

FUTURE DIRECTIONS IN SOCIAL SECURITY

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- Part 1. Washington, D.C., January 15, 1973.
- Part 2. Washington, D.C., January 22, 1973.
- Part 3. Washington, D.C., January 23, 1973.
- Part 4. Washington, D.C., July 25, 1973.
- Part 5. Washington, D.C., July 26, 1973.

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FUTURE DIRECTIONS IN SOCIAL SECURITY

WEDNESDAY, JULY 25, 1973

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The special committee met, pursuant to call, at 10 a.m., in room 1224, Dirksen Senate Office Building, Hon. Frank Church [chairman] presiding.

Present: Senators Church and Fong.

Also present: William E. Oriol, staff director; David A. Affeldt, Chief Counsel; Elizabeth Heidbreder, professional staff member; John Guy Miller, minority staff director; Robert M. M. Seto, minority counsel; Dorothy McCamman, consultant; Gerald Strickler, printing assistant; Patricia Oriol, chief clerk; Pam Klepec and Yvonne McCoy, clerks.

OPENING STATEMENT BY SENATOR FRANK CHURCH, CHAIRMAN

Senator CHURCH. The hearing will now come to order.

At the beginning of this committee's hearings on future directions in Social Security on January 15, I said our goal is to take a reflective look at a time when legislative units of the Congress have completed work on historic Social Security legislation, at the significance of recent accomplishments as well as action that must ultimately be taken to build upon this accomplishment.

I was referring at that time when I spoke of recent accomplishments to last year's 20 percent Social Security increase and several notable provisions, including a new supplemental security income program included in H.R. 1, now Public Law 92-603.

Just 3½ weeks ago, Congress acted again to improve the Social Security and supplemental security program. The cost of living adjustment of 5.9 percent will go into effect next June, 6 months earlier than the full cost of living's earlier plan.

The retirement test was further liberalized and improvements were made in the supplemental security income program. All these provisions were attached to the Renegotiations Act extension and they were promptly signed into law. All such improvements are, of course, welcome. They showed clear recognition by the Congress that many older Americans are still engaged in their daily struggle to pay their bills, keep a roof over their heads, and enjoy some measure of well-being.

The 5.9 percent cost of living increase will help, but it is still a year away. Even when it does take effect it will raise average monthly benefits for retired workers from \$167 to \$177, for aged couples from \$278 to \$295, and for elderly widows from \$159 to \$169, and approximately 2.8 million persons of age 65 and over will still live in poverty, a problem that we have yet to solve in this rich country.

Benefit levels provide only a partial measure of the adequacy and effectiveness of the Social Security system. This committee must concern itself with other issues, such as: What are our national goals for adequacy of retirement income? How high shall the contribution rate or payroll tax be fixed? What more should be done to deal with the high cost of health care for the elderly? What amount of general revenue shall be used for Social Security and Medicare, and for what purpose? How fair is our present Social Security system for members of minority groups? These and other such questions need answers, which is the purpose of the committee's hearings.

Senator Fong.

STATEMENT BY SENATOR HIRAM L. FONG

Senator FONG. Mr. Chairman, I believe our hearings on future directions in Social Security, which we resume today and tomorrow, can and should be one of the most important services the Committee on Aging can provide for the Congress and the American people.

As I have said previously, in many respects Social Security is the biggest business in America. Its importance to all citizens—especially to older Americans—can hardly be exaggerated. Receipts from Social Security taxes, which are reflected in benefits, are greater than all corporation income taxes or any other class of Federal receipts except individual income tax.

A program of such magnitude in human and economic terms deserves the benefit of all the light to which we can expose it. The people and the Congress need all the facts and seasoned judgments they can get on how it operates and what it may become in the future.

We need the benefit of the many widely different views as to what Social Security should be as it continues its development. I believe our chairman, Senator Church, deserves commendation for the quality of witnesses so far scheduled and his apparent intention to be sure that all points of view are to be heard during this committee review.

That there is controversy as to what Social Security is and should be goes without saying. In our previous hearings on this subject, the committee has already heard sharp differences of opinion on some aspects of the system. As I said at the first hearing session, I am looking forward to the widest possible discussion of all points of view on this major social institution in the interest of making it the best possible servant of the American people.

PHILOSOPHIC DIFFERENCES

There are unsatisfied needs to which Social Security may address itself; there are philosophic differences as to what it should be; there are problems which need solution. In each of these areas there is controversy.

I think we are fortunate this morning to hear first from a man whose participation in these several debates has been long and deep.

However one may react to his views, and reaction has sometimes been strong, I am confident no one would deny the expertise which Professor Cohen brings to this important subject. Even by those who

disagree with him most violently, recognition is given to his tremendous knowledge of the subject.

Professor Cohen's vast experience includes association with the American Social Security system going back to its beginning. He assisted the Cabinet committee which drafted the original Social Security Act and served as advisor to the first Commissioner. In subsequent years his has been a familiar face before congressional committees concerned with Social Security—where he has always received careful attention. His practical experience with the program's operation culminated with his responsibilities as Secretary of Health, Education, and Welfare during the Johnson administration.

Because practical application—in terms of overall benefit to older persons and society as a whole—is essential, I am glad that these 2 days will also include a major presentation of views by the American Association of Retired Persons and its companion organization, the National Retired Teachers Association.

While we heard from an NRTA-AARP consultant, former Social Security Commissioner William Mitchell, at an earlier hearing, I especially welcome the opportunity for a full blown discussion of the issues by these organizations tomorrow.

As the largest national organization of older persons, with over 5 million dues-paying members past 55, NRTA-AARP is capable of making a most valuable contribution to our record.

It is my understanding that the NRTA-AARP testimony will be presented by Mr. Cyril Brickfield, their legislative counsel, assisted by Mr. Mitchell, former Commissioner on Aging John B. Martin, and Mr. James Hacking, legislative representative.

While less familiar with the other two witnesses who will appear during these 2 days—Mr. Max Manes, chairman of Seniors for Adequate Social Security and Mrs. Barbara Marks of the National Senior Citizens Law Center—I am informed they also will make useful contributions to our study.

Mr. Chairman, it is a pleasure now to join you in extending a welcome to Professor Cohen.

Senator CHURCH. Our previous witnesses have already given us a solid foundation for discussion of such issues. Today we are fortunate to have as our first witness a man who has been associated with the development of the Social Security system since its earliest days, and as Secretary of Health, Education, and Welfare in 1968 and 1969, Wilbur J. Cohen. He has firmly declared his goals for retirement security in the United States.

Dean Cohen, it has been said, and I think some of you may have heard it but this was the first time it has been called to my attention, it has been said of Dean Cohen that an expert on Social Security is anyone who has Wilbur Cohen's home phone number, which I think is a great tribute to his special status in this field. I know we will benefit from your testimony this morning, Dean Cohen, even without the need for a telephone. You have come to us as the first witness, and we appreciate that very much.

I know that you have a prepared statement. I would like you to give that statement at this time, after which there will be questions.

