or other income is increased the VA pension is decreased. Widows whose military retiree husbands died before June 30, 1960 receive a pension of \$50.40 a month. These pensions are not cost of living adjusted, nor are the \$70 or \$75 pensions paid to widows whose military retiree husbands served in the Spanish American War. The 1978 Veterans and Survivors Pension Improvement Act, Public Law 95-588, does not correct the inherent inequities in these VA pension formulas.

In 1958 Congress amended the Civil Service survivor protection program by Public Law 85-465. This law provided for the inclusion of civil service "forgotten widows" whose husbands died before the effective date of the 1948 Civil Service survivor protection program was enacted. The cost was met by appropriation from the General Fund of the U.S. Treasury.

To correct the inequities in the unpopular 1953 military RSFPP program, in 1972 Congress enacted a new Survivor Benefit Plan for military personnel, Public Law 92-425. All living military retirees were given an 18-month open season during which to start participating in the new SBP program. Premium rates were the same for all retirees, regardless of whether they had previously subscribed for RSFPP coverage. However, Congress failed to provide the same open season option to all the "forgotten widows" of deceased military personnel whose husbands died before the 1972 military SPB program was enacted, in line with Public

Law 85-465 which provided such inclusion for Civil Service "forgotten widows" in 1958. Further, RSFPP annuitants, whose husbands died on or before September 20, 1972, were increased by Public Law 95-397, effective October 1, 1978, by the percentage of increase in retired or retainer pay under sections 1401A of Subchapter I of Chapter 73, T10 USC. All RSFPP annuitants receive less than 55 percent of their husband's retired pay at the time of retirement and corrective action is essential in view of the excessively high premium and frozen retired pay. The retired pay on which RSFPP annuities are computed was not adjusted between the date of retirement and the date of the husband's death, a period during which excessively high premiums were paid and, in many cases, based on one-eighth, one-quarter, or one-half of very low retired pay, instead of up to 55 percent of 1972 retired pay for living retirees, whether or not they had subscribed to the old RSFPP program.

The Servicemen's and Veteran's Survivor Benefit Act, Public Law 84-881 Title II, Section 201, corrected the long standing inequities in the service connected death compensation program by establishing the DIC program. Section 206 of the Act provided for the inclusion in the DIC program all persons who were receiving death compensation on 31 December 1956, if the new DIC law afforded a higher income than they were receiving under laws administered by the VA. Section 3 of S. 91 proposes to correct the long standing inequities in the VA pension law for widows of retired military careermen whose husbands died on or before September 20, 1972, by including them in the SBP program, if it affords a greater income for them. Relief for these "forgotten widows" is long overdue and should be provided without further delay.

In 1976 the Defense Manpower Commission report prepared for the President and the Congress recommended that the SBP should be changed to align it with the Civil Service plan and that the Federal Compensation Board should investigate and recommend remedial legislation for widows of servicemen who receive no benefits.

In 1978 the President's Commission on Military Compensation recommended that the Congress should correct the long standing inequities such as the exclusion of widows from the SBP program if the husband died on or before September 20, 1972.

Section 3 of S. 91 would resolve the inequities pertaining to the "forgotten widows". It would correct a long-standing oversight that is causing undue hardships for the widows of career members of the uniformed services. 591 should also correct the inequities pertaining to those widows whose husbands died in the performance of their officially assigned duties before they had the opportunity to complete 20 years of military service. These widows are excluded from FECA. We believe that this legislation deserves prompt and favorable action by this Subcommittee and this Congress.

Thank you for this opportunity to present the views of the Society of Military Widows.

TABLE 1.—COMPARISON OF COSTS OF RETIRED PERSONNEL SURVIVOR ANNUITY PLANS—MILITARY VERSUS CIVIL SERVICE

Grade	Years of service	Age at retirement	Survivors annuity payable (monthly)	Military deductions (options 1 and 4 at 1/2)	Civil service deduction for the same annuity
Staff sergeant.....	20	40	\$86.42	\$12.71	\$3.93
Technical sergeant.....	24	44	120.75	20.94	5.49
Master sergeant.....	30	50	201.88	43.77	14.21
Do.....	30	60	195.15	57.24	12.98
Do.....	30	65	191.46	64.62	12.31
Major.....	24	46	256.96	48.23	24.22
Lieutenant colonel.....	25	48	330.65	66.84	37.62
Colonel.....	30	52	461.42	107.00	61.40
Do.....	30	60	449.06	131.72	69.15
Do.....	30	65	440.56	148.71	57.60
Major general.....	30	54	600.09	148.03	85.61
General.....	30	55	749.23	196.25	113.72
Do.....	30	60	738.98	216.75	112.86

TABLE II.—COMPARATIVE COSTS OF CENTS PER DOLLAR OF COVERAGE

Annual annuity	Dollars cost per year		Cents per dollars of coverage	
	RSFPP	Civil service	RSFPP	Civil service
Man 55, wife 53:				
\$10,000	3,764	1,548	37.6	15.5
\$8,000	2,521	1,185	37.6	14.8
\$6,000	1,890	821	37.6	13.7
\$4,000	1,260	457	37.6	11.4
\$2,000	630	94	37.6	4.7
\$1,000	315	45	37.6	4.5
Man 60, wife 58:				
\$10,000	3,764	1,548	37.6	15.5
\$8,000	3,011	1,185	37.6	14.8
\$6,000	2,258	821	37.6	13.7
\$4,000	1,505	457	37.6	11.4
\$2,000	753	94	37.6	4.7
\$1,000	376	45	37.6	4.5

COMPARISON OF "DIC" FORMULA AND "SBP" FORMULA FOR SAME YEARS OF SERVICE AND PAY GRADE

Pay grade	Years of service	September 1978 retired pay	Widow's DIC Public Law 95-479	Widow's DIC percent of retired pay	Widow's SBP Public Law 92-425	Widow's SBP percent of retired pay
(1)	(2)	(3)	(4)	(5)	(6)	(7)
E-5	20	\$381	\$343	90	\$209	55
E-6	22	498	351	70	273	55
E-7	24	659	368	56	362	55
E-8	26	893	388	43	491	55
E-9	30	1,153	406	35	634	55
W-1	23	678	376	55	372	55
W-2	25	827	391	47	454	55
W-3	27	1,026	402	39	564	55
W-4	29	1,301	426	33	715	55
O-4	20	970	439	45	533	55
O-5	22	1,276	484	37	701	55
O-6	24	1,573	544	34	865	55
O-7	26	2,104	590	28	1,157	55
O-8	28	2,606	646	24	1,433	55
O-9	30	3,097	694	22	1,703	55
O-10	30	3,358	760	22	1,846	55

Note: The decreasing percentage of DIC in col. 5 in relation to retired pay col. 3. For deaths before Sept. 21, 1972, only DIC payments apply. For deaths after Sept. 21, 1972, both col. 4 DIC and col. 6 SBP apply. When DIC and SBP payments are applicable, the SBP annuity is offset by the lower amount of DIC payment. SBP is further offset when social security based on the husband's military service after Jan. 1957, becomes payable.

WIDOWS VA NON-SERVICE CONNECTED PENSION RATES—PUBLIC LAW 95-204—JANUARY 1, 1978

Yearly income not over	Widow alone	Widow and 1 child	Yearly income not over	Widow alone	Widow and 1 child
\$100	\$133	\$159	\$2,200	\$54	\$127
\$200	133	159	\$2,300	48	124
\$300	133	159	\$2,400	42	121
\$400	132	159	\$2,500	36	117
\$500	131	159	\$2,600	30	113
\$600	130	159	\$2,700	24	109
\$700	127	159	\$2,800	18	105
\$800	124	158	\$2,900	11	101
\$900	121	157	\$3,000	5	96
\$1,000	117	156	\$3,100	5	91
\$1,100	113	155	\$3,200	5	86
\$1,200	108	153	\$3,300	5	81
\$1,300	103	151	\$3,400	5	76
\$1,400	98	149	\$3,500	5	71
\$1,500	93	147	\$3,600	5	66
\$1,600	88	145	\$3,700	5	61
\$1,700	83	142	\$3,800	None	61
\$1,800	78	139	\$3,900	None	61
\$1,900	72	136	Up to \$5,070	None	61
\$2,000	66	133	\$5,071	None	None
\$2,100	60	130			

Note: Pension rate for widow and child is increased by \$26 a month for each child in addition to the first. If a widow is not entitled to a pension, the first child's pension is \$61 a month, and each additional child receives \$26 a month. Children's income limitation is \$3,080 a year. Aid and attendance for disabled widows is \$79 a month. Annual income limitation for protected (old) law widows receiving \$50.40 a month pension is \$3,300 a year. For widows with one child it is \$4,760. The monthly pension for widows of Spanish-American War veterans is \$70. If the widow was married to her husband during the Spanish American War it is \$75. Income limitations are not applicable to widows of Spanish American War careermen.

DR. BREESE-WHITING. I have brought with us Don Channell, our Washington counsel, who will continue the testimony. Also, I would like with your permission to introduce to you, and it is only an introduction, the vice president of the eastern region, Frances Dougherty. Senator NUNN. We are delighted to have you.

**STATEMENT OF DONALD E. CHANNELL, WASHINGTON COUNSEL,
SOCIETY OF MILITARY WIDOWS**

Mr. CHANNELL. I thank you Mr. Chairman.

We purposely will make this brief in the interest of your time and as Dr. Breese-Whiting has stated we will submit something for the record in more detail.

I would like to make a few comments in relation to section 3 of S. 91, the forgotten widows provision.

The military survivor benefit plan follows the pattern of the 1948 civil service protection program. However, the SBP's predecessor program, the retired serviceman's family protection plan, did not follow the pattern of the Government cost-shared civil service program. The premiums were much higher, 2½ to 5 times as high as the civil service plan. Annuity was based on an unknown quantity.

Finally, inflation's erosion of the annuity's value increases this inadequacy. As a result of these uncertainties, 85 percent of the retirees were effectively precluded from providing part of their retirement pay for their families.

By contrast, the civil service program had only a 10-percent non-participation factor. To correct the inequities in the unpopular older plan, RSFPP, the Congress in 1972 enacted a new survivor benefit plan for military personnel.

The point is that at that time all living military retirees were given an 18-month open season during which to start participating in the new plan, the SPB. The premium rates were the same for all retirees regardless of whether they had been under the old plan. However, Congress failed to provide the same open-period option to all the forgotten widows of the deceased military personnel whose husband died before the 1972 program was enacted.

We seek to correct this unfair treatment and section 3 of S. 91 would do that.

I want to make one brief comment on the Department of Defense witness's statement indicating that since the military personnel had the opportunity to participate before the 1972 act, that the widows need not have the opportunity again.

As I just pointed out, the pre-1972 plan was so bad that 85 percent of the military personnel at that time did not want to buy it. It was a bad package. In fairness, just because someone's husband died in August 1972 rather than in October 1972 shouldn't make that difference. In all fairness and equity the widow should be allowed to benefit under the SBP plan. Under the old plan the annuitants received less than 55 percent of their husbands' retired pay at the time of retirement.

Section 3 would correct this inequity by providing for the benefit to be equal to 55 percent of the retired pay that the husband would have received on September 20, 1972.

Under our various systems unfortunately a widow's survivor income depends a great deal upon when and how the husband died. We have great differences as to benefits, as you are well aware.

For example, for service-connected deaths the VA pension—like welfare programs are based on need and are subject to income restrictions regardless of the husband's duties and accumulated years of service. The cost of living adjustments in VA pensions are generally canceled out because whenever social security or other income is increased the VA pension is decreased.

Section 3 would allow widows of retired military career men who died before September 20, 1972, to be included in the SBP program.

Senator, by and large we are talking about the older widows. As was pointed out by Senator Jepsen in one of his remarks, these are the people who since 1972 have sought some equity. Unfortunately because of age many of them will not be around another 7 years. If the Congress is going to do anything about this situation we believe it should act now without further delay because time is of the essence.

We want to thank you for this opportunity to present our views in support of S. 91 and for your consideration and we hope that you will give it early and favorable action.

Senator NUNN. Thank you very much Mr. Channell. I appreciate your being here.

Do you have any differences of opinion about the cost estimates on items 7 and 8 as we call them which is what you addressed today? Also, if you have any differences of opinion about what either DOD or CBO estimated we would like to get that. I think DOD's estimate is \$324 million on item 7 and CBO's is \$376 million.

On item 8 we have \$2,338 million by DOD and \$3,042 million by CBO. Of course this is a 20-year projection. I will leave the record open.

Mr. CHANNELL. Senator we appreciate that. We will submit a letter to you commenting on that. Unfortunately, we are more frustrated than you are about these figures. We don't have the resources of either the DOD or the congressional Budget Office on cost.

I do want to point out one thing. In this particular situation, unlike practically every other program that is enacted by Congress, we will have a descending cost, not an increasing cost, just because the estimated 40,000 people who are affected now in the forgotten widow category are not going to be around 10 and 20 and 30 years from now.

Therefore, it is going to descend; it is not going to increase. Regardless of which figures we believe or whether we believe any of them, that is the point that should be brought out because we are not talking about creating a whole new program that 10 years from now we will have to be confronted with its multiplying itself many times over. We will submit it in writing.

[The letter, with enclosures, from Donald E. Channell follows:]

WASHINGTON, D.C., August 10, 1979.

Hon. SAM NUNN,
Chairman, Subcommittee on Manpower and Personnel, Senate Armed Services
Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR NUNN: During my testimony on behalf of the Society of Military Widows on July 12, 1979, you inquired as to whether we had an opinion as to the cost estimates of the Department of Defense and the Congressional Budget Office. I indicated that we would send a letter for the record since we had not had an opportunity to see the statement of the DOD in advance of the hearing.

We would like to make the following comments in reply to your inquiry as to our opinion on cost estimates:

First: The Society of Military Widows has neither the resources nor the data available to challenge the DOD estimates or to provide our own cost analysis.

Second: The DOD admittedly has no specific data available on the precise number of survivors who would benefit by enactment of Section 3 of S. 91, and its estimate is based on "secondary source information" in its assumption of the numbers of survivors who would benefit from this proposal.

Third: The DOD then estimates the cost to exceed \$100 million the first year on the "assumption that only 15 percent of these survivors are recipients of the Retired Serviceman's Family Protection Plan (RSFPP) payments and 50 percent are in receipt of VA annuities * * *" (February 1, 1979 DOD study of the Survivor Benefit Plan For Members of the Uniformed Services).

Fourth: According to the DOD study, this cost would descend to less than \$4 million in twenty years.

We agree with DOD that, unlike most of the programs approved by the Congress, the passage of the "forgotten widows" provision in Section 3 would be a descending cost rather than ascending as the years pass for fewer survivors will remain to receive benefits.

This is a small cost compared to the mammoth expenditures of other government programs both foreign and domestic. More important than cost, however, is the human element of providing some degree of fair treatment to a few thousand deserving widows who, with their husbands and families, have undergone considerable sacrifice for the benefit of this Nation.

The issue simply stated is that the benefit plan (RSFPP) prior to the September 1972 enactment of Survivor Benefit Plan was so costly and had so many uncertainties and inequities that only about 15 percent elected to participate. The Congress, recognizing this, sought to correct the RSFPP by enactment of SBP and permitted living military personnel to participate in the new plan regardless of whether they participated in the earlier plan. But the important point is that the Congress overlooked the need of those husbands died before the September 1972 enactment. This resulted in depriving many deserving widows of participation in the improved plan merely because of the date of death of their husbands. For the DOD to take the position that, in effect says, their husbands had their opportunity to participate in the prior plan (which was admittedly fraught with inequities and uncertainties) and that therefore, the widows need not be allowed an opportunity to participate in the improved plan, indicates a complete disregard for fairness and justice. It is a short-sighted position which, in effect, says let us forget about those widows and concentrate on the present military personnel and their dependents. Such a position, in our opinion, is unconscionable and in the long run undermines the morale of the career serviceman.

The DOD has often deferred to the Congress on this matter. We sincerely hope that the members of the Subcommittee and the Senate will prove their concern for these widows by overwhelmingly passing S. 91 and particularly Section 3. If there is any trade-off of Section 3 for the remainder of the bill, we will be very disappointed. Prompt action is needed, for passage later will not benefit many of the widows presently living. Of course, we consider the offset and other provisions of S. 91 to be needed.

Thank you and the members of your Subcommittee for your interest in these problems. We hope that you will act favorably on this as soon as possible.

Sincerely,

DONALD E. CHANNELL.

Enclosures.

ARLINGTON, VA., July 10, 1979.

HON. SAM NUNN,
*Chairman, Subcommittee on Manpower and Personnel,
 U.S. Senate, Washington, D.C.*

DEAR SENATOR NUNN: Representatives of the Society of Military Widows are scheduled to testify before your Subcommittee on July 12. The Society, so which I serve as the Vice President for the Northeast Region, supports S. 91. We are particularly interested in Section 3. I believe that the following example illustrates the present inequity in the law.

A friend and I were comparing notes recently. In 1953, her husband had chosen to participate in the Retired Serviceman's Family Protection Plan (RSFPP) because they had young children and he wanted the protection for them, even though it took a large hunk out of his salary each month. He could afford to do this only because he had a small outside income. My husband chose not to participate because he considered the expense too great on his military pay. In 1972, when the Survivor Benefit Plan was offered, my husband signed up for that because he considered it a better plan.

Both our husbands are dead now. My friend's husband was a colonel, with 30 years of service, and he put much of his pay into RSFPP. My husband was a lieutenant-colonel, with 22 years of service, and he put much less of his pay into the SBP. Yet, because of the difference in the plans, my monthly checks were higher than hers and, also, mine went up when the cost-of-living rose; hers remained the same.

I am not complaining for myself, because I realize that my husband chose the better plan. My friend did not complain either because she was grateful that her husband had provided for her. But, there are many widows whose husbands simply could not afford RSFPP on their salaries. These are the ones that Senate Bill 91 will help.

We appreciate your concern and sincerely hope that this Congress will pass this much needed legislation.

Sincerely yours,

FRANCES W. DOHERTY.

ORLANDO, FLA., February 8, 1979.

I am a widow of a Navy man. My husband, William Ray Johnston, ICC, Ret. U.S. Navy, died January 19, 1971, having been retired about 12 years, after 20 years of service. My husband passed away about 1½ years before the SBP bill was passed, leaving me a forgotten widow.

My husband served 20 faithful years in service, a part of being: Invasions of Sicily 1943; landing at Tarawa 1943; Evajalion Operation 1944; Marianas Operation 1944; Leyte Landing 1944; Lingayen Landing 1945; Okinawa Operations 1945.

I was married to this man for 30 years. Feeling I have shared a part of all these military activities. I have lived on a very limited income due to his death having been a wife that was not trained to work at public work. I feel I should have been entitled to a pension same as the wives are today, after 1972 bill SBP. I receive a small check from VA of \$69.70 per month. I am 58½ years old. I live in the State of Florida. I feel widows like me have been neglected and forgotten. Hoping revised bill will correct this neglect.

Yours truly,

JULIA E. JOHNSTON.

JONESBORO, ILL.

My husband, Alfred Carhart, was a careerman in the Army, Navy, and U.S. Coast Guard. He joined the Army in 1906 and retired from the Coast Guard on Feb. 1, 1937, for physical disability such as high blood pressure, deafness, poor eye sight, sclerosis, arthritis. Very poor health. He tried to get compensation but was told he would have to give up his retired pay to do so, so he did not get compensation from VA—only his retired pay.

My husband was in and out of the hospital until his death, on Feb. 12, 1945, eight years after retirement. I had 5 dependent children. I filed through Veteran Administration for DIC which I thought I was entitled to, but was denied because he developed pneumonia which was said was cause of his death. The VA says that was not service connected. So, all I every received was a very small pension for myself and five children—about \$60 a month until all became of age. Of course I had to go outside the home to work to care for the family and believe me dear friend, I was in dire need. I always thought my claim through the VA was unjust and unfair to my husband's family after so many years in military service.

My status now. I am disabled since 1974. I will be 65 in February 1979. The years have been real hardship for me. In 1977 I received \$45 from the VA for 1978. Was raised to \$65.88. My 1968 annuity from the Coast Guard was \$116.67 reduced to \$81.83 and with my social security I have a total income of \$103.60. Starting February 1, 1979 there will be \$8.20 deducted from my social security for Medicare.

During my widowhood I have suffered real hardships because of low income and my husband died before he had a chance to provide for us. He was a World War I veteran, served in France, Germany and was a Prisoner of War for a long period of time.

I appreciate and thank you for the time to let me tell you of my hardships I've endured since my husband passed away. I am hoping to see our "Forgotten Widows" bill passed so all of us widows will have a better living in our old days. Thank you.

AMY CARHART.

TACOMA, WASH.

I am one of the "Forgotten Widows". My husband, Frank E. Brown, spent the best years of his life in the Army. He served from 1933 to 1953. He passed away in 1965 so had no chance to change his pension so I would receive a portion of it after his death.

My husband was in the Headquarters Company but during World War II was transferred to the Infantry. Frank was missing in action, wounded and Prisoner of War in Europe.

During the Korean War he was stationed at Fort Richardson in Alaska. I feel the tension of the Korean war caused the ulcers. He suffered from ulcer attacks most of his life after leaving the Army. The last year in Alaska he was treated for ulcers by an Army doctor. It may not have been the direct cause of his death, but indirectly it certainly was.

The information I have received has always left out the "Forgotten Widow" bill or there hasn't been any money to pay for the additional program. But our husbands served our country faithfully for twenty or more years. It just does not seem right to me.

NETHA V. BROWN.

COLUMBIA, S.C.

I am the widow of J. V. Stuart, Major, USA. My husband enlisted in 1917, served in World War I and II and retired in 1948 in his former grade of Master Sergeant, choosing 30-year retirement rather than disability retirement.

No way could we afford RSFPP. My husband died in January 1971 so the change to SBP came too late. I believe 40 or 50 years ago widows were entitled to \$50 monthly pension. To date my VA check is \$53.00 and is always cut when social security is increased. I draw my own social security. My husband had none. On my income I can not afford adequate heat, light, home repairs, and other necessities of life. Also, there are taxes, insurance, etc. Now I am being denied the care of doctors and hospital care in our old age has added greater burdens and cost to our already meager income. For doing nothing aliens in some of our states are given more than our combined social security and Veterans' Administration income, plus their medical care.

Bills have been promised, proposed, never passed, never reached the floor. And the years pass. Some of our Congressmen care and have tried, I'm sure. Won't the rest of you seriously think of the years of our husbands service career ending in death with no security for aged widows for the simple reason we could not afford insurance annuities and such during those low pay years. Sharing those years, raising families on little, alone at times during sickness and health. I don't believe there's a widow over 70 who wouldn't do it again. I would. I'm proud of having been an Army wife. I love my country also.

Sad, but true—we are rightly called the "forgotten widows".

ANNIE H. STUART.

SANTEE, CALIF.

I am Mildred W. Harris, 82 years old, and the widow of Lt. Col. Willis Virdin Harris, U.S. Marine Corps Retired after 32 years of service.

Half of our married life was lived outside of the United States. We were married 48 years.

My husband was in the first and second world wars, and served from 1915 to 1947. He received citations for meritorious and efficient performance of duty while in command of the 4th Service and Supply battalion on Guadalcanal, Solomon Islands, Okinawa, Shima, and Ryukyu Islands from 1944 to 1945, under fire. He was unable to finish the request for the military insurance RSFPP offer due to a massive stroke from which he died two years later.

I receive a \$5 a month pension from the Veterans Administration. It keeps me in stamps. I live in a mobile home. The cheapest I can live in San Diego. I receive a small social security, or I could not even have a mobile home. Is this just to any of us who spent our lives (married) in China, the Philippines, and Nicaragua, where we were exposed to disease and lack of schools? Civil service personnel stayed at home and sent their children to good schools and paid for homes. Some of the "Forgotten Widows" receive no social security. At least I have that which leaves my income below welfare.

MILDRED WADSWORTH HARRIS.

LARGO, FLA.

I am Nell S. Broedlow, widow of Colonel R. W. Broedlow, Infantry, U.S. Army, who had 33 years commissioned service and died of emergency chest surgery on August 10, 1972. He was not retired for physical disability so I get no pension. He did take out a small part of the RSFPP. It was so expensive and all he could afford. He paid into it for 18 years before he died.

My husband was in World Wars I and II. He commanded the 361st Infantry 91st Division and fought in Italy from Anzio to the Yugoslav border. He was decorated with "The Legion of Merit", the Silver Star with Oak Leaf Cluster, The Bronze Star, the Combat Infantryman's Service Badge, also the Military Order of the British Empire as he had a battalion of the Cold Stream Beards attached to his Regiment and also the "Military Cross of Valor of Italy".

I am 78 years old now, too old to work, and with all the inflation my expenses have more than doubled.

The SBP would be a relief from inflation worries.

NELL S. BROEDLOW.

SAN DIEGO, CALIF.

I am Eleanor Beckcom, widow of Henry G. Beckcom, Lieutenant, USN Retired on 1 December 1947, after nearly 30 years of service. He died 15 August 1969, before the 1972 Survivor Benefit Plan was passed which excluded me, as a widow, from any SBP emolument.

My husband spent all of his service years in naval aviation. He first received his designation in lighter-than-air, and subsequently transferred to heavier than air planes. He participated in flight training, but due to events, spent the rest of his time in the engineering department. He served in both World Wars I and II, terminating his career as an engineering officer in Military Air Transport at Olathe Naval Air Station in Olathe, Kansas.

Like all Navy wives I experienced good and bad times. One event was the fact that my husband and I decided we could not participate in the RSFPP because it was much too expensive, attested to by the fact that only about 16 percent of those eligible elected to accept this plan. As a result, when my husband died, I had to sell my home at 10445 Fuerte Drive, Mount Helix, near La Mesa for several reasons, the main reason was the expense of maintaining the property. I was forced to do so and decided to put the money derived from the sale of said property in an Annuity Fund, so as to assure myself of a monthly check for the rest of my life.

But since this income excluded me as being able to receive the minimum VA aid, because it exceeded the minimum \$1,400 yearly income, later increased to \$2,100, I had to live on my own finances.

All living retirees were allowed an "Open Season" of 18 months to sign up for the new SBP program. The widows of pre-SBP deceased retirees and active personnel should in fairness be allowed the same "Open Season" privilege due to the inadequacies in the old RSFPP program and the inequities in VA administered laws for widows and children of military careermen. The "Means Test" is most unfair.

I am 81 years of age, which needs no explanation of why I can not be gainfully employed.

I believe we are the only segment of the Federal service widows who are forgotten, or better said "ignored".

Men in my husband's family have served in the Nation's wars since the American Revolution, with the women, I am sure, standing by their sides, and I think it is a sad commentary on the side of justice and compassion that such women be accorded such treatment while wives of Congressmen, I believe, with few years of service, fare far better. Since our ranks are a fast dwindling group, I believe time is of the essence and it will very soon be too late to receive any help financially on any recognition.

Let us hope and pray that we will soon hear some one say a loud "Yes" or "No". Then we will know where we stand from now on!

MRS. HENRY GRADY BECKCOM.

CRANSTON, R.I.

My name is Elisa Vincoli, Cranston, RI. My husband is Vincent Vincoli, Chief Warrant Officer II, U.S. Army, who served 21 years and participated in World War II and Korea. He was in two battle campaigns, Rhineland and Ardennes

the Battle of the Bulge; was wounded, received the Purple Heart and two Campaign Badges, 2 Bronze service stars, European, African, Middle Eastern service medals, Defense service medal, Korea, etc.

I am 55 years of age. I receive no SBP or RSFPP. I receive a small pension from the VA of \$61 a month and \$226 a month from the civil service. My husband wanted to combine both, but in 1975 he had a massive heart attack while at work. He lost his memory and was partially paralyzed and slight brain damage. He was forced to retire on disability. I didn't know what to do. When my husband passed away the retired army pay was stopped and they told me the Army can't pay me and I would have to go to the Veterans Administration. I had a son 16 years of age at the time. Every penny we saved has dwindled into nothing. My son is 18 years of age, going to college working his way. All the years my husband put in the Army are lost. The Army is all done with us. We are considered a "Forgotten Widow" and a "Forgotten Orphan".

ELISA VINCOLI.

CLOVIS, CALIF., *January 17, 1979.*

My name is Jennie V. Hanson, widow of George R. Hanson, MMCS., U.S. Navy. Mr. Hanson served 24 years of active duty, participated in World War 2 and the Korean War.

Transferred to the Naval Reserve September 1, 1966. Died May 29, 1972, five months before the Widows Equity Bill was passed in September 1972.

His death was the result of Mesothelioma cancer caused by exposure to asbestos while on active duty.

November 23, 1978 I was finally awarded a pension in the sum of \$5.00 per month. That amount I feel is an insult to a man's memory who lost his life for reasons stated.

I am in ill health and also too old to try working.

The Widows Equity Bill enacted in September 1972 is total discrimination for all widows who were left out.

We are asking for that discrimination to be rectified. It's certainly very unfair that women who now marry retirees and widowed can and do get good pensions, where we who were married to in-service men all through their career get nothing or if so a mere token.

Yours truly,

JENNIE V. HANSON.

Senator NUNN. Thank you very much.

Our next witness is Mrs. Walter Locke, president of the National Military Wives Association.

We are delighted to have you today and we will be glad to have you introduce anyone you would like for the record.

STATEMENT OF ROSEMARY A. LOCKE, PRESIDENT OF NATIONAL MILITARY WIVES ASSOCIATION

Mrs. LOCKE. Mr. Chairman, distinguished members of the subcommittee, I am Rosemary Locke, president of the National Military Wives. I am presenting this testimony prepared by our legislative chairman Caroline B. Davis. Accompanying me today is our past president, Sally Griffen and some of our board members.

Senator NUNN. We are delighted to have all of you here.

Mrs. LOCKE. Thank you.

Our organization has members in all 50 States. We represent wives, dependents, and widows of active duty and retired military servicemen. Many of our widowed members are fortunate enough to be survivor benefit plan annuity participants; others are not. We get many sad letters from widows whose husbands made no financial provision for them. The active duty wives are potential survivor benefit plan beneficiaries. Along with their husbands they are still in the decisionmaking process about survivor benefit plan. We wish to

support Senator Thurmond's bill S. 91, to improve survivor benefit plan inequities.

The Survivor Benefit Plan of 1972 was a splendid idea which developed serious flaws on its way to becoming a law. In the past 7 years some inequities have been studied and corrected while others were glossed over or set-aside due to their complexity and to lack of understanding and communication. There has been a genuine gap in communication between the servicemen, their wives, the Department of Defense, and Congress.

A January 1979 newsletter survey by our National Military Wives Association of members in all areas of the United States, combined with information gathered from other sources, has revealed the following facts which influence the retirees' decision to participate in the survivor benefit plan:

The serviceman balks at participating because of the cost, which is \$16.32 higher per month than a civil service retiree pays for exactly the same survivor benefit plan annuity for his widow.

The serviceman balks at the social security 100 percent offset. Despite his service years of contributing to social security and paying for the survivor benefit plan, his widow's SBP annuity would be offset dollar for dollar by her (deceased) husband's social security entitlement based on his military service.

If a widow had been a wage earner and earned her own social security entitlement and has not claimed her husband's entitlement, her survivor benefit plan annuity would still be offset 100 percent. Therefore, total elimination of the social security offset from a wage-earner-wife's survivor benefit plan annuity is essential and fair. Since an increasing number of military wives will be working and contributing to social security, this offset will become more important in the husband's decision to participate in the survivor benefit plan.

The servicemen's organizations tell us that the survivor benefit plan would be more viable if a greater percentage of retirees participated, for example, 85 percent instead of the present 40-50 percent. The National Military Wives Association would support a specific period of open enrollment with provision for adequate back payments or another fair and satisfactory arrangement.

I am the wife of an active duty naval officer. My concern for my fellow friends is that presently only 35 percent of retiring Navy men are signing up for this survivor benefit plan. That means 65 percent of the wives will not be covered by any program.

As spokeswoman for present and potential beneficiaries of the survivor benefit plan, I appreciate this opportunity to testify and we wish to thank you, Senator Nunn, and your committee for your efforts on behalf of military wives and widows.

Senator NUNN. I thank both of you for being here. You probably know more than actuaries about how many people will participate if we pass all the provisions of S. 91. How much of this lack of participation is due to inequity and how much of the lack of participation could be cured by taking these steps that you are advocating here today? Would you please give us your estimate?

Mrs. LOCKE. First of all, we have two problems. One is not your problem. There is a gap in communications. It is a serious one. I am appalled when I speak to many active duty wives and their husbands who are not knowledgeable at all about the survivor benefit

plan. The ones that are knowledgeable read military newspapers and see the inequities. Of course they say, "Well, it is not worth my while to sign up," because they figure out how old your wife would have to live in order for it to pay off. Therefore, we have two problems. First the serviceman and his wife are not knowledgeable about the survivor benefit plan; second the plan's inequities. I must confess that knowing those inequities and after hearing the Defense Department present this new proposed plan, I have lost heart.

For example, the provision that would not cover the widow of a husband who died on active duty but would have been entitled to retirement seems totally unfair.

Senator NUNN. Would your organization be willing to help conduct an educational effort in order to increase the participation if something along this line were passed?

Mrs. LOCKE. Absolutely. In fact one of our main goals is to educate the wives about the benefits that husbands have earned now and any proposed benefits.

Senator NUNN. Thank you very much. We appreciate what the wives of our servicemen contribute to our national security. We know how important you are.

Mrs. LOCKE. I thank you.

Senator NUNN. Our next witness is Mrs. Betty Martin, acting president of the National Association of Military Widows. Mrs. Martin, we are delighted to have you with us this morning.

Senator Jepsen, any time you want to ask questions you go ahead.

STATEMENT OF BETTY MARTIN, ACTING PRESIDENT, NATIONAL ASSOCIATION OF MILITARY WIDOWS

Mrs. MARTIN. Mr. Chairman, I am Betty Martin representing the National Association of Military Widows.

I will present the statement of Jean Arthurs, our legislative director, who could not be here today.

We appreciate the privilege of presenting our views on issues relating to military survivor benefits as introduced in Senator Thurmond's bill S. 91.

Our military widows have one main premise—we ask for equity in the military and civil service survivor benefit programs. The military and civil service serve the same Federal Government, share the same paymaster, and should receive equal benefits; and we feel this includes the military "forgotten widows."

In an effort toward expedience I will briefly state our reasoning.

In 1948 the Civil Service Federal Employee Compensation Act was passed. In 1958 it was amended to include all pre-1948 civil service widows—with no contribution made. The military survivor benefit plan was passed in 1972—but it was not made retroactive to cover the pre-1972 widows. Why, we wonder, since SBP was patterned after the FECA? This is outright discrimination among categories of Federal widows.

The "forgotten widows" became widows before the survivor benefit plan was passed on September 21, 1972. These women are a group of older widows—60 to 90 years of age, whose husbands were careermen, devoted to the preservation of our country, who lived through long

war periods with very low pay, no housing such as today's on-base quarters—and it was costly to find any housing on the economy during those war periods; the constant transient status—which kept the budget drained in an effort to keep the family together.

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.

Many of these widows are not eligible for social security as their husbands were retired before the benefit was made available to military personnel. Attached to my testimony is a typical letter from a widow in Savannah, Ga., which I implore you to read.

Current problems include high taxes, evictions as apartments become condominiums, ever-increasing inflation. Inadequate medical care entails months of waiting for an appointment, or no appointment at all, because of the curtailment of facilities. With the aging factor, all hope is precluded which reduces these fine widows to an intolerable existence as economic captives. Is this the dialog of "caring for the widow and his orphan for which the serviceman has given his life for his country"?

Enacting Senator Thurmond's bill, S. 91, will help correct these inequities. Equity demands that military widows be given equal treatment with civil services widows.

This is one bill with a diminishing cost. By the year 2000, most of these galling widows will be dead.

The DIC widows considered here are those whose husbands were retirement eligible, having served 20 or more years, but who died on active duty, precluding their participation in retirement benefits. This is a small group of widows about 600, who could be included in the Survivor Benefit Plan. It is not a case of awarding the full 55 percent of the husband's retired pay; it is a case of raising the widow's current DIC payment from 20 to 55 percent. Again, since they are a small portion of the "forgotten widows," this inclusion of DIC widows would be a self-decreasing cost factor. By the year 2000, they will not be living.

Congress created inequities between categories of widows within this group when they passed the Survivor Benefit Plan 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 before retirement, which prevented retirement perquisites. Very tragically, this provision was not made retroactive to include the small number of pre-1972 DIC widows of careermen.