STATEMENT OF WILBUR J. COHEN, COCHAIRMAN, INSTITUTE OF GERONTOLOGY, UNIVERSITY OF MICHIGAN-WAYNE STATE UNIVERSITY; DEAN, SCHOOL OF EDUCATION, THE UNIVERSITY OF MICHIGAN; AND SECRETARY OF HEALTH, EDUCATION, AND WELFARE, 1968-69

Mr. COHEN. Thank you, Mr. Chairman. It is a great privilege and honor for me to come here to give my ideas on the future directions in Social Security. I am particularly honored because in 1957 as a member of the faculty of the University of Michigan, Senator Lister Hill invited me to come and advise him as to whether a special committee on aging should be established. I served in that capacity for about a year and a half, and recommended that such a special committee be established. I feel that what you have done in the ensuing years with this committee has been a great contribution to aging and older people and to social policy. I merely want to reaffirm my great respect for what this committee and its staff has done in this whole field of Social Security.

I recognize that this is a difficult area since this committee is not a legislative committee. But nevertheless, I want to pay tribute to the fact that its contribution in the formulation of policy has been of immense value to the other committees. I feel that you have a great contribution to offer. I am sure these hearings on the future directions will show the way to agreements on the changes in the program.

Senator CHURCH. May I just say that when I first came to this committee as the most junior member, I had real doubts about what contribution the committee could make because it lacked direct legislative power, but was set up to be a factfinding committee for the Senate as a whole.

I have been very much surprised, in a way, and pleased that the committee has been able to do such effective work. Most of the major improvements that have occurred have come about as a result of studies of this committee and recommendations that the committee has made that were later taken up by the appropriate legislative committees and enacted into law. Also, as you know, the committee has been able to back amendments on the floor that have been very helpful.

So I think that this study of the future directions in Social Security is one that might very well lead to further legislative action. That is why we are looking forward very much to your message this morning.

Mr. COHEN. I would say, Senator, there are two aspects of the now nearly 40 years' experience for Social Security that I will be touching on in my paper, but I will just mention them here, in which your committee has made a contribution.

One is that in the Social Security field, as against many other legislative fields, there has been a consensus in Congress. Sometimes the word "consensus" is not viewed with great appreciation, but it still is a very good concept. Most of the legislation in Social Security in the last 40 years has been reached in Congress by a consensus of the leaders of both political parties. There has been very little on the con-

gressional side of major differences about how to proceed, with one or two exceptions.

I think this kind of consensus which your committee can help arrive at by discussion is what has made Social Security largely nonpolitical, so widely accepted. I shall touch on that in my paper, plus the fact that there has been an incremental improvement in the program. Those two aspects, the incremental improvement of the program and its consensus, have served to make Social Security one of the most widely accepted institutions in American life.

I have numbered the paragraphs in my paper, Senator, so that it would be easy to question me about a point. Naturally, these points are in a succinct state in most cases. One could write a whole chapter on each point. They do represent my own view of a rather complicated program.

The Social Security program is the largest and most effective public program to prevent dependency and poverty. It keeps some 10 million persons out of poverty. If the Social Security program were abolished, the number of persons in poverty in the United States would increase by about 40 percent, from 25 million to 35 million persons. This is a fact, Senator, frequently overlooked.

FREEDOM OF CHOICE

The Social Security program has other important objectives in addition to preventing dependency and poverty. It enables individuals to have greater freedom of choice when certain hazards arise, a point which is frequently neglected when people think of only the contribution side and say it is a compulsory contribution.

Social Security gives people a chance to choose and to decide how they are going to live. They have different lifestyles. It will enable them to plan ahead. It helps provide the employers, the economy, and the Congress to allocate resources to meet human needs in a compassionate yet orderly, responsive, and effective manner.

The Social Security program is much more than a retirement program, a fact which is frequently overlooked. It is the largest life insurance program, the largest disability insurance program, the largest health insurance program in the United States, as well as the largest retirement program in the United States.

Just to give you some idea of what is neglected, the face value of life insurance in force under the Social Security program is approximately equal to all the private life insurance in force in the Nation.

This morning I was explaining to my son, who is going to be a father in about a month, and I will hopefully be a grandfather—

Senator CHURCH. That follows.

Mr. COHEN. I must say I look forward to it, too. When the baby is born, he will automatically have approximately \$50,000 worth of life insurance as part of his Social Security. That is a point that most people completely forget about.

Senator CHURCH. Young workers need to be reminded of this because most of them don't realize that it is so. Most of them don't know about it.

Mr. COHEN. That is correct.

Senator CHURCH. They think of Social Security exclusively in terms of a retirement program for the elderly, and some of them think they may never live long enough to have its protection or to receive its benefits. The fact is that they have this continuing life insurance for the protection of their family all during their working years.

Mr. COHEN. Plus the disability insurance, plus the retirement protection, plus advance payments for medical care in old age.

INSURANCE BENEFITS

Now I showed my son this morning that even on the cheapest 5-year renewable term insurance, from the cheapest insurance, the kind I can get being a faculty member, that \$50,000 worth of life insurance would cost him a minimum of \$200 to \$250 a year for the premium.

So later on when we come to discuss the payroll tax one must keep in mind for young people that they are getting a tremendous bargain on the life insurance side which they should not overlook when they appraise what they are getting for their money.

However, only about one-half of all contributions paid under the program are currently for cash retirement benefits. About 30 percent of the cost of cash benefits under the Social Security program is for survivors and disability insurance benefits.

Now poverty due to the death of the breadwinner in the family has been virtually eliminated in the United States. Whereas this was a major cause of poverty some 50 to 75 years ago, when Upton Sinclair wrote his book "The Jungle", it has been virtually eliminated as a cause of poverty. The Social Security program, decrease in mortality rates, and a number of other factors helped to achieve this result.

The reason I put this in, Mr. Chairman, is when people talk about poverty and its unadministerable programs, we should point out that we have overcome one aspect of poverty; namely, the death of the breadwinner, which, while it was the major cause of poverty 60 years ago is no longer a major problem as far as poverty is concerned today.

The death of the breadwinner is always an emotional problem. When a man dies today, in most cases at least the widow and young children do not automatically go on the welfare rolls. In some cases maybe, but there has been remarkable achievement in reducing the number and proportion on the welfare rolls due to the death of the breadwinner.

The Social Security program is a form of social insurance. It is different from private insurance, but nevertheless it is a form of insurance. There is a pooling of the risk and premiums are made into a fund from which benefits are paid. The Social Security program is a form of group insurance which provides a high degree of protection at a relatively low cost. The right to Social Security benefits is legally enforceable in the courts as are the contractual provisions of private insurance.

BALANCING OF GOALS

The cash benefits paid under the Social Security program take into account both equity and adequacy. The marriage or balancing of these two conflicting goals is part of the genius which the Congress has incorporated in the program.

If one factor were to be given weight to the total exclusion of the other, it would undoubtedly necessitate a basic structural change in the financing of the program and its acceptance by the American people.

To illustrate, Senator, if individual equity were made the social consideration, then Social Security would become a savings bank because you return to people only what they put in. If social adequacy were the sole point, you would use, let us say, a budget basis and it would become a welfare system.

Senator CHURCH. Just a straight pension.

Mr. COHEN. Or a straight pension of x dollars per month. Now the genius of the present system is like in all matters of marriage, there is an accommodation to two different points of view. That is the genius that is incorporated in this system which has helped to make it successful, because people have a feeling that there is both an element of social adequacy and individual equity.

Of course, Congress can change that balance at any moment, as it has, and as I think it should continually reexamine this.