Due to the time of death, discrimination within categories exists. As an example, the widow who lost her husband on September 20, 1972, receives only DIC—averages 20 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 her husband's retired pay as of September 1972—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.

Under current law, DIC payments terminated with remarriage, regardless of age. The SBP, the RSFPP, and the FECA continue annuities if remarriage occurs after age 60. Furthermore, the above-mentioned post-1972 widow would lose her DIC on remarriage, but the SBP annuity would be increased to the full 55 percent to cover the loss of DIC due to remarriage. Unfortunately, the pre-1972 DIC widow is not so covered.

You say there has to be a cutoff date? It was just as tragic and difficult to live and raise a family alone if she lost her husband in a raid on Iwo Jima as in an encounter on Vietnam. The incidence of time of death is an inequitable solution to this problem, and should not be a determining factor in equitable coverage.

As of September 1972, all military retirees can subscribe to the new SBP when they retire and provide 55 percent of their retired pay as a survivor benefit annuity for their dependents. However, when the survivor becomes eligible for social security payments, either her husband's or her own, which she has paid for from her own earnings, her SBP payment is reduced by the amount of her social security payment.

Often the annuity is substantially reduced or canceled altogether. What a shock to reach that 62d birthday and find the SBP has been reduced to \$5 or \$6. SBP and social security were paid for with two separate premiums and in many cases, it was the widow's own payment.

The pre-1972 widows had no control toward improvements in benefit plans as was afforded the living retirees who were accorded "open periods" for enrollment in the survivor benefit plan. The RSFPP could not be considered a viable plan, therefore, the SBP was a necessity, and "open periods" were provided. How tragic the widow's sponsor could not return from the dead to sign up.

Not being allowed to participate, it is a definite affront to the widow when the SBP allows a retiree to remarry, he dies a year and a day later, and his wife of a year collects full SBP of 55 percent. The careerman's widow who spent her life as a helpmate with her husband in serving our country—gets nothing.

I wish to thank you, Chairman Nunn, and members of the committee and staff. Thank you for allowing me this privilege of testifying today.

[The prepared statement of Jean Arthurs follows:]

PREPARED STATEMENT OF JEAN ARTHURS, LEGISLATIVE DIRECTOR,
NATIONAL ASSOCIATION OF MILITARY WIDOWS

Mr. Chairman and members of the committee: I am Jean Arthurs, legislative director for the National Association of Military Widows. I represent all widows of careermen and reservists in all branches of the uniformed services whose husbands died either during active service or following disability or non-disability retirement.

We thank you for the privilege of appearing before this distinguished Committee to present the views of Military Widows with respect to pending legislation.

The goal of military widows is to obtain equity for survivors of all categories of federal employees. Military personnel are federal employees and they deserve all the rights and privileges Congress has accorded to non-military government employees.

Our legislative objectives are rooted in the fact that military personnel are federal employees and should be granted the same rights and privileges as Federal Civil Service personnel. Senator Strom Thurmond, (R-SC) has introduced Senate Bill 91 to provide inclusion in the Survivor Benefit Plan of dependent survivors of career and reserve members of the armed forces whose husbands died before 21 September 1972, and to correct inequities in the Survivor Benefit Plan created by the Social Security offset.

The "forgotten widows" became widowed before the Survivor Benefit Plan was passed on 21 September 1972. As a group, they are older women (60 to 90 years of age) whose husbands retired with twenty to forty years of service. These widows are victims of long war periods, low pay for the military, no housing such as today's on-base quarters, and the constant transient status of short tours which drained the budget in an effort to keep the family together. It is my regret that the country has so soon forgotten the perilous life our military people have lived from World Wars I and II, the Korean Conflict, through Vietnam.

Current problems include high taxes, evictions as apartments become condominiums, and ever-increasing inflation which, combined with the aging factor, preclude any hope other than existing as economic captives. Many of these widows are ineligible for social security benefits due to their husbands' pre-1956 retirements.

The Civil Service Survivor Annuity Plan was passed in 1948 and in 1958 was made retroactive to include all Civil Service widows. The military Survivor Benefit of 1972 has not been made retroactive. This is a clearly discriminatory action, since both civil service and military service are for the same United States Government—the same paymaster.

As of September, 1972, all military retirees can subscribe to the new Survivor Benefit Plan when they retire after twenty or more years of service and provide up to 55 percent of their retired pay as an SBP annuity for their wife and dependent children. However, when the survivor becomes eligible for Social Security payments, either her husband's or her own, which she has paid for on her own earnings, her SBP payments are reduced by the amount of the Social Security payment. If the survivor is receiving DIC, this, too, is deducted from her SBP annuity. Because of these deductions, the older survivor finds that her SBP annuity is substantially reduced or canceled altogether.

Under the Civil Service Survivor Annuity Plan, there is no deduction for Social Security payments. Take the case of an inactive reservist who worked under Civil Service. Having served only a few years in the military, and having elected to become an inactive reservist, a man could take a position in Civil Service and immediately have his military years counted as time served under Civil Service. When he retires from Civil Service, his retirement is based on those combined years. In addition, when he reaches age 60, he receives full military retirement and can elect to have his survivor covered under the Survivor Benefit Plan, thus giving her both the Civil Service Annuity and SBP. In addition, if the wife has worked and paid into Social Security, she can collect that at age 62 or 65. Thus the inactive reservist's survivor is protected under three survivor plans, while the career military man who died before 21 September 1972 could not provide even one annuity for his survivor. It is impossible to justify such discriminatory practices between the two categories of federal employees. Equity demands that military widows be considered in the same manner as the widows of civil servants.

The pre-1972 widows had no control toward improvements in benefit plans as was afforded the living retirees who were accorded "open periods" for participation in the Survivor Benefit Plan and the reservists who have, in effect, three different options for participation in survivor benefits. It is impossible for these widows to return their husbands from the dead to sign up for the plan.

In contrast to most legislation which has an ever-escalating cost factor, inclusion of the pre-1972 widows in the Survivor Benefit Plan would be self-decreasing, due to the age of the recipients. Within the next decade, the cost factor would be less than half the original amount, and by the turn of the century, very few, if any, of these women will be living.

DIC WIDOWS

The DIC widows considered here are those whose husbands were retirement eligible, having served twenty or more years, but who died on active duty, precluding their participation in retirement benefits. This is a small group of widows, about 6,000, who could be included in the Survivor Benefit Plan at a cost of only \$5,184,000. As with the "forgotten widows", this is an older age group whose ranks are ever diminishing. It is not a case of awarding a full 55 percent of the husband's retired pay; it is only a case of raising the widow's current DIC payment to 55 percent of her husband's retired pay. Again, as in the case of the "forgotten widows" this inclusion of DIC widows would have a self-decreasing cost factor.

Congress created inequities between categories of widows within this group when they passed the Survivor Benefit Plan on 21 September 1972. DIC widows whose husbands were retirement eligible, but who died on active duty, were automatically included in SBP with no contribution made. (Retirement eligible, but death on active duty, precluded retirement prerequisites; therefore, it is right and just that these widows be included in SBP.) However, it was not made retroactive to include the small number of pre-1972 DIC widows in this category. Due to the time of death, Congress has discriminated within categories of DIC widows by including only the post-1972 widows, and not the others. For example: The widow who lost her husband on 20 September 1972 receives only DIC (average 20 percent of her husband's retired pay) whereas the widow whose husband died one day later, 21 September 1972, receives DIC and SBP combined which is 55 percent of her husband's earned retirement annuity.

No "open period" was allowed for these widows to join the Survivor Benefit Plan in 1972. It seems only equitable that these pre-1972 DIC widows should not be penalized simply for the accident of date of their husbands' death. The time factor should not deny them equal treatment with their post-1972 counterparts.

Under current law, DIC payments terminate with remarriage, regardless of age. The SBP, RSFPP, and Civil Service continue annuities if remarriage occurs after age 60. Furthermore, the post-1972 DIC widow would lose her DIC payment on remarriage, but the SBP annuity would be increased to the full 55 percent to cover the loss of DIC due to remarriage. The pre-1972 widow is not so covered. This is outright discrimination against the pre-1972 DIC widows. Civil Service, RSFPP, and SBP rationalization is that, if a widow over sixty can find marriage, she deserves to keep her annuity and not be forced to live in sin.

The DIC benefit (averages about 20 percent instead of 55 percent) is low in comparison with other systems which consider such payment as casualty compensation. DIC is the only formula that is self-reducing; the higher the rank attained and the longer the husband served, the smaller percentage the widow receives.

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 moments' notice."

In conclusion, Mr. Chairman, I wish to state that in the interest of equity, compassion, and respect for human dignity, it is imperative that the widows' bills be given highest priority.

Thank you, Mr. Chairman, for giving me this opportunity to present this statement and to offer these recommendations for alleviating the serious and unjust hardships of our military widows. I will be pleased to answer, to the best of my ability, any questions you may have.

Thank you.

SAVANNAH, GA., June 3, 1979.

National Association of Military Widows.

Will you please send me information about your organization, and its goals.

My husband died in 1957 of cancer, after his return from Okinawa, and Korea in 1955, Nov.

He also served in World War I in France for three years.

He retired in 1955, November, and was receiving Col's. retired pay. He died on May 9th, 1957.

He was sick when he returned, but did not know he had cancer, as Army examinations did not show it. He died without knowing he had it. We had been happily married for 35 years. My income now is \$50.40 a month, and that is my income from the Veterans Adm.

I hope your organization can help the survivors.

The \$50.40 a month has never been raised one cent, for cost of living increase, or for his 31 yr. service, in Army and M.C.

Please give me information how to go about receiving increase in my \$50.40 widows check.

I have friends whose husbands died *after* 1972, and receiving much more income, plus cost of living checks and increased with cost of living.

I am 80 years old and not able to work.

Yours truly,

Mary E. Lee.
Mrs. F. G. EVERETT.

FACTORS RELATING TO THE MILITARY SURVIVOR BENEFIT LEGISLATION

Military Personnel are Federal employees and deserve all the rights and privileges Congress has accorded the Civil Service Employees.

DIC (AMENDMENT TO H.R. 3702)

6,000 Widows Cost: \$5,184,000

There are 3 categories of DIC widows; this amendment covers the 3d.

1. Husbands not retirement eligible; covered by VA with DIC. Includes 40-50-100 percent disability veterans.

2. Husbands retired, death service-connected after retirement. This group covered by S. 724 as "forgotten widows".

3. Husbands retirement eligible; but died on active duty.

Congress created inequities among categories of widows in this group when they included post-1972 active duty deceased widows in the SBP—with no contribution made and failed to make it retroactive to include the small group of pre-1972 active duty deceased widows.

DIC terminates with remarriage—even after age 60. SBP, Civil Service, Social Security allow the annuity to continue after age 60, and not force these older widows to "live in sin". These are older widows (60-90 years).

Post-1972 DIC widows in this category are automatically included in the SBP—with no contribution made. They can remarry after age 60; lose their DIC; and SBP will reimburse the DIC loss to the full 55 percent of retirement pay.

Husband deceased September 20, 1972.—Widow receives DIC (20 percent) loses DIC with remarriage even after 60; medical terminated.

Husband deceased September 21, 1972.—Widow receives DICSBP (55 percent) can remarry after age 60; loss of DIC; SBP increased to full 55 percent.

Civil servant deceased in 1958.—Widow can remarry after age 60 keep SBP; reinstate medical if 2d marriage dissolves.

DIC is only self-reducing benefit formula known. The higher rank attained and longer served, the smaller the percentage the widow receives.

Same background and status as "forgotten widows". Older widows will be deceased by the year 2000; therefore diminishing cost factor.

PRE-1972 WIDOWS S. 724

"Forgotten Widows"

Widows whose husbands retired with 20-40 years of service. Older (60-90).

Victims of long war periods, low pay with no housing, transient status. Current problems involve high taxes, evictions as apts. become condos., ever increasing inflation affecting existence.

Due to advanced age, by the year 2000 all will be deceased; therefore humane factor exists; diminished cost.

Many husbands were pre-social security therefore such benefits non-available.

As Minimum-income widows, many are in dire straits. (Under SSI, non-taxpaying aliens receive \$295, monthly with no contributions made + COL). These service widows are at the mercy of Congress.

In 1948 the Civil Service SBP was passed; and in 1958 it was made retroactive to include these widows. In 1972 the Military SBP was passed; and it has not been made retroactive to cover these widows. Equity demands equal treatment.

The Secretary of the Army as 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 life style, the 24-hour call, the "perils and discomforts" with readiness to serve anywhere, to go to hazardous places at a moment's notice."

SBP INEQUITIES

Reducing the Soc. Sec. Offset against SBP to 100 percent to 50 percent.

Two separate programs; paid with two separate premiums; inequitable to offset one with the other.

Eliminate the Soc. Sec. Offset when there is one dep. child. No offset when more than one—outright discrimination against child and mother—cost for one.

Soc. Sec. Offset is made against SBP when annuitant becomes eligible whether receiving soc. sec. or not—even when it is her own earned soc. sec.

Senator NUNN. Thank you very much for being with us.

Senator Jepsen, do you have any questions?

Senator JEPSEN. I did read the letter, by the way, while listening to you at the same time.

Senator NUNN. I did also.

Senator JEPSEN. You don't have any numbers for these forgotten widows? Do you have a ballpark figure, how many we are talking about.

Mrs. MARTIN. I, sir, do not have the chart with me. That is attached to the other testimony. That was a figure that was presented to us by DOD. I do not even know the recent figures because I do not have the chart in front of me.

Senator JEPSEN. There isn't any figure here. Maybe I am missing something. Do you have a ballpark idea about how many there are in this group?

Mrs. MARTIN. Of the "forgotten widows"? Approximately 40,000.

Senator NUNN. That is about the figure we have, about 40,000. What would be the average? Would there be any way of knowing?

Mrs. MARTIN. I didn't give you a very close average. I said 60 to 90. Let us say the average is 65 or 75. They are not young widows because after all if they were widows before 1972 they are not likely to be particularly young widows who were included in this plan. They are a group of older widows.

Senator NUNN. You look mighty young. That is the reason why I asked. Thank you very much for being here.

Mrs. MARTIN. Thank you Mr. Chairman.

Senator NUNN. We have covered the list of witnesses that I have. Is there any organization which has been left off that requested testimony today?

STATEMENT OF C. A. "MACK" MCKINNEY, DIRECTOR, GOVERNMENT AFFAIRS, NCO ASSOCIATION

Mr. MCKINNEY. My name is Mack McKinney. I am with the Non-commissioned Officers Association. I wanted to add my remarks to those of Mr. Nolan but he got out of here too quickly. If you don't mind I will just take about 20 seconds here.

Senator NUNN. Go ahead.

Mr. MCKINNEY. We have developed a table which we have submitted to the committee citing an example of the disparities caused by the social security offset, using actuary tables developed by the Defense Department.

We found that in 1971 an average officer's widow realized 149.4 percent return on her husband's lifetime contribution to the SBP, an enlisted widow gained 128.9 percent, for a difference of 20.5 percent between the two.

In 1979 the officer's widow realizes a small gain of 100.4 percent compared to the enlisted widows 4 percent. The difference is now 100 percent.

Also, Mr. Chairman, the association desires to place the following request in the record. Should the U.S. Senate fail to recommend a significant reduction in the current social security offset, its membership, as resolved in convention July 3, 1979, unanimously petitions the Congress to amend Public Law 92-425 to authorize participants to voluntarily withdraw from the plan at their request.

Thank you Mr. Chairman.

[The petition submitted by Mr. McKinney follows:]

WASHINGTON, D.C., July 11, 1979.

Hon. SAM NUNN, U.S.S.,
Chairman, Subcommittee on Manpower and Personnel, Senate Armed Services
Committee, Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: A copy of a resolution adopted unanimously July 3, 1979, at the 18th Annual Convention Meeting of the Association's membership is attached for your information. It reflects the feelings of the members of the NCOA regarding the current provisions of the Military Survivors Benefit Plan (Public Law 92-425 as amended).

Also attached is a copy of a table developed by NCOA showing an example of the disparity between benefits received by the surviving spouses of an average officer and enlisted member participating in the plan. Please note item 17 therein.

We request that this letter and its attachments be made a part of the records of the hearing conducted on Senate bill S. 91, July 12, 1979.

Thank you.

Sincerely,

C. A. "MACK" MCKINNEY,
Director of Government Affairs.

Enclosures.

UNIFORMED SERVICES SURVIVOR BENEFIT PLAN (PUBLIC LAW 92-425)

	Officer		Enlisted	
	1971	1979	1971	1979
1. Average age at retirement.....	47.2	47.2	42.5	42.5
2. Average number of years active service.....	24.1	24.1	21.4	21.4
3. Average number of years on retirement rolls.....	27.6	27.6	31.8	31.8
4. Average monthly retirement annuity.....	\$792	\$1,237	\$322	\$502
5. Average monthly contribution to SBP (2½ percent of 1st \$300 plus 10 percent of balance).....	\$57	\$101	\$10	\$28
6. Average annual contribution SBP.....	\$680	\$1,214	\$116	\$332
7. Average lifetime contribution (item 6×item 3).....	\$18,711	\$33,517	\$3,686	\$10,525
8. Average age of spouse at time widowed.....	71.1	71.1	71.9	71.9
9. Average number of years remaining for widow.....	12.9	12.9	12.4	12.4
10. Average monthly annuity to widow (55 percent × item 4).....	\$436	\$680	\$177	\$276
11. Average lifetime SBP annuity to widow (item 10×item 9×12).....	\$66,708	\$104,040	\$26,195	\$40,847
12. Average monthly social security offset (Estimated).....	\$131	\$241	\$120	\$202
13. Estimated average lifetime offset (item 12×item 9×12).....	\$20,043	\$36,873	\$17,760	\$29,895
14. Estimated average monthly annuity for widow after offset (item 10—item 12).....	\$305	\$439	\$57	\$74
15. Estimated average annual annuity for widow after offset.....	\$3,660	\$5,268	\$684	\$888
16. Estimated average lifetime annuity for widow after offset.....	\$46,665	\$67,167	\$8,436	\$10,952
17. Estimated average percent of return on investment (item 16—item 7÷item 7).....	*149.4	†100.4	*128.9	†0.4

*20.5 percent difference.

†100 percent difference.

Note 1: Items 1, 2, 3, 4, 8, and 9 were obtained from Report No. 92-1089, 92d Congress, 2d session, "Establishing a Survivor Benefit Plan for Members of the Armed Forces in Retirement, and for other purposes," Sept. 6, 1972.