Now the next point is one which is frequently neglected by columnists. Congress has been very responsible in operating the program on a financially sound basis. The long-range financial schedule in the law gives as realistic assurance in this uncertain world as is possible of the financial long-range soundness of the program. The law requires public disclosure on the financial operations of the past, present, and future in the annual board of trustee reports to the Congress.

There is frequently, Senator, when I pick up in the paper, statements about how Congress has been irresponsible in increasing the benefits in Social Security and how this may lead to some kind of disaster. I have read those kinds of reports for the last 35 years, and what the columnists and other don't realize is that Congress has been really responsible in framing a benefit program on a financially sound basis.

And I will say that this has been true whatever political party has been in power, and it is true of both political parties in the congressional situation.

Senator CHURCH. In that connection, Dean Cohen, Bill Oriol calls to my attention a column by Mr. Smith Hempstone which begins in this way:

The Social Security Act of 1935 by Robert F. Wagner of New York was a model financing law designed to provide a minimum retirement income flow. But if present trends continue, Social Security will be an economic, political time bomb which will explode within our lifetime.

I don't know whether you had a chance to read that.

HISTORICAL DEVELOPMENTS

Mr. COHEN. Yes, I have read it. When I read it my blood began to boil because I think the gentleman, whoever he is, showed a dismal ignorance of the historical developments and principles in the Social Security program and of the economic developments that have occurred in this country. If that man took my Social Security course I would flunk him. I mean, he has no appreciation of what Congress has done or what principles it has incorporated in the program.

Now, of course, he has got a small point of speculation when he says there is a time bomb in which the Social Security and whole country may end up in some kind of financial disaster. Germany went through an inflationary period in which events happened. If he is saying inflation may bring certain problems, it will not only be for Social Security but the whole country.

Senator CHURCH. You are saying if the general economy of the country were to collapse, that Social Security would be one of the victims along with everything else, all other business, all other investment.

Mr. COHEN. So would private pension plans, savings, everything else.

Senator CHURCH. But Social Security itself has been managed on a financially sound basis and is not likely to collapse due to any weakness in its internal structure.

Mr. COHEN. That is correct.

The Social Security program has been significantly improved since 1965 as a result of the 1972 and 1973 amendments. Social Security is now on a "dynamic" basis related to changes in wages and the cost of living. In this respect, it is superior to many fixed contractual private retirement programs in affording beneficiaries a greater degree of protection in the future.

The "dynamic" character of the program should be further improved and extended. That is the relationship to future economic situations. Social Security should be improved as productivity and earnings increase. It is not sufficient to increase Social Security benefits to retired individuals solely in relation to cost-of-living increases as it is incorporated in the present law.

It is recommended that a special study be made of Social Security systems in other countries where benefits are automatically related to changes in earnings in the economy. In other words, Senator, if the cost of living goes up, let us say, 3 percent a year, and wages and productivity go up 5 percent a year, and retired people only get benefit increases of 3 percent a year, in the course of 5 or 10 years they are going to be at a lower relative level than the other people in the economy.

Therefore, in the cost-of-living increases for retired people, an important and satisfactory step was taken in 1972 and 1973, which can only lead 10, 15 years from now to our aged being treated in a way that will put them at a relative disadvantage.

SPECIAL STUDY ASKED

I, therefore, suggest to you that this committee undertake a special study of these various countries which have already gone farther than the United States, where they take into account earnings as a measure of increasing the benefits as well as changes in the cost of living. That seems to me the most important future direction for Social Security to take.

Senator CHURCH. That is one of the matters that we do have under consideration, and the committee has engaged a consultant. We don't expect to get a quick answer, but we expect to find a sound answer to the question.

Mr. COHEN. It is a very complicated matter. I have spent a good many hours working out my own version of that kind of system, but

knowing that Germany has done it, and four or five other countries have done it, I see no reason why we can't do as well or better than the other countries. The models of these other countries might serve as a basis for committee discussion.

Now, another fact that is frequently overlooked is that administrative cost of the Social Security systems is very low. The preliminary figures for fiscal year 1973 show that such costs as a percentage of contributions collected, and they would be similar if you took benefits paid out, are as follows: For cash old-age and survivors insurance benefits, only 1½ percent of those contributions goes to administrative cost. No other system in this Nation can compare with the efficiency of that figure. For disability insurance where you have to take medical examinations into account, it costs for disability, 4.2 percent. For Medicare part A, which is the hospital part, and the bills are rather large, it costs only 2.4 percent. For the Medicare part B, where you have thousands of individual physician's bills, it would cost much more, and it is 11.7 percent. This is a point which I would hope could be brought down by certain changes in the program. So if you will take the whole system together, altogether the administrative costs are 2.4 percent of contributions collected.

Senator, there is no other public, private, or any other system in this country which compares as favorably.

The Social Security cash benefits of Medicare are basically sound and have been administered in an efficient manner. They should remain nonpolitical and be subject to public review every fifth year by an advisory council of distinguished individuals with respect to both contributions, benefits, and administration. This is a point already incorporated in the law and should be retained.

HIGH DEGREE OF SUPPORT

The Social Security and Medicare programs enjoy a high degree of support from the general public, organized labor, the Congress, and other groups. Although dissatisfaction and criticism is rather widespread with respect to many aspects of our established institutions, these do not generally apply to Social Security and Medicare.

That is not to say that there are not bona fide criticisms of the present program, but on the whole these do not go to the fundamental aspects of the program by any substantial sector of the Nation. Although some economists have made a number of criticisms of the financing of the program, these views are not so widely shared by the beneficiaries or taxpayers.

While these criticisms should be considered, it would be unwise to make basic structural changes in a system which has been so successful and widely accepted, unless and until there is very clear evidence of the wisdom of their acceptance by the American people.

The Social Security and Medicare program has been well accepted by the American people in large part because it is a universal program which provides for eligibility to benefits as a matter of statutory right with a minimum of administrative discretion, covering the rich and the poor as well as the middle income, irrespective of race, color, creed, or sex, as a national program not dependent on State or local discretion with Congress acting as the Board of Directors of the enterprise. The

Congress, as I have said, irrespective of politics, carries out its functions as the Board of Directors of this vast Social Security system.

Senator CHURCH. Could I just underline that point by saying that in my own experience I have always noticed how differently people regard Social Security and welfare. I think I have yet to find a person who thought that his Social Security benefits were related in any way to a welfare payment. They are thought of as matters of entitlement, and since everyone does share in them, since they extend to all persons considered by the program, regardless of income, there is no feeling that there is welfare in that program. It makes a great deal of difference to so many people.

Mr. COHEN. That is why I say, Senator, one must view with very great concern the recommendations by many economists to change the financing because they look at the whole mechanism as a redistribution of income. I share their view. I am strongly for appropriate redistribution of their income through our tax system. But I want to be very careful that we don't try to inject into the Social Security system a redistribution philosophy that will ruin the public opinion support that you have just expressed which the American people have, and transform their concept of Social Security from a right into a welfare system. That would be a terrible loss.

Senator CHURCH. I agree with you completely.

Mr. COHEN. The key aspect of the Social Security and Medicare system has been its incremental improvement which has permitted the changes to be successfully inaugurated with careful planning, widespread acceptance by individuals affected, participatory involvement of groups with special concerns, and gradual adaptation of costs by the economy.

SOCIAL SECURITY BOARD

If consideration is to be given to any administrative changes in the program, by either the executive branch or the legislative branch or any review, then I would like to suggest that one possibility would be to reestablish something like the original Social Security Board to administer the program.