Note 2: Pay scales in item 4 (1979) were effective Oct. 1, 1978.

Note 3: Item 12 (1979) were obtained from DOD SBP Study, Feb. 1, 1979, p. 4-17.

RESOLUTION NO. 15.—AMENDMENT TO SURVIVORS BENEFIT PLAN (SBP)

Whereas the Survivors Benefit Plan (SBP), Public Law 92-425, contains discriminatory provisions applicable to enlisted men and women of the U.S. Armed Forces by reducing the amount of annuity to the surviving spouse by 100 percent of the social security benefit earned as a result of military service; and

Whereas the social security offset causes the enlisted member to pay an estimated 125 percent of a resulting survivor annuity that may increase two-fold by 1987;

Therefore, be it resolved, That the Non Commissioned Officers Association of the United States of America in annual membership meeting this Third day of July 1979, petitions the United States Senate to correct this inequity by considering for immediate passage Senate bill S. 91 sponsored by the Honorable Strom Thurmond, the senior Senator from South Carolina; and

Further be it resolved, That should the United States Senate fail to recommend reducing the social security offset, the Non Commissioned Officers Association of the United States of America petitions the Congress to Amend Public Law 92-425 so that current participants may voluntarily withdraw from the plan at their earliest request.

Adopted: July 3, 1979.

International Secretary,
Non-Commissioned Officers Association of USA.

Senator NUNN. Thank you, Mr. McKinney. We always benefit from your thoughts. We appreciate your representation of non-commissioned officers of the United States.

We thank you for being here, and we appreciate your comments.

As far as the committee's plans, as all of you who have been sitting here know, we have received a tremendous amount of new information today. We are going to take all of that into account and give our staff a little bit of time to work on it. We anticipated having these hearings earlier in the year. The reason we didn't is because the information we anticipated was not forthcoming. I think we do have the information now. There are different estimates but at least we have the benefit of, I suppose, the best estimates we are going to get. It would be my hope that we could have some early discussions in the committee and at some point in the near future deal with this subject.

I certainly intend to deal with it in this legislative session, meaning this calendar year.

I think the witnesses today have made an extraordinarily clear case for the gross inequities that exist in this. I agree with your general position that what we have to do is find a way to deal with the subject so that it can be passed, as much as possible paid for by the taxpayers, and also it has to be signed into law. We have to deal with the White House on this and the administration. We have to find something that even if they don't like it they will sign into law. This is our plan. We hope to continue to work with those who are here today and the people you represent.

QUESTIONS SUBMITTED FOR THE HEARING RECORD

[Questions submitted by Senator Sam Nunn, answers supplied by Col. Leon S. Hirsh, Jr., USAF, Director of Military Compensation:]

INTEGRATION OF SOCIAL SECURITY WITH SBP

Senator NUNN. What is the Department's position concerning the advisability of continuing to integrate social security with the military Survivor Benefit Plan? Does the Department think it appropriate that the military Survivor Benefit Plan be affected by future changes in the social security law which may bear no relationship to the survivor plan?

Colonel HIRSH. In the Department's opening statement we proposed a Survivor Benefit Plan for the future that would be technically independent of the social security system. The main feature of the new system would be its actuarially neutral characteristic. There would be neither a cost nor a profit to the government. Since reductions in retired pay would be geared to Survivor Benefit Plan

benefits actually received, there would be no effect on the member's cost from the integration of the new Plan with social security benefits. With regard to the current Plan, since it is based on a cost sharing feature between the government and members, albeit the present relationship is tipped in the government's favor, it does appear appropriate that the Survivor Benefit Plan be integrated with social security benefits. This is pertinent when considering the government's contribution under each system, especially in association with the amendments offered by S. 91. As long as there is a direct integration with social security in the Survivor Benefit Plan law, the Survivor Benefit Plan will be affected by future social security changes.

RETIREMENT REFORM

Senator NUNN. Does the Administration's military retirement reform package, which I understand is still being staffed within the Administration, consider integration of social security with military retired pay? If so, how is this done and could it apply to the current Survivor Benefit Plan?

Colonel HIRSH. The Uniformed Services Retirement Benefits Act does include integration of social security with military retired pay. The social security indexed earnings attributable to military service are calculated in generally the same method as is currently used in SBP, however, in calculating the primary insurance amount (PIA), the proposal assumes that the member dies at retirement while the current SBP law assumes that the member is age 65 at death. The offset is calculated by multiplying the resultant PIA by $1\frac{1}{2}$ percent times years of service. This method could be applied to the current SBP system.

COST METHODOLOGY

Senator NUNN. Do you have any knowledge as to why there is a different methodology in determining cost to the member under the military and civil service Survivor Benefit Plans?

Colonel HIRSH. The legislative history of the Survivor Benefit Plan indicates it was intended that the cost methodology for the military and civil service Survivor Benefit Plans would be similar. Section 1462 of title 10, United States Code, addresses the reduction in military retired or retainer pay. Section 8339 of title 5, United States Code, covers the reduction in civil service retirement annuities to provide survivor protection. Notwithstanding the original intent, the technical language of the two sections results in a different cost methodology being applied to the two Plans, probably inadvertently. Only at the initial calculation of members costs do the military and civilian retiree pay the same amount for the same coverage. When cost-of-living adjustments occur to retired pay, differences in the costs for participation in each program also occur solely because of the mathematics specified. Under the SBP, the full amount of the retired pay increase is applied to the base amount, and the cost for ABP participation is recalculated on the new adjusted base amount. By contrast, the civilian program applies the cost-of-living increase only to the amount of retired pay that was reduced for participation in the civilian program. The reduction is not recalculated, as is done under the military SBP and the cost differential develops.

CIVIL SERVICE AND MILITARY RETIREMENT SYSTEM

Senator NUNN. Do you believe that since both the civil service and military retirement systems are fundamentally different, in terms of average years of service, average age at retirement, contributions to the retirement system, and so forth, that a difference in formula for determining cost under the survivor plans is appropriate since such plans are an integral part of the respective retirement system?

Colonel HIRSH. The military and civilian retirement systems do have fundamental differences; however, the cost formula for retired military members was designed to parallel that for retired civil employees. Consequently, it is appropriate that the cost formula under the present SBP maintain that relationship. Under the modified military survivor plan set forth in our opening statement, it would be appropriate for the two cost formulae to be different since they would not be based on the same structure.

COST-SHARING RATIOS

Senator NUNN. Have you done any analyses of so-called cost sharing ratios between officers and enlisted personnel under the Survivor Benefit Plan? Is there

any difference in what portion an officer or enlisted member pays for his survivor coverage? How do the cost sharing ratios vary for personnel with 20 and 30 years of service?

Colonel HIRSH. We have done extensive analysis of cost sharing ratios.

Today, the typical enlisted member assumes about 125 percent of the cost, and the officer about 76 percent. Projecting into 1987 when all military service will be covered employment for social security purposes, we find that the typical enlisted retiree will be carrying 236 percent of the SBP cost through his contributions while the typical officer will have assumed 110 percent of the costs.

The 50 percent offset would reverse this process. A typical 1979 enlisted retiree would assume somewhat less than 60 percent of the cost, and the officer somewhat more than 60 percent.

In general under the current system and due to the social security offset, a retiring member obtains a more favorable cost sharing ratio by protecting higher dollar amounts as a result of covering a higher percentage of pay, by being higher rank, and by having more years of service.

The cost sharing ratios under the current system are unfavorable for the enlisted member due to the regressive nature of social security and thus of the social security offset. Even though the E-7's pay is roughly one half of the O-5's pay, his social security benefit and thus his offset is considerably more than one half of the O-5's social security benefit. This same regressive nature of social security is apparent when comparing the cost sharing ratio of members with 30 years of service versus members with 20 years of service. The retired pay due to time in service and rank go up faster than the social security offset, thus causing the offset to be a lower percentage of the SBP benefit. For recent retirees, the member with 30 years of service and several years with no social security coverage which helps keep his social security offset down. Additionally, the older a member is at retirement the more favorable his cost sharing ratio since he will pay in for fewer years.

There is a difference in what portion of pay an officer or enlisted member pays. The same cost rules apply to both (\$300 base amount at 2½ percent, plus 10 percent for all above \$300); however, the less expensive \$300 base covers a greater percentage of the enlisted member's pay than it does of the officer's. Thus if an E-7 with 20 years of service wishes to cover 90 percent of his retired pay, it would cost him \$23.39/mo. or 4.5 percent of his pay. If an O-5 with 20 years of service wishes to cover 90 percent of his retired pay, it would cost him \$77.43/mo. or 7.0 percent of his pay. On the other hand if both choose to cover \$500, it would cost them each \$27.50/mo. This would represent 5.4 percent of the enlisted member's pay and 2.5 percent of the officer's pay.

CHANGE IN SOCIAL SECURITY OFFSET

Senator NUNN. Is a flat change in the social security offset from 100 percent to 50 percent for all personnel the most appropriate way to address future potential changes in the cost sharing ratios between officers and enlisted personnel?

Colonel HIRSH. If one wishes to maintain the structure of the current system, a change to greatly reduce the social security offset is a necessary first step. This step will immediately have the effect of making the enlisted cost sharing ratio more favorable than the officer's and recreating roughly the original cost sharing ratios. Social security changes, inflation, and the computational methods involving the \$300 base amount will all combine to erode this corrective action in the longer term, however.

All of the problems associated with social security offset, officer/enlisted cost sharing ratio, and inflation would be addressed by the administration's actuarially neutral proposal for future participants.

SIZE OF SOCIAL SECURITY OFFSETS

Senator NUNN. I understand that DOD disagrees with CBO on the size of social security offsets that survivors are likely to experience in the next several decades. CBO has indicated to my staff that their numbers are based on an analysis that reflects factors critical to the size of the offset. These factors include the year and age when a person is likely to become a survivor, as well as the likely year that survivor's spouse retired and his years of service at retirement. Were the Department's estimates based on some similar analysis?

Colonel HIRSH. Yes sir, the DOD model and inputs accurately reflect the factors critical to the size of the offset, such as the year the person becomes a survivor, the year the survivor's spouse retired, and his or her likely years of service at retirement. In addition, our analysis has included consideration of the number of

years under social security. Finally, we have confirmed the reasonableness of our inputs through cross checks with actual data from the service finance centers and other sources.

ANALYSES OF SBP

Senator NUNN. If your estimates were based on such an analysis, would you supply a detailed description of your method for the record? That description might help us resolve the differences in cost estimates.

Colonel HIRSH. The social security offsets that survivors are likely to experience in the next several decades are addressed in three categories: Future beneficiaries of future retirees, future beneficiaries of current retirees, and current beneficiaries. Varying degrees of data are available concerning each of these categories.

For beneficiaries in the first category the model as used by DOD is designed to treat in detail all retirees and beneficiaries from retirement through death using the social security offset that would be appropriate at the time the beneficiary starts incurring the offset. The model automatically tracks all relevant factors in the evolution of the appropriate offset such as the year of retirement, likely years of service at retirement, and all possible ages that the beneficiary may start incurring the offset. CBO's modification and use of the model was conceptually different than DOD's and, as a result, required auxiliary models to determine appropriate offsets relevant in their concept. Assuming CBO's auxiliary models accurately account for the critical factors as detailed above, the two models should give similar results.

In determining the offset estimates for the second category, DOD used actual data from the military finance centers concerning offsets of recent beneficiaries as a starting point in estimating offsets for near term new beneficiaries. The growth of the offset for later year new beneficiaries was estimated using the age distribution of current retirees coupled with the social security offset that would be relevant to their expected age at retirement and years of service.

In determining the offset estimates for the last category, DOD used actual data from the military finance centers to determine the average current offset for beneficiaries over age 62. By estimating changes that will take place in the current beneficiary age distribution as the older beneficiaries die and younger ones become eligible for the offset, the dynamic changes in this average offset were projected into the future.

Since making initial estimates, more data and analyses relevant to current beneficiaries and current retirees social security offsets have become available. Evaluation of this additional information has confirmed the reasonableness of the initial DOD estimates.

RESERVE SBP

Senator NUNN. I understand that the estimates that you published in your revised report ignored retirees that come from the reserve components, and did not account for higher mortality that would apply to many disability retirees. Wouldn't this cause you to understate what the government would have to pay out for survivor costs?

Colonel HIRSH. Although the published report did not address future retirees from the reserve component, they were included in the figures presented in my opening statement. While we did not incorporate disability retiree mortality data in our projections and concede that this group may well differ from the non-disability population, the relative size of the group and the fact that available mortality data on disability retirees were, in our view, potentially distorted, led us to omit them.

SBP PROGRAM

Senator NUNN. I understand that one reason that you differ from CBO is on assumptions about mortality rates for survivors. CBO has indicated to the Subcommittee staff that their rates were recommended by their Actuary, and are approved by the Pension Benefit Guaranty Corporation and the Internal Revenue Service for valuing pension plans. Could you indicate the source of your mortality data? Has your Actuary reviewed and recommended the survivor mortality rates that you are using?

Colonel HIRSH. DOD used military-specific tables for the military members and a factored version of the military table for survivors. The military table was created by the DOD Actuary for use in analyses such as this and, I understand, was the one used by CBO for members. The survivor table that DOD used is the table that the actuary firm of Towers, Perrin, Forster & Crosby (TPF&C) used for the Third Quadrennial Review of Military Compensation which included an analysis of the SBP.

The usual practice in the industry for reflecting differences in mortality by sex has been to use an age set back in a male mortality table and to use those rates as the basis for valuing females. While the Internal Revenue Service does not recommend a specific mortality table, they agree that age set back is a commonly used method of valuing pension plans when an industry specific mortality table is used. DOD agrees with this practice and feels its mortality tables accurately reflect this principle.

A population specific mortality table was not available for the reserve participants in SBP. DOD feels that general population tables are more appropriate for both the reserve member and their survivors than military specific tables would be. For this purpose DOD used the same source that CBO used for the regular force beneficiaries. Appropriate age set back as suggested in that source was used to reflect the different male/female mix for the member versus the beneficiary.

COST COMPARISONS BETWEEN DOD AND CBO

Senator NUNN. The Subcommittee has cost estimates both from DOD and the Congressional Budget Office that differ widely. I understand that both you and CBO used the same basic computer models to derive results, but arrived at different input data that resulted in varying answers. The data that CBO used for mortality and other actuarial factors were reviewed by an independent actuary, the Wyatt Corporation. Could you indicate whether your input data for mortality and other factors were reviewed by an independent actuary?

Colonel HIRSH. Although both DOD and CBO started with same basic computer model, which was actuarially validated by the firm of Towers, Perrin, Forster & Crosby (TPF&C), CBO made significant modifications to the model which resulted in a large portion of the differences to which you refer. Our mortality tables were, as I have indicated, used by TPF&C during the Third Quadrennial Review, and the methods which we used to derive the other factors such as social security offsets were validated by that firm of independent actuaries.

INDIVIDUAL ELECTION OF SBP

Senator NUNN. Today, in order to know what benefits his survivor will receive, a retiree around age 40 must project his likely social security offset at the time he reaches age 62. He will still have to do so under S. 91. Do you think that military personnel can really make such projections? Are there other plans for survivor benefits that would avoid this complexity and make clear what an individual is really buying?

Colonel HIRSH. It is extremely difficult for a member to predict what the future social security offset will be due to the many factors affecting social security, retired pay, and SBP annuities. The best information that could be provided to a member is what the amount of the offset would be at date of retirement, assuming the member died on that date, and the survivor was age 62 at that time. From the calculation done at that time, a member would know that the offset would never be less than that amount.

Under the proposed modification to the plan set out in our opening statement, the mechanisms are less complex. The member, in effect, buys an income replacement plan, or an old-age income maintenance plan, or both. Costs are in relation to the survivor annuity. This more streamlined concept would permit members to know exactly at any time the amount of the survivor annuity at what cost that would be provided at death.

REDUCTION OF SOCIAL SECURITY OFFSET UNDER S. 91

Senator NUNN. I understand from your report that many retirees who elect SBP today pay more than 100 percent of the cost of the program. With the reduction in the social security offset under S. 91, they would pay substantially less than 100 percent of the cost. Clearly social security offsets affect the cost ratios critically. With sharp increases in inflation likely, and with large increases in wages subject to social security taxes, would the new cost-sharing ratio remain about the same under S. 91, or would it too increase over time? In other words, will this bill be a lasting solution, or will the Congress have to address this issue again sometime soon?

Colonel HIRSH. The cost-sharing ratio for current retirees will stabilize under S. 91 due to the proposed change in the cost formula for the \$300 base. Assuming the officer/enlisted mix remains similar to today's, members retiring in the near future will experience a cost-sharing ratio of approximately 60/40. Over time, the ratio will shift (roughly 10 percent in 10 years) to a higher ratio because of the

factors mentioned in your question. The actuarially neutral system for future retirees being proposed by the Administration would avoid this problem.

COVERED RETIRED PAY

Senator NUNN. I understand that, either under current law or under S. 91, the ratio of costs borne by the individual is quite dependent on how much of his retired pay he elects to place under SBP. Those who elect to place less than the full amount of their retired pay under SBP typically pay a larger part of the costs. Is this the case? If so, is it desirable and what can be done to eliminate this problem.

Colonel HIRSH. Under current law this is definitely a problem since for lower amounts of coverage the social security offset may substantially reduce or entirely eliminate the benefit. DOD analysis shows that S.91 eliminates the problem for enlisted and substantially reduces it for officers. In future years, the phenomenon will reappear (to a lesser degree than currently) due to inflation and increases in wages subject to social security taxes. The actuarially neutral system for future retirees being proposed by the Administration would remedy this situation.

PRE-1972 WIDOWS

Senator NUNN. Your revised May 16 report indicates a cost of over \$2 billion for fiscal years 1980-2000 for the pre-1972 widows provisions. How accurate are your estimates on the number of these pre-1972 widows and how confident are you in this cost estimate for these provisions?

Colonel HIRSH. The Department of Defense does not maintain records on all survivors of deceased military members. Records are maintained, however, on widows who are entitled to annuity payments. As a result, the DOD cost estimates concerning this proposal were made using statistical information extracted from available data on similar populations. Neither the estimate of the number of pre-1972 widows nor the resulting cost estimates can be viewed with a high degree of confidence. They are highly dependent upon the assumptions used in their calculation and these were made explicit in our report due to uncertainty embodied in the entire process.