This board would consist of three persons, that is illustrative of what the original board was, three persons nominated by the President with the advice and consent of the Senate for 6 years, staggered terms, with no more than two members from any one political party.

Social Security is getting so big and so involved and so complex and I have been so concerned with the possibility of political involvement of the executive branch that I have been thinking more and more that the Congress ought to reestablish an independent board to administer the whole program so as to be sure that no political involvement becomes a factor in the Social Security system.

I am not implying that any such politics has been undertaken so far.

Senator CHURCH. I think that in the last aspect, perhaps, now in the actual administration of the program, but in one aspect, certainly political advantage has been taken. That has been the custom of sending out notices of increases in Social Security that bear the signature of the President. This has happened not only under the present incumbent, Mr. Nixon, but under previous Presidents. It was all the

more glaring this time because the 20 percent increase the Congress passed was strenuously opposed by Mr. Nixon, whereas previous Presidents who took the credit had recommended the increase and at least to that extent were entitled.

This has led me to introduce a bill in the Congress that would prohibit any President or any other elected officer from giving notice in such form as to secure an obvious political benefit from it.

Mr. COHEN. I support that legislation wholeheartedly, Senator. I believe it is definitely unwise to do that. I have consistently, when I was in office, opposed that. I would support your bill.

NONPOLITICAL BOARD SUGGESTED

There are other such illustrations that have come to my attention and I think the one way to do that would be to insulate the whole Social Security system by some kind of nonpolitical board that would not be completely beholden to whatever administration was in power.

Senator CHURCH. Yes. a board of that kind could send out the notices so people would understand why there has been an adjustment in their benefit. That would take the political flavor out of it.

Mr. COHEN. If one traces the history of the Social Security Board with regard to political problems that took place between 1935 and 1949, one will see the courage and independence of the Social Security Board in handling very complex political situations.

Senator CHURCH. Why was the board abandoned?

Mr. COHEN. The board was abandoned because the public administration experts decided that it didn't look nice on an organization chart to have a board responsible to the Federal Security Administrator. It didn't follow what you learn in public administration course 607 in the university about a board not being responsible to a single administrator.

I can reconcile that in my mind if one wanted to follow that by saying that the board would still be with HEW and the Secretary would merely have the right to approve or disapprove regulations, so that there would still be some overall control. But individual decisions would be made by the board.

But at that particular moment it just didn't appeal to the chartmakers so it was abolished, and I think that was a very, very wrong decision.

The benefits of Social Security should be further improved. Among the changes which should be made are: some additional "drop-out" years of low or no earnings so as to increase the average earnings on which benefits are based, an increase in the maximum earnings limit for contributions and benefits, and payment of disability benefits commencing with the 5th month of disability and to individuals unable to engage in their customary occupation. Or, Senator, you may use the best 5 years or the best 10 years or the best 3 years, as you do in the Civil Service retirement system so that benefits more accurately reflect the wage of the most recent period. This may begin at age 55 when they are unable to engage in their customary occupation, as compared with the present law which says they must be unable to engage in any substantial occupation.

RETIREMENT TEST

Now, as you know, the most difficult social policy question which has arisen in Social Security has been with respect to the retirement test. This provision in the law has been criticized more frequently than almost any other. There are good reasons, however, for going slowly on any further changes in this program.

The law was amended this year again to increase the allowable limit from \$2,100 a year to \$2,400 for next year. This results in a favorable situation where a retired couple can draw \$5,000 a year in tax-free Social Security benefits plus \$2,400 in earnings plus some income from investments and private retirement without paying any Federal income tax, or a very small income tax.

If any further consideration is to be given to liberalization of the retirement test, then an increase in the 1-percent increment to 2 percent, after age 65, should be given priority. The repeal of the retirement test completely would cost \$4 billion a year, a little bit over one-half of 1 percent of the payroll. This, in my opinion, would be an undesirable use of several billion dollars worth of funds which are much more urgently needed for higher priority needs, such as raising benefits for the very lowest income people, and others that I am suggesting.

Keep in mind that a repeal of the retirement test results in only a small number of individuals who are working benefiting from the repeal of the test, with no improvement in the benefits for the millions who cannot work. Now if there has been anything that has been difficult to get over to the millions of American people, including many Members of the Senate, it has been these facts with regard to retirement test.

It has been so easy for someone to get up on the floor and say, "Let us increase or repeal the retirement test. It is anti-American to prevent somebody from working when they want to work." But the fact of the matter is that it would cost \$4 billion a year to accomplish, putting money in at the wrong end of the tunnel. Where there are still many aged people below the poverty line, I see no reason to pay the money to the more well-to-do who are still working, would be drawing full wages plus full Social Security while millions of other people who are sick and unable to work would be getting inadequate benefits.

Now I would like to insert in the record, Senator, a table which I have prepared which illustrates that with the changes that you made this year, which will become effective next year, how the \$2,400 retirement test, new test, will affect people at different levels. For instance, in the first column, if a person earned \$2,400 and was also drawing a benefit of \$300 a month, he will continue to get the \$3,600 in benefits, tax free, which probably is worth at least \$4,500 in gross, plus \$2,400 in earnings. This table carries through which shows you that even a person drawing \$435 a month, which is the maximum benefits now and his total earnings were \$12,000, would still be able to keep \$420 of his benefits.

So the present \$2,400 limit with the \$200 would offset over that which the increased benefits does result in a much more liberal situation than years ago. That is the basis why I say go slow from now on in changing the retirement test unless and until you have remedied

the social inadequacies for the poor, because the present situation is very favorable for people with good incomes.

EFFECT OF EARNINGS FROM EMPLOYMENT OVER THE RETIREMENT TEST ANNUAL EXEMPT AMOUNT OF \$2,400

Benefits (in dollars)		Total earnings for calendar year 1974 (in dollars)											
Month	Annual	2,400	3,000	4,000	5,000	6,000	7,000	8,000	9,000	10,000	11,000	12,000	12,840
100	1,200	1,200	900	400	0	0	0	0	0	0	0	0	0
150	1,800	1,800	1,500	1,000	500	0	0	0	0	0	0	0	0
200	2,400	2,400	2,100	1,600	1,100	600	100	0	0	0	0	0	0
250	3,000	3,000	2,700	2,200	1,700	1,200	700	200	0	0	0	0	0
300	3,600	3,600	3,300	2,800	2,300	1,800	1,300	800	300	0	0	0	0
350	4,200	4,200	3,900	3,400	2,900	2,400	1,900	1,400	900	400	0	0	0
400	4,800	4,800	4,500	4,000	3,500	3,000	2,500	2,000	1,500	1,000	500	0	0
435	5,220	5,220	4,920	4,420	3,920	3,420	2,920	2,420	1,920	1,420	920	420	0

¹ Based on maximum taxable earnings under social security that is highest monthly benefit beneficiaries, both 65 in 1974, can receive—\$290 for the retired worker, \$145 for the wife. This includes the recently enacted across-the-board increase in benefits effective for June 1974.

Note: To determine the total amount of social security benefits payable (1) check the extreme left column for a monthly benefit; (2) then read across top row of figures for expected yearly earnings; and then (3) read down to the figure on line with the monthly benefit. This would be the total amount of benefits payable based on expected earnings in the given year.

Women who perform household and family duties should be able to contribute to the insurance program on an amount equivalent to the self-employment rate on the average earnings of all women working four quarters in the latest prior year. Women would then receive benefits in their own right with the provision that a married woman would always receive at least one-half as much as her husband did. Special consideration should be given to assuring equal treatment for women and men in the program.

It is my understanding that Mrs. Griffiths is holding hearings today in the Joint Economic Committee on this issue of certain problems in the program that relate to the alleged discrimination of women in the system.

SELF-EMPLOYMENT RATES

Therefore, my proposal which is designed in part to overcome some of these difficulties in that a wife or mother or woman who stays at home and does not receive regularly earned income in the economy would have her work counted for Social Security at the presumptive rate of average earnings of all women who work four quarters during the year and pay, rather than the double contribution, the self-employment rates. I urgently speak to that as a possibility.

Senator CHURCH. Do you propose that as a voluntary proposition?

Mr. COHEN. I would prefer that it be compulsory. In other words, as is true of domestic service. When my wife employs a domestic she is required to pay contributions on the person who works for us, which we do. I would hope that it could be compulsory, but I think you would have to examine that because there may be some women and some households which would not favor it. But I would prefer some exploration of the point to see how far it could be made workable because I think it would help to overcome a major difficulty in the program.

Now another point that is frequently overlooked in the discussion of the program is that general revenues are already approaching one-third of the cost of the overall Social Security program, if you take

the program in the Social Security Act. In the calendar year 1972, total outlays for old age, survivors disability insurance, Medicare, and the public assistance programs in the Social Security Act were \$70.7 billion, and general revenues on that portion paid by the Federal Government and the State would not apply, where the Federal Government pays for Federal employees included in that prior contribution, not a general revenue, because the Federal Government is acting in its employer relationship, and these general revenues were 29 percent of the total employer contribution.

The total employer contribution is \$25.5 billion for 36.1 percent. Employee contributions are \$24.6 billion for 34.8 percent. General revenues are \$20.6 billion for 29.1 percent. It is a total of \$70 billion, of which the general revenue here was made up of public assistance, payments to uninsured individuals, and governmental contributions toward part B of Medicare.

Senator, general revenues are already being widely used as outlays for 1974 and will be substantially larger overall and for each of the three sources. As the components of the Social Security system are modified, we should consider reallocating the general revenue portion in a more satisfactory way than at present, as between public assistance and social insurance.

NATIONAL HEALTH INSURANCE

While there is merit to the idea of reducing the impact of the payroll tax, such action should not be taken without full consideration by the Congress of its impact on present and future programs, including national health insurance. If you are going to add national health insurance and include extra cost, then you have an opportunity to reallocate the employer, employee, and general revenue financing at that particular moment, because it will involve reallocation of cost.

A basic change in the financing of the Social Security system might open the possibility that a future administration or Congress would change the program to include an income and/or assets test in the cash benefits. The strong public support for the Social Security system is that most individuals want to have to have their benefits come to them without any such investigation which they associate with the "welfare" system, as you pointed out, Senator.

When you have a delicate mechanism working well and paying 30 million people every month, and let me tell you if those people don't get their check by 9:15 on the morning of the day it is supposed to come, they call their Social Security office. We should be sure we don't tinker with this system in a way which may destroy its psychological and political acceptance.

Senator, I have prepared two items which I would like to put in the record. One is a memorandum in which I have taken the source of the funds in Canada, Germany, and Norway, and the United Kingdom to show you that other countries do finance their Social Security system differently than we do.* I am not maintaining that the way we finance our system is the only way, or even the best way. There are other ways of doing it, but if you are going to make a change, study the foreign experience somewhat carefully and don't make a change.

*See p. 271, Sources of Funds in Selected Old Age Security Programs Abroad.

that will disrupt the system so perfect to the American needs without careful consideration.

I have then done something which I would like to talk about which is entitled, "An Illustrative Model of Changed Financing of Social Security."* In this, I have listed seven different ways in which Social Security can be modified, most of which I am not in support of. I have listed them here to indicate to you different ways in which they could be modified but which involve many times very difficult matters of policy.

However, there are some items in those models, Nos. 5, 6, and 7, which do have merit and might warrant consideration after very, very careful review of the alternatives.

Senator CHURCH. These schedules will be included in the record following your remarks.

Mr. COHEN. The financing basis of Social Security should, in my opinion, be modified so as to reduce the burden on low-income earners and make the financial incidence less regressive. The proposal advocated by Senator Russell Long of the Senate Finance Committee, which has passed the Senate by an overwhelming vote in 1972 as a part of H.R. 1, to refund to low-income individuals 10 percent of their earnings—roughly the combined Social Security contribution—warrants support.

That particular measure would have cost about a billion dollars and would have, in effect, relieved the low-income people of their contributions. But the value of that approach by Senator Long as recommended seems to me to have great merit. The individual pays his contribution—the employer and the employee, like everyone else—so he has a psychological and political degree of support for the program.

Then if Congress wishes, through the Federal income tax, to give part or all of that as a refund, as they do to many other people under circumstances, the refund could come through the annual income tax in such proportion Congress determined and such consideration paid out of the general revenue. So you would have an alleviation of the burdensome extent of the tax while at the same time the individual would have the psychological effect of having made his contribution to the system.

In addition, Senator, a Federal contribution out of general revenues should be considered for meeting the cost of benefits paid to individuals with less than 40 years of contributions which were not covered by the combined employer, employee contributions.

What I mean by that in this: The system was roughly set up on an individual contributing approximately 45 years to the system, from age 20 to 65, on the assumption that the individual contributed the full 45 years, and the employer and employee contributions would be sufficient to pay the benefits without any general revenue financing from the Government.

DRAWING MORE BENEFITS NOW

Now in the ensuing period, from 1940 when benefits began until now, individuals are drawing benefits far in excess of their contribution. Every individual who now draws benefits has only paid a frac-

*See p. 271.

tion of his or her cost, including the value of the interest on their contribution. That cost inevitably must come out of either higher employer contributions than would otherwise be necessary, or a general revenue.

Therefore, I favor at some point when Congress has the money, Congress paying the difference between the cost of what the individual paid for his benefit and what the benefit did produce, which is roughly about one-third of the total cost of benefits in perpetuity. That seems to me, if you want to reduce the contribution rates at some point and have a logical method of introducing a general revenue subsidy, that is an intelligent, rationale way which pension systems use to finance the transitional cost when the system has started with the longrun cost.

My models that I have indicated here would indicate to you that at some time you could reduce the 5.85 percent on the employer, if you wanted to, on the employee, or both, or any proportion of it, and put in a general revenue, the difference between that unfinanced deficit that grew out of the transition until the development of a Social Security program.

Now I favor that rather strongly as against the Brookings' suggestion of introducing some kind of dependence benefits or other Federal income tax philosophy in the payroll tax. That seems to me to lend itself to inevitably have people think of it as a welfare program. I said earlier at all costs I don't want to do that.

So if you feel as one of the studies in the future direction of Social Security that there has to be some adjustment to the employer, employee tax rate, I am going to suggest that a little bit more, then investigate the philosophical approach of introducing a Government subsidy for what I call the deficit that has accrued during the transitional period.