RSFPP

Senator NUNN. What is your view of the equity of offsetting Retired Serviceman's Family Protection Plan (RSFPP) annuities under the pre-1972 widows provisions when the husband of those widows paid for the RSFPP annuities whereas there would be no offset for widows whose husbands elected no coverage for them?

Colonel HIRSH. It would appear that the operation of such an offset as provided by S. 91 would be to the advantage of those survivors whose spouses had not participated or contributed to the RSFPP. We not consider that this would be inequitable to the concerned RSFPP annuitants and represents one of the inequities that is contained in the provision to provide a gratuitous annuity to pre-1972 widows.

INFLATION RATES

Senator NUNN. I understand that another source of difference with CBO was that your model assumed inflation rates of 4 percent a year during 1978 and 1979. You used these inflation rates to adjust your historical data up to today's levels. Wouldn't these rates—which are far below actual rates—cause your results to be incorrect?

Colonel HIRSH. At the time the report was submitted to Congress, the latest reliable input data on numbers of eligibles, numbers of participants, costs, and benefits was for 1977. As a result, 1977 was used as the base year in the computer model and all future years were projection years including 1978 and 1979. While the use of higher inflation rates for 1978 and 1979 would have injected more reality in this single aspect of the analytical process, it would have sacrificed the consistency we achieved by using the 1977 base data throughout our analysis; it would have required estimates of 1978 and 1979 values for several other parameters—estimates we were not prepared to make; and it would have done little for long term accuracy where all outyear inflation estimates revert to some hypothetical rate anyway.

SBP ENROLLMENT

Senator NUNN. Has the Department done any analyses of what might be an appropriate charge for those who might come under the survivor benefit plan for

the 270-day open enrollment period? Do you think a penalty charge would be appropriate for those coming under the survivor plan under the open enrollment period provision?

Colonel HIRSH. We have not done any of the analyses that you are suggesting relative to a charge to members entering the Plan under a 270-day open period. Given the precedent of the 18-month open period at the initiation of the SBP which carried a no charge feature, we would suggest that such a provision may not be appropriate at this time.

CONTRIBUTION FORMULA FOR SBP

Senator NUNN. Right now the contribution formula for SBP requires that an individual pay 2.5 percent of his first \$3,600 of annual covered retirement pay, and 10 percent of the amount above \$3,600. Under S. 91 this basic formula would remain in effect. Thus, under S. 91, a typical enlisted retiree would pay about 6 percent of his retired pay for full coverage today. But if inflation continues at 8 percent a year over the next decade, he will pay 8 percent of his retired pay for full coverage which is not larger in real terms. Wouldn't it be desirable to stabilize the plan's cost formula in an era of high inflation? Has the Department considered ways to stabilize this formula?

Colonel HIRSH. Yes, we agree that it would be desirable to stabilize the plan's cost formula. We have considered many approaches of stabilizing either the cost formula or the more inclusive cost-sharing ratio. The possible means range from the most direct method of automatic inflation protection of the \$3,600 to fairly complex methods that would include the relationship between the cost formula and the social security offset. This problem would be avoided with the administration's actuarially neutral system for future retirees.

SOCIAL SECURITY OFFSET FOR RESERVISTS

Senator NUNN. Concerning the elimination of the social security offset for certain reservists whose only active duty was for 30 days or less, isn't it true that this is not a distinct group and that some other reservists and active duty personnel have received a refund for excess social security taxes in some years of military service?

Colonel HIRSH. The group is not distinct in that all reserve members would not be concerned. Only those members who have paid the maximum amount of social security taxes in their primary employment, served for less than 30 continuous days on active duty, and received a tax refund on the social security tax withheld from their basic pay, would be eligible for this offset. In application of this provision, the year in which the conditions were met would be eliminated from the computation of social security benefits attributable to military service. It is not a blanket elimination; rather, it provides definitive guidelines for the creditation of military service for offset purposes based on individual military earning patterns.

SOCIAL SECURITY OFFSET

Senator NUNN. Wouldn't the provision eliminating the social security offset for certain reservists with less than 30 continuous days of active service make an exception of this group when there are others in a similar situation?

Colonel HIRSH. We do not view this provision as making an exception of this group. Rather, we see this provision as realigning the SBP with the original intent of the law. When enacted, it was intended to offset from the SBP those social security benefits solely attributable to military service. The reserve service in question does not produce a social security benefit. Any such benefit flows from the reservists primarily civilian covered employment under which the maximum social security tax has been paid. Consequently, it is appropriate to disregard those years of military basic pay and amounts when computing the social security benefit attributable to military service.

[Questions submitted by Senator Strom Thurmond, answers supplied by Col. Leon S. Hirsh, Jr., USAF, Director of Military Compensation:]

ENROLLMENT TO SBP

Senator THURMOND. If we were to open up the enrollment to SBP again to those who did not join when they had a chance to do so originally how would you suggest

we do this? Just let them enroll or would you tie a formula to obtain a buy-in into the program? Or what would you consider to be a fair way to do this?

Colonel HIRSH. When we had the original one-year "open period" in 1972 there was no penalty intended or "buy in" provision applied to new members. The six month extension of that "open period" also had no buy in feature. We would recommend that same precedent be followed in a new "open period".

SBP PARTICIPATION

Senator THURMOND. Does the current SBP participation rate meet the Department of Defense desired goals for the program?

Colonel HIRSH. No sir, it does not. We had originally hoped for an 85 percent participation rate with a 50 percent social security offset thereby providing an essential element of a prudent estate plan to those of our members who most needed it. We have never experienced participation at that level. Presently, only slightly over half of our new retirees are joining the Survivor Benefit Plan. Of even greater concern is the mix of those electing into the Plan. Officers are the majority of those new entrants into the Plan while enlisted members are participating at slightly below 50 percent. Gradually, the Survivor Benefit Plan is evolving into an officer plan and it is not our intent that the Plan should be attractive to only one category of members.

ENROLLMENT IN THE SBP

Senator THURMOND. What is your estimate, numbers or percentage, of how many will enroll in the SBP if S. 91 is enacted into law?

Colonel HIRSH. Senator, it is extremely difficult to make a reliable estimate such as you ask. Given the modification to S. 91 which the Department is suggesting, future participation on an actuarially neutral basis should be more attractive than the existing plan where the member is, in a sense, overcharged for participating. New retirees would not likely elect into the system at the 75 percent to 80 percent rate predicted for a subsidized program but modest increases over the current 55 percent could be expected.

OPEN ENROLLMENT PERIOD

Senator THURMOND. In the event there is an open enrollment period, how many additional enrollments do you anticipate?

Colonel HIRSH. As with future retirees, it may be expected that changing personal financial perspectives will cause some to view an actuarially neutral plan more favorably than they did the current system when they first retired. To predict the number who would make this assessment would be difficult but it could be assumed that more recent retirees would be attracted more than earlier retirees since the major changes to SBP which degraded its appeal have been in the relatively near past. Clearly, the number would be substantially smaller than 140,000 we estimated in our earlier report for a subsidized system.

SBP PROGRAM

Senator THURMOND. Can a retiree at retirement point be counseled on the SBP program and be told what the cost/benefit will be in ten years?

Colonel HIRSH. Under the current system, it would be very difficult to provide a ten year projection due to the periodic changes that occur in social security benefits, retired pay adjustments, increases in the SBP base amount, and the changing national wage averages used to index earnings for social security purposes. Under a properly designed actuarially neutral system, however, which is essentially independent of the social security program such a projection would be clearly feasible.

SBP AS A COST SHARING PLAN

Senator THURMOND. How can the SBP be a cost sharing plan when indications show that the government will be in receipt of revenue every year to the year 2000 and beyond?

Colonel HIRSH. At the present and in the foreseeable future, reductions in members' retired pay will exceed benefit payouts. Consequently, the cost sharing is heavily tipped in the government's favor since the reduced levels of retired pay

exceed SBP payments. As originally designed, however, the size of retired annuity reductions and the expectation of survivor benefits to be received created a 60/40 member to government cost sharing ratio. The current shift has resulted primarily from changes in the social security program which were unforeseen when SBP was developed in 1971-1972.

SOCIAL SECURITY OFFSET

Senator THURMOND. Can you provide rationale why there should be a social security offset when a spouse receives a social security benefit that is not based on the servicemember's military service?

Colonel HIRSH. In an indirect but valuable sense, a member's covered earnings could have a bearing on the social security benefit based on the spouse's earnings. When the spouse's income pattern yield a social security benefit level that exceeds the member's, the member's wages have no direct benefit level and no direct benefit value to the surviving spouse. It may be considered, however, that the member's earnings provide a social security benefit "floor" and ensures that the spouse would receive no less than that amount. The spouse would receive the greater benefit derived from the earnings of the member or his or her own covered earnings. While this may not be sufficient rationale for the current offset, and I don't believe it is, it does show that there is some protective benefit inherent in the member's covered earnings which is of potential value to the surviving spouse.

SBP AS A MANAGEMENT TOOL

Senator THURMOND. Does the Department of Defense consider the SBP as a valuable tool toward supporting the management objectives of the career force?

Colonel HIRSH. Yes. It is essential to effective and efficient personnel management that the military compensation and retirement system be balanced and well-rounded. As a subelement of the retirement system, the Survivor Benefit Plan for members of the uniformed services supports the objective of offering members and dependents the financial security that is available to participants in other systems. Meeting this objective is an essential element in the attraction, retention, and controlled attrition of members in order to maintain the composition of the career force. Equally important is the ability of the compensation system, with its survivor benefit feature, to remain reasonably comparable and competitive with those offered from other employing institutions.

COST COMPARISONS BETWEEN DOD AND CBO

Senator THURMOND. Has the Defense Department compared the costs of my bill (S. 91) with the Congressional Budget Office? How do you account for reaching different conclusions?

Colonel HIRSH. As I mentioned in my opening remarks, Senator, the DOD and the Congressional Budget Office have spent a considerable amount of time comparing costs. Although we have both used the same general approach, our results have been different due to varying application of future assumptions, and the manipulation of the data itself.

Our projections of the costs of the present system now differ from those of the CBO by slightly under \$1 billion in the year 2000 in inflated dollars. This difference is \$350 million in 1979 dollars. Some 80 percent of this variance can be attributed to major variations in computational techniques, mortality tables, and economic assumptions for the future.

We believe our estimates are reasonable indicators of future costs. The differences between our figures and those of CBO can be attributed to judgments on modeling techniques and parameters. The story they tell, however, in terms of the near term costs of the changes proposed in S. 91 are remarkably close. In 1981, for example, our estimates of the costs of implementing S. 91 are within \$9 million of CBO's projections if the pre-1972 widow feature is eliminated.

CALCULATION OF SOCIAL SECURITY OFFSET

Senator THURMOND. Can you explain the great difference in the computation of the social security offset between DOD and the Social Security Administration? I have noted one source which cited a case whereby the difference was \$111.41 vs. \$3.62.

Colonel HIRSH. DOD computes the social security offset to reflect the Social Security Amendments Act of 1977, Public Law 95-216 (or the prior social security system if applicable) and the SBP laws pertaining to social security offset in Section 1451, title 10, of the United States Code as amended in 1978.

The Social Security Administration would not normally calculate SBP social security offsets since they do not have the military pay information necessary to make such a calculation. In general, there should be no differences in the DOD computed offsets and offsets which might be computed by the Social Security Administration. In comparison of specific cases from the service finance centers to familiar cases computed by OSD, the offset have typically been within one dollar for each other. Although we have not seen the source, an offset of \$3.62 would be highly unlikely. Even a 1957 retiree with only one year of social security coverage would have an offset substantially more than that due to the regressive nature of social security and due to the minimum benefit formulas in the pre-indexing social security system.

COVERED RETIRED PAY

Senator THURMOND. If the social security offset is reduced from 100 percent to 50 percent, do you feel that many of those who elected minimum coverage would opt to elect full coverage if given the opportunity to do so?

Colonel HIRSH. Yes. A reduction in the social security offset percentage would obviously make the Plan more attractive as it would substantially improve the cost sharing ratio between member and the government. Were the offset to be reduced, we would expect that significant numbers of members would elect to increase their participation to full coverage.

SBP PARTICIPATION

Senator THURMOND. Would you recommend the SBP to prospective enlisted retirees at the minimum base level of \$300?

Colonel HIRSH. Although there are special case exceptions, in general I would not.

COVERED RETIRED PAY

Senator THURMOND. As to electing the \$300 minimum base amount for SBP annuity, do you feel these people should be given a chance to change the election? If so, how would you approach this—by having them pay the difference since election was made? How many, percentage wise, do you think would change?

Colonel HIRSH. If the Survivor Benefit Plan is revised significantly to remove its more objectionable and inequitable features, the DOD believes that members currently in the Plan should have the opportunity to reevaluate their original decision. S. 91, if enacted, would be the first major revision to the internal operation of the Plan since its inception and would warrant allowing members to alter their original elections. It would not appear necessary to stipulate a precondition for altering an original election since there is presently no penalty when a change of election is made due to a change in dependency status. Were the SBP to be amended as S. 91 proposed, it would be difficult to estimate with any degree of accuracy the percent of those participating at the minimum base amount who would increase that level of participation.

Senator THURMOND. In your opinion, why are the retirees taking the minimum amount for wife's SBP annuity?

Colonel HIRSH. We must assume that retiring members make their decisions on SBP participation based on individual financial circumstances or estate plans. It is also possible that members have elected minimum participation in anticipation of prospective improvements to the Plan. The substantial difference in the size of the reduction in retired pay per dollar of benefit base (2½ percent versus 10 percent) could figure prominently in these decisions.

PRE-1972 WIDOWS

Senator THURMOND. How can Defense justify not supporting the "forgotten widows" provision of S. 91, especially when cost rapidly diminish in 20 years?

Colonel HIRSH. The expanded entitlement provided by this provision should be considered in light of the fact that, except for those members who died before enactment of the Uniformed Services Contingency Option Act of 1953, all retired members had the opportunity of electing a reduced retired pay in order to provide an annuity for their surviving spouse. Many members did not elect to provide the available protection presumably because of personal and family considerations. In many instances, other forms of survivor protection may have been arranged to provide an estate program that was compatible with the member's decision. The adoption of the provision would set aside those individual decisions without regard to the personal considerations involved.

Senator THURMOND. Would Defense support the "forgotten widows" provision if made effective at age 65?

Colonel HIRSH. Although such an amendment would lower the costs associated with this feature, it would not negate the other considerations of a member's individual decision based on personal circumstance. To set aside those earlier elections would be to ignore the wishes of those deceased members who presumably made other financial arrangements for their survivors. Consequently, we do not support such a proposal to extend Survivor Benefit Plan annuities to the category of survivors addressed by S. 91.

SENATOR NUNN. We will keep the record open for 30 days and welcome any other comments you might want to add as we proceed. Also, any additional statements for the record will be included.

[The following statements were submitted for the hearing record:]

CONGRESSIONAL BUDGET OFFICE,
U.S. CONGRESS,
Washington, D.C., July 11, 1979.

HON. SAM NUNN,
*U.S. Senate,
Washington, D.C.*

DEAR SENATOR NUNN: At your request, we have been analyzing the costs and benefits under the military Survivor Benefit Plan (SBP). I am sending you our preliminary results at this time, since you plan hearings on the subject this week. These preliminary results are in the form of charts that have been discussed in detail with members of your staff. Attachment A presents overall results of our outlay estimates under the current SBP plan and alternatives to it, including comparisons with estimates made by the Department of Defense. Attachment B presents results of our estimates of cost-sharing ratios. We are planning to revise our estimates to reflect defense comments and data we have recently received; the final estimates will be supplied to you in a short paper. We do not expect that these final estimates will differ substantially from those in the attachments.

Our outlay estimates (Attachment A) suggest that, under current law, the government will sometimes take in contributions from retirees that exceed the size of payments to survivors. Specifically, the government will make money in the next few years, while the SBP plan is young, and will make money in the next century, when the full effects of social security offsets are realized. At other times, the government will pay out more than it receives. Passage of S. 91, the bill currently before your Subcommittee to revise SBP, will change these findings and mean that the government always pays out more to survivors than it receives in contributions.

Particularly under current law, our estimates differ from those made by the Department of Defense. DOD finds that, under current law, the government always makes money. We have reviewed the DOD estimates in detail. We find some important inconsistencies in the estimates. For example, the estimates largely ignore the cost effects of reserve and disability retirees. We also found areas—particularly estimates of future social security offsets—where judgments by the defense staff were not borne out by our analysis. And some of the data used by defense, particularly data for survivor mortality rates, are without known sources and were judged incorrect by the actuaries that reviewed the mortality data used by CBO. We believe that these and other factors led defense to overestimate what the government receives in contributions and underestimate what it pays to survivors. These same problems lead to disagreements about the contributions and payments under S. 91. Estimates by CBO and DOD are, however, closer together on the costs associated with going from current law to S. 91. Our major differences are over the level of contributions and survivor payments, rather than on the added costs of enacting S. 91.

Attachment B presents our analysis of cost-sharing ratios, defined here as the ratio of the retiree's payments into SBP to the value of the benefits his survivor receives. Results suggest that under current law, the government has been subsidizing most people who retired in past years and elected SBP, a finding consistent with our pattern of outlays. But those retiring today, except for persons with close to 30 years of service, will pay more for their coverage than they would receive in benefits. And this situation will worsen for those who retire over the next two decades. Changes in S. 91 would substantially reduce the ratios so that

the government would be subsidizing all those who retire today. But, even under S. 91, ratios will increase over the next two decades as social security offsets grow; by the year 2000 some retirees will again be paying more than they get in benefits. Also, even under S. 91, SBP will continue to be a better deal for those with more years of service at retirement.

We briefly present an alternative (page B-7) that would simplify SBP and stop the ratios from growing significantly over time. It would also prevent large differences in the ratios based on years of service at retirement. The alternative accomplishes these changes by avoiding any direct link with social security; most of the shifts in the cost-sharing ratios occur because of the link with the social security program. Instead this alternative would base offsets to a widow's annuity on a percentage of her annuity. The percentage could be adjusted to achieve any desired cost-sharing ratio.

We would welcome the opportunity to discuss our results further with you, or to present a summary of the results to the Subcommittee during your markup. We would also be glad to continue work with your staff, or the staffs of other members. Please let me know how we can best continue to be of assistance on this issue.

Sincerely,

ALICE M. RIVLIN, *Director.*

Attachments.

ATTACHMENT A

CONTRIBUTIONS, PAYMENTS, AND NET COSTS UNDER CURRENT LAW

	Fiscal year 1980	1990	2000	(2030)
Millions of constant 1979 dollars:				
Contributions.....	309	433	519	700
Payments.....	188	515	785	678
Net (payments less contributions).....	-121	82	266	-22
Millions of inflated dollars:				
Contributions.....	334	792	1,545	8,998
Payments.....	204	941	2,336	8,709
Net (payments less contributions).....	-130	149	791	-289

CONTRIBUTIONS, PAYMENTS, AND NET COSTS UNDER MAJOR S. 91 REVISIONS¹—CURRENT PARTICIPATION

Millions of constant 1979 dollars:				
Contributions.....	303	370	450	680
Payments.....	194	590	992	1,244
Net (payments less contributions).....	-109	220	542	564
Millions of inflated dollars:				
Contributions.....	328	677	1,338	8,740
Payments.....	-210	1,077	2,950	15,998
Net (payments less contributions).....	-118	400	1,612	7,258

CONTRIBUTIONS, PAYMENTS, AND NET COSTS UNDER MAJOR S. 91 REVISIONS²—PARTICIPATION OF FUTURE RETIREES UP TO 75 PERCENT³

Millions of constant 1979 dollars:				
Contributions.....	302	412	540	871
Payments.....	200	603	1,051	1,546
Net (payments less contributions).....	-102	191	511	675
Millions of inflated dollars:				
Contributions.....	325	754	1,606	11,192
Payments.....	216	1,103	3,127	19,879
Net (payments less contributions).....	-109	349	1,521	8,687

¹ Major revisions include: Revised contribution formula; 50 percent offset for those 62 or older; no offset for mothers under age 62 who have one dependent.

² Major revisions include: Revised contribution formula; 50 percent offset for survivors over age 62; no offset for mothers under age 62 who have one dependent.

³ Participation of future retirees from active duty assumed to increase to 82 percent for officers and 69 percent for enlisted (versus 67 percent and 49 percent under current law). Participation of title III retirees assumed unchanged at 90 percent for officers and 86 percent for enlisted.

INCREASES (+)/DECREASES (-) IN NET COSTS UNDER MAJOR S. 91 REVISIONS¹—CURRENT PARTICIPATION RATES

	Fiscal year 1980	1990	2000	Total 1980-2000
Millions of constant 1979 dollars:				
1. Revised contribution formula.....	6	63	70	1,150
2. 50-percent offset over age 62.....	2	58	186	1,486
3. No mother's offset.....	4	17	20	325
4. No offset for some reserves.....		Negligible		
5. No offset for some "Career" widows ²		4	12	97
6. Open season (DOD data) ²	-44	46	117	922
7. Added benefits for pre-1972 survivors: ^{2 3}				
Spouse died on active duty (DOD data).....	13	10	5	209
Spouse died in retirement (DOD data).....	109	83	44	1,690
Millions of inflated dollars:				
1. Revised contribution formula.....	6	116	207	2,380
2. 50-percent offset over age 62.....	2	106	555	3,501
3. No mother's offset.....	4	30	59	661
4. No offset for some reserves.....		Negligible		
5. No offset for some "Career" widows ²		8	36	225
6. Open season (DOD data) ²	-48	86	357	2,387
7. Added benefits for pre-1972 survivors: ^{2 3}				
Spouse died on active duty (DOD data).....	15	19	17	376
Spouse died in retirement (DOD data).....	117	155	133	3,042

¹ Costs of changes 4 to 7 assume enactment of changes 1 to 3.

² Little data exist to use in evaluating these changes. Hence the estimates should be regarded as highly uncertain.

³ Costs assume that DIC payments are indexed, even though this indexing is not automatic under current law.

COMPARISON OF DOD AND CBO ESTIMATES UNDER CURRENT LAW

[In millions of inflated dollars]

	Fiscal year 1980	1990	2000	(2030)
CBO economic assumptions:				
Contributions.....	334	792	1,545	8,998
Payments.....	204	941	2,336	8,709
Net (payments less contributions).....	-130	149	791	-289
DOD economic assumptions—(April revision):				
Contributions.....	374	680	1,192	16,458
Payments.....	202	544	978	15,117
Net (payments less contributions).....	-172	-136	-214	-1,341

¹ Average of estimates for years 2025, 2035.

DOD and CBO Estimates: Reasons for Differences

CBO percent of covered pay equals 75-80 percent, compared to 90 percent for DOD—CBO based on DMDC data; DOD used best guess.

CBO social security offsets lower by 20 percent to 30 percent—CBO estimated "lag" and Title III offsets explicitly; DOD used approximations that were higher.

CBO's average retired pay for current retirees higher by about 20 percent—CBO matched 1979/1980 budget.

CBO's survivor mortality rates 20 percent to 50 percent lower—CBO used data approved by IRS and PBGC; source of DOD data unknown.

* * * * *

CBO's percentages of mothers with one dependent higher than DOD.

CBO included disability retirees' mortality.

CBO excluded working widows.

CBO adjusted participation rates of those actually retired to match actuary's data.

CBO included future reserve retirees.

COMPARISON OF DOD AND CBO ESTIMATES UNDER S. 91 REVISIONS—CURRENT PARTICIPATION RATES

	1980	1990	2000
Revised contribution formula:			
CBO ¹	6	116.0	207.0
DOD ²	0	95.0	152.0
50 percent offset for those over age 62:			
CBO	2	106.0	555.0
DOD	0	196.0	642.0
No mothers offset:			
CBO	4	30.0	59.0
DOD	1	4.0	7.0
No offset for some reserves:			
CBO		Negligible	
DOD	0	.3	1.1
No offset for career widows:			
CBO		8.0	36.0
DOD	1	13.0	55.0
Open season:			
CBO	-48	86.0	357.0
DOD	-37	³ NA	167.0
Added benefits—Spouse died on active duty:			
CBO	117	155.0	133.0
DOD	110	NA	33.0
Added benefits—Spouse died in retirement:			
CBO	15	19.0	17.0
DOD	11	NA	NA

¹ All CBO estimates use CBO economic assumptions.

² All DOD estimates use DOD economic assumptions.

³ Not available.

ISSUES TO CONSIDER

CBO cost estimates show that government is not always making money.

But there may still be problems with SBP:

Cost-sharing rates could favor government, especially for junior personnel.

Survivors of some enlisted retirees who cover less than all their retired pay will receive nothing after age 62.

Even under S. 91, SBP would remain tied to social security, which could change in unpredictable ways.

Survivor benefits are a very complex area that we believe have not yet been fully investigated: Sensitivity of outlay estimates; cost-sharing ratios, and "best" form of social security offset.

ATTACHMENT B

PRELIMINARY RESULTS OF ANALYSIS OF COST-SHARING RATIOS UNDER SURVIVOR BENEFIT PLAN (SBP)

Methods and Assumptions

Results with Only SBP Costs and Benefits: Current system; major revisions in S. 91, and an alternative.

Results Including Social Security Costs and Benefits.

METHODS AND ASSUMPTIONS

Method: Computer model using equations reviewed by CBO actuary.

Definition of ratio:

$$\text{Ratio} = \frac{\text{Present value of contributions}}{\text{Present value of benefits}}$$

Ratio = 1.0 means plan is actuarially sound

above 1.0 means government "making money"

below 1.0 means government subsidizing individual

Ratio reflects many factors: Provisions of current SBP law or alternatives; effects of social security assuming today's social security law; economic assumptions.

CPI: 6.1 percent to 8.6 percent in 1979-1984, 5.0 percent beyond 1984

Wage: 5.5 percent to 7.9 percent in 1979-1984, 6.0 percent beyond 1984

Discount rate: 2 percent in real terms; tax effects, and mortality, pay, remarriage, other factors.

RESULTS UNDER CURRENT LAW
[SEP contributions and benefits only]

Type: Paygrade	Years of service	Ratio by year of retirement		
		1980 (1965 offset) ¹	1980	2000
Covers average percent of retired pay: ²				
Active: Nondisability:				
E-7	20	1.39	2.42	3.04
E-8	25	.80	2.15	2.21
E-9	30	.51	.91	.93
O-4	20	1.17	3.07	6.06
O-5	25	.86	1.39	2.61
O-6	30	.63	.83	1.16
Reserve: O-6	32	.51	1.33	9.48
Covers 100 percent of retired pay:				
Active: Nondisability:				
E-7	20	1.06	2.53	2.67
E-8	25	.71	1.23	1.31
E-9	30	.48	.71	.90
O-4	20	1.03	1.69	2.53
O-5	25	.80	1.07	1.48
O-6	30	.60	.72	.89
Reserve: O-6	32	.48	.80	1.44

¹ Same as 1980 retiree, except offset assumes retirement in 1965.

² 80 percent for enlisted, 75 percent for officers.

RESULTS UNDER MAJOR REVISIONS IN S. 91¹

[SBP contributions and benefits only]

Type: Paygrade	Years of service	Ratio by year of retirement		
		1980 (1965 offset) ²	1980	2000
Covers average percent of retired pay: ²				
Active: Nondisability:				
E-7	20	0.44	0.59	1.01
E-8	25	.44	.55	.75
E-9	30	.37	.44	.55
O-4	20	.70	.90	1.33
O-5	25	.63	.74	.99
O-6	30	.51	.57	.70
Reserve: O-6	32	.29	.37	.72
Covers 100 percent of retired pay:				
Active: Nondisability:				
E-7	20	.49	.60	.89
E-8	25	.46	.54	.68
E-9	30	.37	.43	.51
O-4	20	.72	.86	1.12
O-5	25	.63	.71	.87
O-6	30	.52	.56	.65
Reserve: O-6	32	.33	.40	.61

¹ Revisions include: Change in contribution formula; elimination of offset for mothers with 1 dependent; 50-percent offset for widows 62 or older.

² Same as 1980 retiree, except offset assumes retirement in 1965.

³ 80 percent for enlisted, 75 percent for officers.

EFFECTS OF INDIVIDUAL PROVISIONS OF S. 91—ON COST SHARING RATIOS

Type: Paygrade	Years of service	1980 retiree				
		Current law	50 percent offset only	Revised formula only	No mothers offset only	All 3 together
Covers average percent of retired pay:						
Active: Nondisability:						
E-7	20	2.42	0.94	1.58	2.14	0.59
E-9	30	.91	.51	.81	.89	.44
O-4	20	3.07	1.11	2.54	2.93	.90
O-6	30	.83	.77	.62	.82	.57

SOME CONCLUSIONS ABOUT CURRENT LAW AND S. 91

Most ratios for those retired in early years are less than 1.0, even under current law.

But there may be problems with current law: Some ratios higher than 1.0 for today's retirees; ratios will grow over next two decades, particularly for officers; ratios always higher for retirees with fewer years of service and ratios sensitive to percent of retired pay that is covered.

S. 91 will cut ratios significantly, but will not correct the problems noted above.

Ratios still better for retirees who retired before 1980.

Ratios still better for retirees with more years of service.

Ratios still increasing over next two decades; some will exceed 1.0 for retirees in year 2000.

Still difficult to predict benefits because of complexity of social security and its dependence on economic assumptions.

ANOTHER ALTERNATIVE

(SBP Contributions and Benefits Only)

Make the offset at age 62 equal to 50 percent of survivor's annuity.

Change the contribution formula (as in S. 91) and increase the \$300 threshold when CPI increases.

Eliminate the offset for mothers with one dependent (as in S. 91).

Type: Paygrade	Years of service	Ratio by year of retirement	
		1980	2000
Covers average percent of retired pay:			
Active: Nondisability:			
E-7	20	0.49	0.58
E-8	25	.57	.62
E-9	30	.54	.60
O-4	20	.97	1.04
O-5	25	.95	.99
O-6	30	.86	.88
Covers 100 percent of retired pay:			
Active: Nondisability:			
E-7	20	.60	.67
E-8	25	.63	.67
E-9	30	.57	.57
O-4	20	1.07	1.12
O-5	25	1.01	1.04
O-6	30	.89	.91

EFFECTS OF INCLUDING SOCIAL SECURITY CONTRIBUTIONS AND PAYMENTS IN COST-SHARING RATIOS

Social security contributions equal 12 percent of those made on active duty.

Social security benefits include only spouse's survivor benefits (no children's benefits) and make same assumptions used in calculating social security offsets.

Ratios are for 1980 nondisability retirees from active duty who cover an average percentage of their retired pay.

Paygrade	Years of service	Ratio	
		SPB and social security	SBP only
Current SBP law:			
E-7	20	0.30	2.42
E-8	25	.34	2.15
E-9	30	.31	.91
O-4	20	.56	3.07
O-5	25	.52	1.39
O-6	30	.46	.83
S. 91 revisions:			
E-7	30	.18	.59
E-8	25	.22	.55
E-9	30	.23	.44
O-4	20	.37	.90
O-5	25	.39	.74
O-6	30	.43	.57

CONCLUSIONS

Including social security dwarfs the effects of SBP, and may be misleading.

Cost-sharing ratios for SBP only are often over 1.0 under current law: Higher for those with fewer years of service and increasing for future retirees.

S. 91 will make cost-sharing ratios substantially better for retirees, usually keeping them below 1.0. But S. 91 will not solve other possible problems; other alternatives might.

ASSOCIATION OF THE U.S. ARMY,
Arlington, Va., 19 July 1979.

Hon. SAM NUNN,
Chairman, Subcommittee on Manpower and Personnel, U.S. Senate, Washington D.C.

DEAR MR. CHAIRMAN: As the spokesman for the 120,000 members of the Association of the United States Army and their dependents, I wish to provide you with the Association's views concerning the DOD testimony on S. 91 before your subcommittee on 12 July. I specifically refer to Mr. Danzing's statement that the Administration could support all provisions of S. 91, except the pre-1972 widows, if all new entrants into the Survivor Benefit Plan were required to enter the program on an actuarially sound basis!

In effect, the Administration is saying terminate SBP for future retirees and reinstate the Retired Servicemen's Family Protection Plan (RSFPP). The record of poor participation in RSFPP and its predecessor, the Contingency Option Act, is well known to you, I'm sure. Suffice it to say, the unattractiveness of these plans to service members was the very reason why Congress finally adopted the Survivor Benefit Plan, nearly seven years ago after over four years of consideration.

AUSA strongly urges your subcommittee reject the Administration's position with respect to the future of the Survivor Benefit Plan. Rather, we would hope you will see your way clear to eliminate the inequities in the current plan which I believe you clearly recognize.

Cordially,

ROBERT F. COCKLIN,
Major General, AUS Ret.,
Executive Vice President.

Enclosure.

PREPARED STATEMENT BY THE ASSOCIATION OF THE U.S. ARMY

Mr. Chairman, members of the subcommittee: I am Major General Robert F. Cocklin, AUS Ret., Executive Vice President of the Association of the United States Army. Knowing the constraints on your time, I appreciate very much the opportunity to record this Association's support of Senate Bill S. 91 which proposes several much needed changes, long advocated by our Association, to the military Survivor Benefit Plan.

AUSA's 120,000 members and their dependents wish to go on record as unequivocally supporting Senator Strom Thurmond's bill.

There are five provisions of the military Survivor Benefit Plan which the bill under consideration will correct to provide more equitable treatment of the survivors of military retirees—the reduction of the 100% Social Security offset; revision of the method of calculating SBP premium following CPI retired pay adjustments; elimination of the Social Security offset for reserve active duty periods of less than thirty days, and elimination of the Social Security offset (1) when the surviving spouse receives Social Security benefits based on personal earnings and (2) when there is a surviving spouse and one dependent child.

The principal inequity that S. 91 will correct is that portion of the current law requiring a dollar for dollar reduction in the SBP benefit—based on the value of the Social Security benefit attributable to military service—when the survivor becomes entitled to Social Security benefits at age 62. While this provision adversely affects all retirees with military service after 31 December 1956, the most seriously affected will be the retiree, particularly the enlisted retiree, whose entire military career is covered by Social Security.

Under the original concept, the military SBP was to closely parallel the Federal civilian program in which sixty percent of the cost was to have been borne by the individual. Actuarial studies indicate that currently, depending on grade, the military retiree is paying from 76 percent to 125 percent of the cost, with our enlisted personnel bearing the greatest load. This is due, primarily, to the Social

Security offset, a benefit which the retiree also contributes to on the same basis as every other eligible citizen. Further, the enlisted retiree, in greater and greater numbers, is electing the minimum \$300 base amount for the SBP annuity. Little do many realize that, despite their contributions to SBP, as Social Security benefits escalate annually the resultant full military career benefits will exceed the base SBP benefit (\$165) and, at age 62, the survivor will have no SBP annuity!

The second major provision to be corrected by the bill under consideration is the method of recalculating the military SBP premiums each time there is a CPI increase in federal retired pay. As interpreted by the Defense Department, the CPI increase is applied to the full amount of retired pay and the SBP premium recomputed. In effect, for all amounts above the minimum \$300 base, the premium increase is 10 percent, while under the Civil Service method the premium is increased at the same rate as the CPI adjustment. A series of CPI adjustments rapidly increases the monthly cost to the military retiree as compared to our civilian counterparts. As an example, the total difference in SBP premiums from June 1973 to March 1979 for retirees electing identical minimum coverage is \$597.18—\$1,297.62 for the serviceman and \$700.44 for the civil servant! Clearly, this is not the intent of the law.

The third point to be corrected affects our reserve retired personnel who, when they become eligible to draw retired pay at age 60, are entitled to participate in the SBP program under the same provisions as active duty retirees. This includes the Social Security offset which is clearly an inequity. Briefly, most of a Reserve member's military career consists only of active duty periods of less than thirty days and, for the large majority, their Social Security benefits stem from full-time civilian employment. In the majority of cases, the individual pays the maximum amount of Social Security taxes based on civilian earnings. Consequently, the Social Security taxes paid on military basic pay by Reservists for periods of less than thirty days becomes an income tax deduction.

Consequently, AUSA believes it only equitable that the Social Security offset not be applied to the reservist's survivor's SBP annuity.

While not in the bill under consideration, last year this Committee performed a vital service to survivors of retired reserve personnel who are not yet sixty years of age by permitting these personnel to participate in SBP. Unfortunately, all have to make an irrevocable election by 30 September 1979 and the complexity of the options make this time schedule difficult to meet. Further, the Services have only been able to publicize the options available to retired Reservists within the last few days. AUSA strongly recommends that the 30 September 1979 deadline be extended 270 days to correspond to the open enrollment period provided for regular retirees in the provisions of S. 91.