INCREASING MAXIMUM EARNINGS BASE

Now the maximum earnings base for contribution and benefits should be increased so that the coverage is approximately the same as when the Congress adopted the \$3,000 limit in 1939. That is still beyond \$12,600 at the present time. I do not know what the exact amount would be by the latest figures, but I believe it is somewhere between \$16,000 and \$18,000 on the maximum base to be comparable with \$3,000 in 1939. It stands to reason that if \$3,000 was the right figure in 1939 and wages are about five or six times more today than they were in 1939, that \$18,000 is the more correct figure than \$12,600.

Now that would bring in more income that would help you reduce the 5.85 percent of the payroll tax so that if you wanted to reduce the rate, you could increase the base and you could produce exactly the same amount of money in the system and reduce the rate by increasing the base.

Senator FONG. How many people are earning \$20,000?

Mr. COHEN. I don't know the exact number offhand, but the income on it is substantial. It is probably in the neighborhood—like 5.85 you might be able to reduce it to 5.5 or 5.4. I don't know the exact figure offhand. But the wages have gone up substantially 5 to 6 percent a year in recent periods. What was normally thought as \$10,000 to \$15,000 has been going up. The exact figures can be obtained from the

Social Security Administration. If you would ask them how much more money you would receive by any figure, if you want to say \$20,000 or \$18,000, they will tell you how much you could reduce the payroll tax rate without a comparable amount of income from the wage.

Senator FONG. But it wouldn't be very much, would it, because the number of people earning more than \$15,000 is small?

Mr. COHEN. But you may be able to reduce it from 5.85 percent. That is all I am saying.

Senator FONG. What you are really saying is that we should put more burden on the people who earn more.

Mr. COHEN. Yes, sir, that is correct. Now they get higher benefits, too, don't forget as a result of earnings going up. As you raise the point from \$12,600 to \$18,000 they are going to get more benefits at \$18,000 than they will get at \$12,600. So they will benefit from it.

PRODUCING MORE INCOME AND BENEFITS

The combined employer, employee tax will produce more income and benefits and therefore you can reduce the rate when you increase the maximum wage base. What Congress has done so far, what you did this year when you increased the base from \$12,000 to \$12,600, that extra income that you got was to finance the \$2,100 increase in the retirement benefit to \$2,400. That is why you had to go up.

Senator CHURCH. You mean the retirement test?

Mr. COHEN. Yes. So the \$600 increase in the maximum earnings base brings you in enough money to increase the retirement test \$300. That is how the financing was kept sound. I think Congress was very wise and responsible in doing it, but it is a case of how you can do something on the benefit side or the tax side by changing the maximum earnings base.

In my opinion, a maximum base of \$20,000 should be established for 1975 on the assumption that \$20,000 in 1975 is approximately equal to \$3,000 in 1939. Now if I am wrong, the correct figures by analysis should be substituted.

An immediate step should be taken to include high-cost continuing prescription drugs in the Medicare program and to provide hearing aids and glasses with appropriate cosharing of costs.

Parts A and B of Medicare should be combined to relieve the aged person of contributions to part B after retirement. While I was a party to the decision in the Ways and Means Committee in 1965 that levies the cost of part B on beneficiaries after retirement, I happen to believe that that is one of the most disadvantageous parts of the program. Because after you retire and your income has declined, to make older people pay after they are retired, it is less desirable as compared with putting the cost on while you are still working and are not retired.

Therefore, I strongly prefer shifting the cost to working people and their employer rather than to retired people after they retire. It is much more difficult for my aunt of 95 years of age to pay her \$5.80 or \$6, or whatever it is, at 95 than it would have been for her to contribute that cost when she was 50 or 55 as part of the Social Security and Medicare program.

RELIEF FOR OLDER PEOPLE

Therefore, I believe that one of the highest priorities for the Congress to consider is combining part A and part B so that the employer, employee, and the general government, as it is in part B, would share the total cost of part A and part B. I think that would relieve older people, the 20-million people who have to pay this roughly \$6 of the cost and put it in a much more orderly and sensible, rational manner.

Senator CHURCH. It would also have the effect; would it not, of giving everyone the protection of part B?

Mr. COHEN. Yes, but as you know, the 1972 amendments, thank goodness, Congress again showed its wisdom by putting in a provision which says that you are automatically in part B unless you elect out. That is a very sensible provision. I must say that if that law had been in effect previously I would have saved \$7,000 myself by the virtue of one of my relatives who did not see the wisdom of this and who became ill.

Senator CHURCH. But there is still that possibility under the present program?

Mr. COHEN. Yes.

Senator CHURCH. There are a number of elderly people to whom the \$6 a month is very large and who consider themselves in good health and don't realize the extent of the protection they get. Therefore, they elect not to put in the \$6 a month, and when stricken they have to pay the whole doctor's bill. Then they suddenly realize what a serious mistake they made.

Mr. COHEN. They not only make a serious mistake, but two things happen. Either then the doctor has to share part of the cost or the relatives do, or they have to go on Medicaid so that you and I have to pay the cost out of general taxes anyway.

Senator CHURCH. Yes. I think your suggestion that the two parts be combined and paid for in a different manner than the benefit be made universal for all coming within the protection of the coverage of the program is good.

Mr. COHEN. I would not only support that, but I would say it is a very high priority item, if you want to help older people today, now, not 20 years from now, with some kind of coverage and be a high-priority item.

The Secretary of Health, Education, and Welfare should be authorized to establish a local, regional, or State fee schedule for some or all procedures where this would be deemed to be necessary or desirable to the effective operation of the program. The Secretary would be required to hold a public hearing on the proposal in the area covered by such a schedule.

SINGLE STANDARD OF FEES

Mr. Chairman, I opposed this idea in 1965 in the Ways and Means Committee when we first constructed Medicare. I felt then that what we now have in the law was the right way to do it. But on the basis of experience and my studies of the programs in the last 2 years, I would favor putting an optional provision in the law that would make it possible for the physicians and the people of Idaho to decide that they would rather have a fee schedule, for the Secretary to have a fee schedule in Idaho, even though there was not one in Hawaii, or

vice versa. In other words, we now have a single standard for the whole Nation on how to determine physicians' fees.

I am now saying let us introduce a little flexibility. We have had enough experience to introduce a flexible administrative device on the way to determine physicians' fees. Now, this is a combination of economics and politics. I therefore do not propose that we do something for the whole United States if the physicians and people are against it, but if Hawaii would rather have a fee schedule and the fee schedule worked out approximately to the same cost customary in the present law, then what I am proposing is an amendment in the law that will enable the people of Hawaii to come to the Secretary of HEW and say, "Authorize a fee schedule with a public hearing." Naturally there are going to be some people for it and some people against it, but by this method we would try to see what the majority and prevailing view would be.

If enough people wanted it, the Secretary would put it in effect. I am not saying that this is a method of primarily reducing payment to physicians. That is not the point. This is not an economy measure. It is primarily a measure for making physicians and patients happier about knowing exactly what the fee is. The value of the fee schedule is that you have a piece of paper to look at the amount. The doctor knows what it is going to be. The patient knows what the cost is. Maybe the patient and physicians will be happier, but I am saying if they are not, then don't put it in effect.

ADDITIONAL FEE CHARGES

Senator CHURCH. What do you think about the present option in the law that permits some doctors to charge additional fees over and above the reasonable allowance with the customary allowance made to them for services they perform by Medicare?

Mr. COHEN. I was a partner in that decision, again, on the Ways and Means Committee in 1965. I say that to you so you don't think I am trying to evade my original decisionmaking responsibilities. I think that was the only decision to make in the very controversial, highpitched, ideological situation of 1965. I still think that if an individual wishes knowingly to go to an outstanding specialist who charges twice as much as the ordinary physician and then he wants to pay the difference, one has to allow that sort of a situation. This is the reason why I prefer rather than changing that which would involve a curtailment the right of both the patient and physician. I favor a fee schedule arrangement which would hold out what the persons would get and the physicians would get.

Senator CHURCH. Would the fee schedule be binding?

Mr. COHEN. No, it would not be.

Senator CHURCH. I don't know whether you appreciate how much confusion this has caused.

Mr. COHEN. Yes, I do.

Senator CHURCH. I think the chief criticism I get on Medicare is that dealing on this particular point. People don't understand why, if they elect to go to a doctor and they receive the services, Medicare covers part of it and they get an additional bill, while their neighbor

is going to another doctor with comparable service and Medicare takes care of the entire bill. Of course, there is an explanation, but they don't understand it and it is not explained to them when they go to the doctor.

Your classic case of going to a specialist is one case in a hundred where someone knowing the law elects to go, knowing full well that he is going to be charged an additional amount for services of a specialist. But the typical case that occurs all the time, not the exceptional case you cite, the typical case is a person who just goes to a doctor in the community out of force of habit and has no idea whether that doctor has elected to accept the fee that Medicare provides or whether he hasn't.

So there is a widespread belief that Medicare is not giving equal treatment to people.

Mr. COHEN. That is a very difficult problem. But if you require a physician against his will to take the fee that the Government plan provides, then he might refuse to participate in the system and therefore you lose his services completely.

Senator CHURCH. Right. But suppose we were to simply say doctors aren't compelled to participate in the system. They may elect to do so or not to do so, depending on their choice. But it must be made clear to the patients who come to them who are eligible for Medicare and that the doctor is obliged then under the law, whether or not he accepts and is a party in the program. I think if that is the approach that 95 percent of the doctors would participate in it. Now they get it both ways. They can get Medicare money and add on as much as they please.

MALPRACTICE INSURANCE

Mr. COHEN. Let me say that while I sympathize with what you have said, there is still so much political agitation among physicians in this country by 15 or 20 percent of the physicians, and I can say to you that I know this very intimately, that I would be worried that the percentage would be higher than what you have indicated.

Therefore, I would favor as a step what I would call an incentive approach rather than a compulsory approach. My suggestion for dealing with this is that any doctor who agrees to take full payment would get a free malpractice insurance policy from the Federal Government. In other words, it would put a carrot into the law. Doctors today are having to pay very heavy insurance costs for malpractice insurance. They are extremely troubled with the cost. Most insurance companies are losing money on malpractice.

But in my opinion, if the Federal Government said to the doctor, "We will give you a \$250,000 malpractice insurance at either free or 10 percent cost, provided when you take that that you could accept full payment from the Federal Government."

I think my plan would achieve the same results you do. You would also substantially reduce the cost of malpractice insurance, which is a difficult thing.

Senator CHURCH. That is an interesting suggestion. It gets at the same problem in a different way. In my experience, though, the doctors were almost totally opposed to this program and raised large political war chests to campaign against it, to propagandize against. I have had

practically no protest from the doctors since the enactment of Medicare. I can't recall receiving letters. I am sure I haven't received more than a handful of letters in all the years Medicare has been in effect from these very doctors who so adamantly were against it.

So I think the degree of acceptance of the program today among doctors is maybe larger than you think.

Mr. COHEN. The only thing I could say to that is that if the doctors are not sending their letters to you, they are sending them to me, because doctors continue to write me about their various objections and problems. They have somewhat mistaken ideas about all of these things that they don't like and that I wrote them in at the time I had the responsibility for doing this.

Nevertheless, I think you are correct that there is a great degree of physician acceptance. But let me tell you what my view is. We are going to enact in this country national health insurance in the next few years. I do not want to put any more things into the Medicare law than absolutely necessary until we have worked out with the physicians as to how to handle the key elements in the national health insurance.

FEE SCHEDULE ARRANGEMENT

Therefore, that is the reason why I am suggesting this fee schedule arrangement, quite frankly. I would like to experiment in Medicare with a method for the handling of physician's fees and if it works, you would be able to say this is a workable method to handle national health insurance.

We have about five or six big major problems to be handled in the national health insurance system, all of which you can see in sort of a pristine purity in the programs for 20 million people. My suggestion is do those now so that you have the next 2 or 3 years of experience. If that doesn't work, try something else. Maybe your suggestion is better than mine. But I have three or four suggestions in here which, I think if you will do what Senator Ribicoff is always saying in the Finance Committee, don't do something for the whole Nation en bloc until you tested it out a little. You have a terrific opportunity now where we can test out the Medicare program, some of these points we are discussing, without forcing them on 200 million people.

Senator CHURCH. I agree with that.

Mr. COHEN. Now, many allegations have been made about the physicians income under Medicare and Medicaid programs. There have been individual cases of fraud and abuse which should be stopped. There should be continued monitoring of the fees and costs, and any irregularities rectified. But on the whole, Mr. Chairman, in my opinion there is no evidence so far that physicians as a group have reaped rewards out of line with the increased cost of living and earnings in other areas, or that they have suffered any injustice under the program in terms of their incomes.

A sound program of health insurance necessitates that all providers of care receive reasonably adequate compensation commensurate with their education, skill, experience, and responsibility.

Now, my opinion, Senator, is this: I don't believe we ought to flag unnecessarily the point in these health insurance systems that the

major political problem is that physicians are getting paid too much. Sure, I can show you individual cases where that is so. But as a group of 300,000 people in this country, I don't think that is so.

INEFFICIENT DELIVERY OF MEDICAL CARE

I think the problem is that we have an inefficient method of delivering medical care, not that individual physicians, taken as a whole, a group of 300,000, are getting incomes that are out of line with their education, training, experience, and responsibility.

Therefore, I would like to see Congress redirect its emphasis from the income side to the change in the delivery system. That seems to me to be more fruitful. For instance, if you could reduce the volume of hospitalization in this country by 1 day, or by one-half a day, you would be saving billions of dollars.

That is a difficult problem, but that is what I think ought to be done. I understand that as an individual and a taxpayer, and I feel the same way myself when I get too high a bill. But fees are not the No. 1 priority in the reallocation of responsibilities of the medical system.

The recent amendment that Senator Wallace Bennett offered of professional standards review organization for Medicare and Medicaid is very sound. I completely support Senator Bennett's amendment which is under vigorous opposition by a number of physicians in a number of States. Professional responsibility for professional Medicare judgments, in my opinion, should be encouraged, as I have said, to physicians who have gotten in touch with me.

If the doctors don't take this professional responsibility and do it, there is only one other way it can be done. That is by Government. So if the doctors don't want to cooperate with the Bennett amendment, I think they are being very foolish, and inevitably it will be that Congress will have to enact other amendments placing that responsibility on the Medicare program, which I would like to avoid.

So I hope that they will take to heart Senator Bennett's amendment in this, and I might say I don't see how anybody could say that Senator Bennett is a radical in advocating the amendment which is placing the responsibility on the physicians.

In addition, the Congress should seek to develop other measures to assure consumer advice in the medical program in appropriate ways.