The fourth point stems from the Department of Defense's interpretation of Public Law 92-425—applying the 10 percent Social Security offset when the surviving spouse attains age 62, regardless of whether the spouse is awaiting age 65 to apply for Social Security benefits or is receiving Social Security benefits based on personal earnings.

AUSA understands the relevance of some offset for militarily earned Social Security. However, when the surviving spouse's Social Security benefits are based on his/her personal earnings, AUSA does not believe there can be any connection between this earned benefit and the SBP benefit. To confirm this point, only last year, this Committee eliminated the Social Security offset for surviving spouses who continue to work after attaining "entitlement" to Social Security benefits. We, therefore, strongly urge that you act to remove the offset totally when Social Security benefits are based on the personal earnings of the surviving spouse.

The fifth point again concerns the Social Security offset. Under Public Law 92-425, the surviving spouse with one child is subject to the 100 percent Social Security offset, while the SBP benefit of the survivor with two children is not so reduced. When this subject was considered by your colleagues in the House during the 95th Congress, the House Armed Services Committee concluded "that the reduction in the Survivor Benefit Plan payment to the widow when there is only one child is not warranted." AUSA agrees with that conclusion and believes that the actuarial data provided your Committee by DOD earlier this year supports this position.

AUSA believes that the changes embodied in S. 91 will make the plan obviously more equitable and desirable. Unfortunately, the Social Security offset and the rising cost of premiums due to the method of recalculation following CPI adjustments, have severely limited participation in the Survivor Benefit Plan. The need for adequate provision for survivors is still there and AUSA believes those indi-

viduals, who elected not to participate earlier because of perceived inequities, should be given another opportunity and, therefore, support an additional nine-month enrollment period.

Mr. Chairman, AUSA sincerely appreciates this hearing and urges favorable consideration of the provisions of Senator Thurmond's bill, modified to include the extended enrollment period for retired reservists not yet drawing retired pay.

AIR FORCE SERGEANTS ASSOCIATION,
INTERNATIONAL HEADQUARTERS,
Washington, D.C., July 11, 1979.

Hon. SAM NUNN,

Chairman, Subcommittee on Manpower and Personnel, Senate Committee on Armed Services, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN NUNN: Correcting the inequities contained in Public Law 92-425 enacting the Survivor Benefit Plan for our military retirees has been an objective of our association over the past few years. While we understand the intent of the Congress in providing the law to be of benefit to those loved ones who are left behind upon the demise of our military retirees, the few remaining improvements essential in fulfilling the objectives of the Congress need to be acted upon as expeditiously as possible.

We are indeed grateful to you and your distinguished colleagues on the subcommittee for the initiatives taken and the efforts expended to insure that the remaining improvements will in fact provide the same equitable provisions for the military retirees as is now afforded the civilian federal retirees.

While I would consider it a distinct privilege and a pleasure to appear personally before you in testimony, it is more important to recognize the heavy demands placed upon you and the other members of your subcommittee; therefore, in the interest of time, please find attached a copy of my testimony, which I would kindly ask to be entered into the official record of hearings on Senate Bill S. 91.

You will note that my testimony is necessarily brief, as I am pleased to inform you that Mr. Robert W. Nolan, National Executive Secretary of the Fleet Reserve Association, will provide much of the rationale and justification in support of our position on Senate Bill S. 91, during his personal appearance before your distinguished subcommittee.

Your kind consideration of this request will be greatly appreciated and I look forward to having another opportunity of appearing before you in testimony on future legislation of concern to those I proudly represent.

Sincerely,

DONALD L. HARLOW.

Enclosure.

PREPARED STATEMENT OF DONALD L. HARLOW, DEPUTY EXECUTIVE DIRECTOR
AIR FORCE SERGEANTS ASSOCIATION

Mr. Chairman, distinguished members of the Senate subcommittee: I am Donald L. Harlow, Deputy Executive Director of the Air Force Sergeants Association. Having had the unique privilege of serving as the second Chief Master Sergeant of the Air Force, I am now privileged to serve as the primary spokesman for the 130,000 enlisted men and women and their dependents of our association.

It is only right that we first express our gratitude to the Congress for its enactment of Public Law 92-425, which established the Survivor Benefit Plan for the military retirees. Now, however, there is a dire need to obtain passage of those remaining features of the plan that have caused many of our people to seek any means of withdrawing from participation in the SBP, as well as discouraging those who have retired over the years since enactment of SBP, from accepting the program.

Being aware of the House of Representatives having twice passed corrective legislation by overwhelming margins, and the attempt to amend the FY '79 Defense Authorization bill by adding the provisions of H.R. 3702 by Senator Strom Thurmond, we would kindly ask that you distinguished members of the subcommittee clean up an otherwise important program through favorably reporting out the provisions of Senate Bill S. 91.

There is much legislative history associated with Public Law 92-425, and representatives of other associations will provide additional information and justification associated with the needed improvements to the Survivor Benefit

Plan. In the interest of time and in recognizing your personal efforts, Mr. Chairman, on behalf of our strong desire in seeking correction of the inequities of the current law, we fully support the provisions of S. 91, so eloquently stated by your distinguished colleague, Senator Strom Thurmond (R-SC), in his "Dear Colleague" letter of January 26, 1979.

(1) Reduce the social security offset of the SBP annuity, due to the deceased's social security covered military service, from the current 100 percent to 50 percent.

(2) Elimination of the social security offset entirely when there is a dependent child and when social security benefits are based on the widow's own earnings;

(3) Cost-of-living adjustments to be applied in the same manner for both military and civil service retirees, so both pay the same amount for the same SBP coverage;

(4) Elimination of the social security offset for reservists in cases where social security payments were refunded;

(5) Authorize an open enrollment period of 270 days for retirees who declined to participate in the plan because of existing inequities;

(6) Authorize SBP benefits for pre-1972 "forgotten widows" whose husbands had no opportunity to participate in the SBP before their death.

Mr. Chairman, there is another important point essential of consideration by this subcommittee, not contained in S. 91, that concerns the legislation granting survivor benefit protection to retired Reservists who have not yet reached age 60, at which time they become eligible for receipt of retired pay.

Public Law 95-397 provided that all eligible Reservists were to be notified of the options available to them under SBP and would be allowed to elect into the plan until September 30, 1979. The complexity of the options available, coupled with the inadequate time-frame available to contact and otherwise counsel the individual retired Reservist of such options, makes it essential to consider extending the enrollment period beyond September 30, 1979.

It is our desire to seek your approval of extending the deadline for election into the SBP by the retired Reservists 270 days beyond the current cut-off date. This time-frame would be in keeping with the open enrollment period contained in S. 91.

Mr. Chairman, this concludes my statement and once again, we acknowledge the sincere concern that you and the other distinguished members of the subcommittee have exhibited on behalf of justice and equality in conducting hearings on this vital piece of legislation.

Thank you for providing us the opportunity to voice our concern and represent the thousands of enlisted men and women and their dependents of our United States Air Force.

ADDITIONAL STATEMENT BY NATIONAL MILITARY WIVES ASSOCIATION, INC.

One of the important beneficial feature of Senator Thurmond's Survivor Benefit Plan bill, S-91, which appears to have been overlooked by the Department of Defense at the July 12th Hearings is: The entire elimination of the Social Security offset to the SBP annuity when the wife has worked and earned her own entitlement and has not claimed her husband's entitlement.

National Military Wives Association made a 1979 survey of members throughout the United States. Responses sent to our office indicated that an increasing number of military wives with children to be educated feel the necessity of supplementing their husband's income by getting civilian jobs. Monthly payments to Social Security are deducted from their salaries and their civilian employers, as you know, pay matching contributions. If the wife continues to work for 15-20 years and earns her own Social Security entitlement, and her retired husband who has been paying into the Survivor Benefit Plan happens to predecease her, why should the wife have her SBP annuity offset, at all? Elimination of this offset inequity would encourage more servicemen to sign up for the Survivor Benefit Plan. Actuary statistics show that wives are usually several years younger than their husbands and live several years longer. They need financial protection at a time when they can no longer get jobs or work.

NMWA agrees with Senator Thurmond and Representative Bob Wilson to eliminate the Social Security offset entirely when Social Security benefits are based on the widow's or widower's own earnings.

Respectfully,

CAROLINE B. DAVIS, *Legislative Counsel.*

PREPARED STATEMENT OF MAJ. GEN. FRANCIS S. GREENLIEF (RET.), EXECUTIVE VICE PRESIDENT, NATIONAL GUARD ASSOCIATION OF THE UNITED STATES

Mr. Chairman and members of the Subcommittee, I am Major General Francis S. Greenleaf, retired, Executive Vice President of the National Guard Association of the United States.

I appreciate this opportunity to present this statement on behalf of our Association in support of S. 91, 96th Congress. Two provisions of that bill are of particular interest to us.

The first relates to the method of determining the reduction to be made in a military member's retired pay in order to provide an annuity for his widow under the Survivor Benefit Plan. Initially, both military and federal civil service retirees use the same formula. The retired pay is reduced by two and one-half percent of the first \$300 and ten percent of the amount in excess of \$300 in order to provide a monthly survivor annuity equal to 55 percent of the principal amount.

However, when retired pay is increased as a result of increases in the Consumer Price Index, the new deductions in retired pay are computed differently. For the military, the basic formula is used. For the civil service retiree, the deduction then in effect is increased by the same percentage as was applied to the principal. Accordingly, if retired pay is above \$300 a month, the military retiree would be charged for ten percent of the increase; the civil service retiree's deduction would be increased by the percentage of the actual CPI increase. The bill would make the latter method of computation applicable to military and civil service retirees alike.

A second, and more important feature of the bill would reduce the Social Security offset against a widow's SBP annuity from the current 100 percent to 50 percent.

There is a rough correlation between Social Security and the Survivor Benefit Plan benefits in the case of members retired after 20 or more years of active military service because the federal government, as employer, paid the Social Security taxes during the entire period. It seems unfair that the government takes credit for all of the benefits by way of offset when the member himself matched the government's payments through payroll deductions in favor of the Social Security Fund. If the offset were reduced to 50 percent, the government would receive credit for the fruits of its own contributions, and no more.

The same correlation is lacking however in the case of a National Guard or Reserve member who qualifies for retired pay at age 60 under chapter 67 of title 10, United States Code. His principal source of income while performing part time military service resulted from civilian employment. The Social Security benefits which he and his widow might live to enjoy will be the product of the Social Security taxes paid by his civilian employer, to a very small extent periods of full-time training duty, active duty for training, and active duty, and (the lion's share equal to the government and private employer taxes combined) his own contributions.

In those instances in which the member's earnings from his covered civilian employment equalled or exceeded the maximum wages subject to tax, the military department's payments into the Social Security Fund will not have generated any of the widow's benefits. In fact, such overpayments become windfalls to the Social Security Fund.

Under current law, the offset against the widow's SBP must be calculated as if her Social Security entitlements were based solely upon her former husband's military service. In making the calculation, the services add to the military pay the member actually received the \$300 required to be credited under 42 U.S.C. 429 for each calendar quarter during which the member performed one or more days of full-time training, active duty for training, or active duty.

Inasmuch as Social Security benefits are skewed in favor of those in the lower wage brackets, and average monthly earnings based on military service alone will be much less for National Guard and Reserve members than for members on active duty for 20 or more years, the hypothetical Social Security benefits (and hence the offset) will be proportionately higher for part-time service.

Not only are the hypothetical Social Security benefits greater than the actual benefits produced by the government's share of the total contributions, but also, and to make matters worse, the offset is against the comparatively low SBP benefits which retired pay for part-time military service produces.

Until recently, as evidenced by their relatively low rate of participation in the SBP program, our Association assumed that the offset problem was unique to 20

active duty retirees. Recent events have suddenly made us aware that the problem is universal.

Last year, your Subcommittee was largely responsible for the important amendments to SBP which for the first time provided National Guard and Reserve members who complete 20 years of qualifying service with the opportunity to elect an immediate or deferred annuity for their widows in case of the member's death before age 60.

Early this year, the Army and Air Force sent letters to their eligibles informing them of the newly-available options, and furnishing them with the applicable tables and cost data. One paragraph set forth a rule of thumb for estimating the Social Security offset against their widows' SBP annuities at age 62. The reduction, said the Services, would be \$5 of the widows' monthly annuity for each 30 days of full-time training duty, active duty for training, or active duty performed after 1956. For those with over five years' active duty, the monthly SBP reduction would be \$50 for each year of active duty.

The reaction to this letter has been dramatic. An Air National Guard officer wrote to tell us that his widow's estimated \$256 SBP would be wiped out by the \$300 Social Security offset. While not many National Guard or Reserve retirees are likely to have that much active duty, it is nevertheless clear that the offset will drastically cut, if not entirely eliminate, the widow's annuities at age 62 in a large number of cases.

As the result of their calculations using the Army-Air Force formula, some of our members, like their active duty counterparts, have begun to question the wisdom of paying for survivor annuities which will be greatly eroded, if not lost altogether, when their widows reach age 62. We believe they would elect one of these otherwise desirable options if the Social Security offset were reduced to 50 percent.

In order to make the Survivor Benefit Plan financially attractive, encourage the broad participation essential to its success, and achieve the highly desirable results intended by the Congress, we strongly urge the prompt enactment of this legislation.

I am happy to have had this opportunity to present our views, and will try to answer any questions you may have.

PREPARED STATEMENT OF DONALD H. SCHWAB, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

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 1.85 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 established a "minimum income" of at least \$2,100 per annum for certain unremarried 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 Survivor's 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 non-participation to the fullest extent requires the counseling and signature of the potential beneficiary, our last National Convention passed Resolution No. 655 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, USA the Department of Defense deducts dollar for dollar from the annuity payable to the beneficiary at age 62 the amount of social security 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 recent DOD study submitted in February of this 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 startlingly, in May of this year 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.

Mr. Chairman, the bill now before you, S. 91, introduced by the Honorable Strom Thurmond, would fulfill our resolution in part by reducing from 100 percent to 50 percent the social security offset when the beneficiary reaches age 62. In addition, the bill would:

(1) Eliminate the social security offset entirely when there is a dependent child and when social security benefits are based on the widow's or widower's own earnings;

(2) Cost-of-living adjustments would be applied in the same manner for both military and civil service retirees, so both pay the same amount for the same SBP coverage;

(3) Eliminate the social security offset for reservists in cases where social security payments were refunded;

(4) Authorize an open enrollment period of 270 days for retirees who decline to participate in the plan because of existing inequities;

(5) Authorize SEP benefits for pre-1972 "forgotten widows" whose husbands had no opportunity to participate in the SBP before their plan.

Mr. Chairman, the V.F.W. supports the instant legislation which ameliorates some of the injustices and inequities in the current Survivor Benefit Plan. However, we sincerely believe the most urgent need requiring your immediate attention is the complete elimination of the social security offset which is wholly untenable for the following reasons: (1) the previously cited surplus of funds paid in by annuitants as opposed to the lesser monies paid out to beneficiaries, and (2) the fact that the companion plan for federal civilian retirees does not have any

social security offset and yet is less costly and provides equal for greater coverage for beneficiaries.

The V.F.W. appreciates the concern of this Subcommittee in holding this hearing with a view toward making the Survivor Benefit Plan more attractive, more equitable and more beneficial.

Thank you.

FLEET RESERVE ASSOCIATION,
Washington, D.C., 17 July 1979.

HON. SAM NUNN,
Chairman, Subcommittee on Manpower and Personnel, Armed Services Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: As the spokesman for the 147,684 members of the Fleet Reserve Association and the 24,000 members of its Ladies Auxiliary I wish to submit this statement for the record in rebuttal to the Department of Defense's testimony on the pending legislation, S-91, before your Subcommittee on 12 July 1979. Mr. Richard Danzig in presenting the Administration's position on correcting the inequities of the Military Survivor Benefit Plan (Public Law 92-425) stated the Administration could support all provisions except the provision regarding the pre-1972 "forgotten widows" of S-91 if all new entrants into the Survivor Benefit Plan are required to enter the program on an actuarially sound basis.

This callous and irresponsible proposal by the Department of Defense clearly reveals the Department's total disregard for the welfare of its military employees and their families. In making this proposal, the Department of Defense completely abandons its responsibility to represent and protect the best interests of military personnel. A quick review of the history of the previous actuarially sound Survivor Benefit Program operated for military personnel for nineteen years is the best rebuttal to the Department's impractical and ridiculous red herring proposal.

The original military Survivor Program Benefit was the "Contingency Option Act" (COA) enacted as Public Law 83-239 on 8 August 1953. It was an actuarially sound program with very restrictive provisions. Because of this, it attracted very few military retirees. This fact was given as a reason for placing military personnel under the Social Security system in an effort to improve military survivor benefits in 1956.

Five years later, the Contingency Option Act was still attracting so few military retirees, less than ten percent, that it was liberalized extensively but remained actuarially sound. The name of the program was even changed to the more descriptive title of the "Retired Serviceman's Family Protection Plan" (R.S.F.P.P.) in an effort to encourage greater participation. This was done by Public Law 97-381 on 4 October 1961.

R.S.F.P.P.'s participation rate continued to lag far behind the participation rate of the Survivor's Annuity Plan (S.A.P.) afforded to civilian Federal retirees. The law was liberalized by Public Law 89-365 on 8 March 1966 and again by Public Law 90-485 on 13 August 1968 as efforts to make it more equitable and gain greater participation. However, it retained its actuarial sound basis requiring military retirees to pay 2½ to 5 times as much as their civilian Federal contemporaries for the same dollar value of survivor coverage. At the height of its participation rate, it achieved a mere fifteen percent of all military retirees. The participation rate of those who most needed the protection, the enlisted personnel, was a minimal eleven percent!

On 6 February 1978, U.S. Representative Charles S. Gubser (R.-Calif.), introduced H.R. 15152 in the 90th U.S. Congress at the request of the Fleet Reserve Association. The legislation provided for the establishment of an equitable military Survivor Benefit Plan comparable to the program afforded civilian Federal retirees. After four years and seven months of deliberations, the 92nd U.S. Congress recognized the inequities and failure of the actuarially sound R.S.F.P.P. and enacted H.R. 10670 replacing R.S.F.P.P. with the current Survivor Benefit Plan. It was signed into Public Law 92-425 on 21 September 1972. The original intent of the law was that military retirees would have the same option as civilian Federal retirees, to provide their surviving dependents with an annuity on a 60/40 cost sharing basis with the government.

Based on the nineteen year experience with an actuarially sound program, it should be clear to anyone that placing the current SBP on an actuarially sound basis will have the following results:

(1) It will reduce the current limited acceptability of SBP by prospective enrollees and the participation rate will plummet to an almost meaningless level within the next several years.

(2) It will completely abolish the current limited measure of equity and comparability between the military and civilian federal survivor benefit programs.

(3) It will create two unequal classes of survivors in the military community by making a clear division in the level of benefits and their costs afforded to current and future SBP participants.

(4) It will perpetrate another breach of faith of promised benefits in the eyes of the military community and have a very visible negative effect on the reenlistment and enlistment rates.

(5) It will destroy the value of the cost-of-living increases to the survivor's annuity since it is almost impossible to provide such increases in an actuarially sound program.

The Department of Defense's contention that the depressing of future pay increases for civilian Federal employees under the proposed Federal Pay Reform legislation will compensate and equate for the government subsidized survivor benefits for future civilian Federal retirees is blatantly false because:

(1) It is a far cry between the proposal and the enactment of legislation of this magnitude. Meanwhile, military survivor benefits will be drastically eroding into another former benefit, thus creating an even greater inequity between the survivor benefits afforded the military and civilian Federal retiree.

(2) Even if enacted, in due time the Federal Pay Reform proposal will create inequities in the survivor benefits received by current and future Civil Service retirees.

In view of these very clear facts, why should military Survivor Benefits be placed on an actuarially sound basis now on the premise that the Federal Pay Reform legislation will be enacted in the same form as it is proposed? It would be far more practical and equitable to make the current military SBP truly comparable to the civilian survivor annuity program by enacting the provisions of S-91 into law this year!

If, in the future, the Survivor Benefit Program for the civilian Federal retiree is amended, consideration to making comparable amendments to the military survivor annuity program could be given at that time.

Mr. Chairman, we urge you and the members of the Committee not to accept the Department of Defense's regressive amendment. In the interest of equality and justice do not take a step backward in acting on the provisions of S-91.

We respectfully request that this supplementary statement be included in the official record of the 12 July 1979 hearing on the subject of military survivor benefits.

Thank you for permitting us to state our views. I remain sincerely in
Loyalty, Protection and Service,

ROBERT W. NOLAN,
National Executive Secretary.

NATIONAL ASSOCIATION FOR UNIFORMED SERVICES,
Arlington, Va., July 16, 1979.

Hon. SAM NUNN,
*Chairman, Subcommittee on Manpower and Personnel, Committee on Armed Services,
U.S. Senate, Washington, D.C.*

DEAR SENATOR NUNN: I want to express the appreciation of the National Association for Uniformed Services (NAUS) for the views you expressed during the hearings on S. 91 on July 12. NAUS is one of the 12 service associations that joined in having Bob Nolan of the Fleet Reserve Association testify for all of us.

We are all greatly disturbed by the action of Mr. Richard Danzig, testifying for the Department of Defense, in introducing a wholly new proposal as a condition for DOD support of major elements of S. 91. His proposal that all new participants in the Survivor Benefit Plan be committed to pay the full actuarial costs of the program could have enormous and unpredictable effects on costs to retirees. It would probably impact very unfavorably on participation, and it would create huge new inequities between old and new members of the program. None of these potential effects were so much as mentioned, much less documented and analyzed.

It is my understanding that your committee staff had no advance notice that Mr. Danzig would make such a proposal. In view of the background of several years of work with DOD by the Armed Services Committee on the S. 91 issues, and similar committee work in the House, the handling of this proposal defies understanding. Whatever the motives behind it, it is a classic example of the DOD civilian leadership's frequent disregard for the interests of service people. You

and other members of the committee showed far more concern about this aspect of S. 91 than did Mr. Danzig.

I urge that your committee report favorably on S. 91 and treat the DOD proposal as a separate issue to be handled later in connection with the President's federal pay equalization proposal. To do otherwise could only result in another long delay of action on the Survivor Benefit Plan that is already years overdue. It may develop that federal pay equalization will eventually affect military and civil service survivor benefits. This is all the more reason to bring the two survivor benefit plans closer together by enactment of S. 91.

Sincerely,

JOHN P. SHEFFEY,
Executive Vice President.

Enclosure.

PREPARED STATEMENT OF JOHN P. SHEFFEY, EXECUTIVE VICE PRESIDENT,
NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

Mr. Chairman, Gentlemen, I am John P. Sheffey, Executive Vice President of the National Association for Uniformed Services (NAUS). Our association's membership is drawn from all the seven uniformed services of the United States; active duty, retired, reserves, veterans, and their spouses or survivors. Our mission is to uphold the security of the United States by supporting activities that preserve and improve the attractiveness of service careers and sustain the morale of the uniformed services. We work on the "people things" such as pay, retirement, survivor benefits, and the traditional entitlements that make a service career a way of life rather than just a job.

We in NAUS are particularly aware of the shortcomings of the present Survivor Benefit Plan. Most of our 26,000 members are retired servicemen or senior active duty personnel nearing retirement. Seven thousand are widows or spouses. The widows are thankful they have it, but both the retirees paying the costs and the widows receiving the benefits believe that there are very unfair elements in the present plan. S. 91 would correct these shortcomings, and we in NAUS urge that you report favorably on it.

Mr. Robert W. Nolan of the Fleet Reserve Association is probably the most expert witness available on the military Survivor Benefit Plan. He and the association he represents were instrumental in the creation of the plan in the early 1970's, and we in NAUS have worked with him in the preparation of testimony for this committee today. To avoid unnecessary repetition of the arguments for S. 91, NAUS joins 10 (or more) other military associations represented here today in having Mr. Nolan speak for us. I reserve the right to make additional contributions to the testimony and to participate in responding to your questions.

NAVY LEAGUE OF THE UNITED STATES,
Washington, D.C., July 9, 1979.

HON. SAM NUNN,
*Chairman, Subcommittee on Manpower and Personnel, Committee on Armed Services,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: I am pleased to learn that you are planning to hold hearings soon on legislation (S. 91) which would rectify the inequities in the military Survivor Benefit Plan (SBP), and commend you and the members of your committee for your attention to this important and urgently needed legislation.

While the 95th Congress approved certain changes in the SBP designed to eliminate several shortcomings and inequities in the present program, it was very disappointing that action on other equally important provisions was deferred; especially reduction in the social security offset, cost computation formula, and open enrollment.

The provisions of Section 1451(a), Title 10, U.S.C., requiring a 100 percent (dollar for dollar) offset of militarily earned social security from the SBP annuity when the annuitant reaches age 62 and is entitled to receive social security survivor benefits is very unjust. Not only is the current military retiree who served on active duty after December 31, 1956 adversely affected by this inequitable 100 percent offset, but it is the military retiree whose full military career is covered by social security who suffers the most.

Of particular concern is the inequity of the 100 percent offset for enlisted personnel where, in some instances, the offset may be greater than the SBP annuity received by the member's surviving spouse.

The 100 percent offset for the surviving spouse receiving social security based on her personal earnings is also grossly unfair, particularly to the widows of our aged retirees who served on active duty in the days of low military pay and the wife worked to help make ends meet. A surviving spouse who is receiving social security benefits based on her personal earnings should suffer no loss in SBP benefits unless she receives social security benefits based upon her husband's militarily earned social security.

In the case of the surviving widow with one child, the same 100 percent social security offset is affected. However, if a civil service retiree dies leaving dependent children, the children receive a survivor annuity even if the retiree was not participating in the Civil Service Survivor Annuity Plan.

It is our view that legislation is needed to accomplish the following:

- (1) reduction in social security offset from 100 percent to 50 percent;
- (2) elimination of the offset when a widow has one dependent, and when a widow is collecting social security based on her own earnings;
- (3) a change in the method of calculating the reduction of military retired pay for members covered under SBP (cost to the retiree) to conform identically to the formula used for the Federal Civil Service Survivor Plan;
- (4) authorization for those military retirees who do not have coverage under the current SBP to enroll during a 270-day period following enactment of this legislation.

Members of the Navy League have followed with keen interest the progress of the Survivor Benefit legislation. They are firm in their belief that the passage of S. 91 is necessary to reverse the remaining inequities in the present program, and to obtain equalization of survivor benefits for all Federal retirees.

Therefore, it is strongly urged that you exert all possible influence to insure a favorable vote by your committee.

Sincerely,

JOHN J. SPITTLER.

NATIONAL CAPITAL OFFICE,
NON COMMISSIONED OFFICERS ASSOCIATION,
OF THE UNITED STATES OF AMERICA,
Washington, D.C., July 20, 1979.

Hon. SAM NUNN, U.S.S.,
Chairman, Subcommittee on Manpower and Personnel, Senate Armed Services Committee, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the Association's International Board of Directors I extend appreciation to you and your distinguished panel for allowing me the few minutes on July 12 to voice the Association's position on S. 91. This bill will amend Public Law 92-425, the Uniformed Services Survivor Benefit Plan.

As were many others present at the hearings, I too was aghast over the suggestion made by the Administration's Defense spokesman that to alleviate the 100 percent social security offset the military services should be permitted to "charge" future participants a "premium" based on a perpetually graded actuarial cost factor.

NCOA, without question, totally and concurrently condemns that proposal. It is a callous attempt to make a bad law even worse. The Association shall act accordingly to seek its rejection within the Congress of the United States.

Again, Mr. Chairman, my Association advocates the passage of S. 91, particularly that portion dealing with reducing the current social security offset by 50 percent. If in its wisdom the panel believes otherwise, then we seek an amendment to P.L. 92-425 that will permit current enlisted participants to voluntarily withdraw from the plan. This will allow them to invest their money in a commercial program that provides a positive return for their investment.

Thank you again. Hopefully you will include these remarks in the record along with those submitted for the July 12 hearing.

Sincerely,

C. A. (Mack) MCKINNEY,
Director of Government Affairs.

THE RETIRED OFFICERS ASSOCIATION,
Alexandria, Va., July 19, 1979.

Hon. SAM NUNN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR NUNN: Thank you, again, for taking up survivor benefits in your Subcommittee. We recognize the extremely critical nature of other issues-making demands on your time and attention and thoroughly appreciate your patience, under the circumstances, in allowing us the opportunity to express our views.

Apparently, the Defense position expressed by Mr. Danzig was as much of a surprise to you as it was to everyone else. Therefore, I hope you will understand our desire to clarify our reaction to it. Also, we would like to offer some thoughts with respect to the lack of agreement between the Department of Defense cost estimate and Congressional Budget Office evaluation of that estimate.

After a review of the Administration proposal to make survivor benefit plans for military personnel an actuarially neutral, unsubsidized program, we are even more convinced that it was irresponsible and demonstrated a total lack of understanding of the nature and purpose of such plans. It is also obvious that this position was not coordinated with the Service Secretaries prior to presentation to your Committee. We have never considered any segment of the military compensation system to be a charitable act on the part of the Federal Government. The original design of the system and the frequent refinements over the years have always had a direct relationship to the ability to attract and keep qualified people in uniform. The Survivor Benefit Plan is no exception. When it was adapted from the civil service plan to replace the Retired Serviceman's Family Protection Plan (RSFPP), it responded directly to the inability of military careerists to accumulate an estate for their survivors and the consequent pressure on them to leave service while they were still able to fill this need.

In this respect, I can attest, personally, to the fact that many of our best middle-graders, officer and enlisted, do not intend to stay in uniform beyond twenty years and some are leaving prior to retirement eligibility. These people, for the most part, are the future leaders—the stabilizing core of our national security force. Their demonstrated ability in service have made them attractive accessions in many fields of civilian endeavor. Granted, the failure of the Survivor Benefit Plan has not been a major reason for premature departures from service, but it has certainly been a contributing factor.

Under the circumstances, we view as unrealistic the administration proposal to regress to a plan inferior to RSFPP.

You made it clear in your observations during the July 12 hearing that a better definition of costs was essential before your Subcommittee could make a recommendation. For this reason, I commend the attached summary of future costs to your careful review. Granted, it is based on Defense Department Data, which you have questioned. However, it is the only data available to us and it presents a "worst" cases situation—55 percent participation. Even under these circumstances we find that the Government's share of the cost between now and the year 2000 does not exceed 21 percent. This is well within the 60/40 cost sharing parameter of the civil service plan upon which our plan was based in 1972.

Of course, any projection of SBP costs as it is presently designed must incorporate an unknown—the future effect of the Social Security interface. Largely, because of this, ERISA, which requires all employers to be able to inform their employees, on demand, of the exact value of their retirement annuity, cannot apply to military people. Our study of SBP has convinced us that the best course of action would be to end the interface with Social Security completely, if necessary with a slight counterbalancing reduction in the annuity to maintain the cost-sharing ratio.

I certainly hope the foregoing will be helpful to your Subcommittee in preparing its recommendation.

Sincerely,

[Enclosure.]

GEORGE E. HENNRNIKUS, Jr.,

*Colonel, USAF, Retired,
Chief Legislative Counsel.*

COST PROJECTIONS¹ FOR SBP 1979-2000

(55 Percent Participation)

	<i>\$ millions</i>
Present plan:	
Benefit payouts-----	11, 901. 6
Reduction to retired pay of members-----	15, 360. 5
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Net disbursement-----	-3, 459. 2
Member pays 129 percent of cost	
50 Percent social security offset:	
Benefit payouts-----	17, 047. 3
Benefit payouts present plan-----	11, 901. 6
	<hr/>
Increased cost to Government-----	5, 145. 7
S. 91 features:	
Eliminate social security offset for certain reservist-----	8. 0
Eliminate social security offset when widow earns own social security benefit-----	385. 3
Eliminate social security offset for widow and 1 child-----	82. 2
Cost of civil service premium-----	1, 911. 3
Cost of 50 percent social security offset-----	5, 145. 7
	<hr/>
Total cost of S. 91 improvements (less forgotten widows)--	7, 532. 5
Recapitulation:	
Benefit payouts present plan-----	11, 901. 6
S. 91 improvements-----	7, 532. 5
Total cost of new plan-----	19, 434. 1
Reduction to retired pay-----	15, 360. 5
	<hr/>
Net disbursement-----	4, 073. 6
Member pays 79 percent of cost	

¹ Based on DOD study May 1979.

CORONADO, CALIF., August 6, 1979.

(Attention: Robert J. Carragher)

Senator SAM NUNN,

Chairman, Subcommittee on Manpower and Personnel, Rayburn Senate Office Building, Washington, D.C.

DEAR SENATOR NUNN: I was profoundly shocked to know that during the July 12th public hearing by your Subcommittee on S. 91 the Defense Department opposed the inclusion of the forgotten widows of pre-SBP military careermen in the Survivor Benefit Plan, as proposed in Section 3 of Senator Strom Thurmond's S. 91. I urge that the members of the Senate Armed Services Committee take into consideration the high cost and other inequities in the former Retired Serviceman's Family Protection Plan (RSFPP) when they evaluate the necessity for remedial legislation on the behalf of pre-SBP forgotten widows.

The Defense Department's opposition to Section 3 of S. 91 is contrary to established precedent on corrective legislation pertaining to surviving families of military personnel. For reference your attention is called to:

(a) The 1951 amendments to the Social Security Act which provided social security coverage—retroactive to 16 September 1940—to all widows of military personnel whose husbands died on active duty after a national state of emergency was declared by President Franklin D. Roosevelt. The 1951 Social Security amendments corrected inequities in social security payments for the surviving widows and children of World War II draftees and career members of the armed forces.

(b) The 1956 Servicemen's and Veterans Survivor Benefit Act, Public Law 84-881, which corrected inequities in the death compensation formula of the 1917 War Risk Insurance Act. Section 206 of Public Law 84-881 provided for the inclusion of all widows of military personnel on the VA death compensation rolls—regardless of the date of the husbands' death—whenever the new dependency and indemnity compensation (DIC) law provided higher death compensation for the surviving family than the old 1917 law.

(c) The 1958 amendments, Public Law 85-465, to the 1948 federal civil service survivor benefit law included all widows of civil service careermen whose husbands died before the 1948 law was enacted. Suitable national publicity urged all eligible

forgotten widows to obtain survivor benefit application forms from the Civil Service Commission's nearest office. The processing of these applications established the number of widows and the cost to include them in the 1948 civil service survivor benefit law. The cost for coverage of this diminishing group of forgotten widows was met by the general fund of the U.S. Treasury.

To determine the number of and the cost to include military forgotten widows in the 1972 military Survivor Benefit Plan the procedure used by the Civil Service Commission in 1958 could be applied. Neither the Defense Department, the Veterans' Administration, nor the Office of Management and Budget can do more than make an educated guess in this regard.

The 1972 military Survivor Benefit Plan was patterned after the survivor benefit law for federal civil service personnel to correct the inequities in the unpopular Retired Serviceman's Family Protection Plan. In 1972 the civil service survivor benefit law had been amended to include the pre-1948 civil service careermen's forgotten widows. Therefore, in 1972 the military Survivor Benefit Plan should likewise have provided for inclusion of the pre-1972 forgotten widows of military careermen, as proposed in Section 3 of S. 91. It failed to do so and I respectfully request that these widows be included in the amendments to the SBP program presently being considered.

An inequity between federal civil service and federal military service, not provided in S. 91, is the exclusion of members of the uniformed services from the Federal Employees' Compensation Act (FECA), Public Law 64-267. FECA provides compensation for deaths and injuries federal employees suffer in the performance of officially assigned duties. Most of these deaths and injuries occur long before members of the uniformed services accumulate 20 years of service. Military widows in this category, presently receiving DIC, are suffering inequities in their death compensation. The FECA formula for all other federal employees, except military personnel, provides 50 percent of the husband's full salary for a widow without dependents and up to 75 percent for a widow with two or more dependent children. The VA compensation laws provide more generous disability compensation than FECA for injuries, but compensation for deaths suffered in the performance of officially assigned duties is far lower than FECA provides. The percentage of the VA's DIC formula for deaths, figured on regular military compensation (RMC), diminishes with increased years of service and advances in pay grade to as low as 20 percent of full salary for pre-SBP widows whose husbands died in the performance of their officially assigned duties. The Defense Department adheres to FECA for its civil service employees, but its uniformed services employees and their dependents are unjustly excluded from FECA. Military personnel are federal employees and there is no justification for this exclusion.

For the aforementioned reasons your support of Section 3 of S. 91, and the support of the other members of the Senate Armed Services Committee, is respectfully requested. I would appreciate receiving such assurance from you.

Sincerely,

TERESA E. ALEXANDER.

Thank you very much.

[Whereupon, at 12:50 p.m. the committee adjourned, subject to the call of the Chair.]

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