For instance, the very point that you mentioned, Senator, just a few moments ago. I think the the consumer does not understand a number of very complex points in the Medicare program. I advocate very strongly when you come to amend the Older Americans Act that you put some legislative authority in there and some funds for development of consumer roles in these health programs; that is, some way by which the consumer knows both in Medicare and Medicaid and private insurance on what his rights are and what his responsibilities are.

NATIONAL HEALTH INSURANCE

Now, shifting over to the broad question of national health insurance. A national health insurance plan covering all persons in the Nation should be adopted on an incremental basis which would

become effective over a period of about 5 years in order to enable administrative implementation to be effective, efficient, and appropriate to conditions throughout the Nation.

A basic improvement in the Medicaid program should be taken along the lines suggested by Senator Long. Basic medical benefits would be supplied to low-income individuals through the Medicare program. The cost of these benefits would be met by the Federal Government, thus relieving the States of part of the present costs of Medicaid.

In view of the fact that the distinguished chairman of the Senate Finance Committee has introduced this amendment which would relieve the cost of Medicaid on the States and put low-income individuals in the same situation as if they were under Medicare, it seems to me to offer very promising studies on the part of your committee, which I think would greatly enhance the protection of older people, 50 years of age and over.

FULL COVERAGE AFTER 2 YEARS

A second change would be to add to the Medicare program major medical benefits which would provide hospital coverage after 30 days and the physician-related services after a cost of \$1,000. The legislation could provide that after 2 years the amount would be reduced to 15 days and \$500. And after 2 additional years, the amount would be really to assure full coverage.

In my opinion, what I am suggesting, Senator, is that we go into this on a phase or incremental basis. It is such a monumental administrative problem, and I speak now in my previous capacity of having the administrative responsibilities for this program, don't try to enact the millenium all at one time. Just like it is unwise to eat all of your three meals at once. It would be much more efficient to eat your three meals at once. It would save a lot of time, and my wife would save on washing wishes, but you would get indigestion.

When you come to the national health insurance, I think you should break it up into three meals and do part of it for a year or two and give the Government a chance to have experience, then go to part 2 and part 3. So I have suggested here what might be done.

Another change would be to add to the Medicare program maternity benefits, prenatal and postnatal medical service. This program would include medical benefits for the child during the first year of life, including all remedial medical benefits necessary to assist in the correction of any defects.

Now, I think this, or something like this, is a much more sensible way of going at extending health protection to the 30 million people, or the people in the United States who have less than adequate protection. This would enable us to do what we haven't done in other programs. Phase it in, get managerial experience, get the American people and the physicians to participate, and do it in a more friendly, cooperative manner.

Senator FONG. All the changes which you are proposing in the national health insurance, all the costs would be taken care of by general revenues?

Mr. COHEN. No, sir. My proposal, if you are asking me a question how would I propose to finance all of that, my proposal would be

something in this order, depending on the benefit: Finance a system by having a roughly 5 percent employer tax which would be less than the 5.85 that the employer pays for Social Security now. Five percent on the employer and 5 percent paid out of the general revenue of the Government. It would roughly cost, in my opinion, for the present system and for the health insurance a total of 15 percent of the payroll. I would have a taxable payroll, as I said first, of \$20,000 instead of the present \$12,600. I would finance that 15-percent cost by lowering the 5.85 tied on the employer to 5 to the employer, 5 to the employee, and 5 on the general revenues.

Now the net result of that is the employee—I am not saying that is the only way, I am giving you an illustrative way—the net result would be a big improvement all along. Because, you see, most employees that are now covered by health insurance pay under Blue Cross and Blue Shield anyway. So you are merely transferring that cost into the total system.

Now I have suggested in the memo that I think I submitted before you came in several other alternative methods.

FINANCING SHOULD BE SHARED

But in my opinion the rationale and soundness of the methods of financing that, what I have been discussing, should be shared in what I call an equal tripart-type system with employers, employees sharing equally with the general government so that the employer and employee have a stake and responsibility in the system. So the costs are shifted from the State to the Federal Government on a more progressive method of financing.

Senator FONG. Your 5 percent to employers is in addition to what is paid now?

Mr. COHEN. No, sir. That is less than he is paying now. He is now paying under present law 5.85 of \$12,600, next year. I am suggesting going to 5 percent of \$20,000.

Senator FONG. I see. Now would you say that the employer pays 5 percent, the employee pays 5 percent, and the Federal Government pays 5 percent?

Mr. COHEN. Yes, sir.

Senator FONG. That would be 15 percent of the payroll?

Mr. COHEN. Yes, sir. That 10 percent is on payroll, but the equivalent of 5 percent is out of general revenues.

Senator FONG. So it is 15 percent of the payroll.

Mr. COHEN. That is correct.

Senator FONG. You feel that that would be able to take care of all that you have suggested?

Mr. COHEN. Well, that wouldn't bring them the millennium or bring perfection, but it would be a vastly improved system over what we have today.

Now it has two advantages, Senator. I do not believe we can go on with the States bearing the heavy cost of welfare and Medicaid.

Senator FONG. You would eliminate Medicaid?

Mr. COHEN. I would eliminate Medicaid by transferring that medical care as to cost.

Senator FONG. But you have the national health insurance.

FINANCING NATIONAL HEALTH INSURANCE

MR. COHEN. That is correct. The Government money that is now paying for Medicare would come into paying for health insurance. Do you see my point? It would be a more rational system. Everyone in the United States from the day they are born to the day they die would have a health insurance card like a Social Security card. You would go to your doctor just like Medicare people do now and you would have your health insurance paid whether your income was \$2,000 a year or \$100,000 a year. That would be paid under the broadened Medicare program which I have suggested. I would assume that that would roughly cost about 4 percent more than Medicare and Medicaid.

The bulk of that would be just changing people's contribution. For instance, I pay now something like \$50 to \$60 a month for my Blue Cross and Blue Shield, and major medical, roughly \$600 or \$700 a year.

When the national health insurance went into effect and I had to pay 5 percent on my income, let us say for the sake of argument, that is \$800. I would only be paying \$100 more because I said my \$700 that I am now paying for Blue Cross and Blue Shield, and major medical, the bulk of that cost is just a transfer. It is in that new system.

Senator FONG. But Medicaid would not be eliminated because Medicaid is only for those people who do not meet the requirements and don't have any health insurance.

Mr. COHEN. Medicaid would be eliminated under my system because I would blanket in all people under national health insurance.

Senator FONG. Regardless if they work or not?

Mr. COHEN. That is right.

Senator FONG. So if a man doesn't work he is really taken care of by the Government.

Mr. COHEN. He is now taken care of by Medicaid, but you and I have paid for that out of general revenues.

Senator FONG. Yes.

Mr. COHEN. Therefore, I am trying to bring it into a comprehensive system. Transfer of the cost that we now pay for Medicaid into a new system so that all individuals will be able to be treated alike, irrespective of their financial ability.

Now the net result of that is twofold. It relieves the States of this burden. Now I have been very frank with you in this. I am opposed to the Federal revenue-sharing legislation. We are spending \$30 billion in the Federal revenue sharing for things of very low priority, whereas poor people are going without medical care. We have middle-aged people who are living in poverty. We have 25 million people in the United States living in poverty.

What I would like to do is if we in this country would shift our priority from lower importance things to higher importance things affecting human resources. Now unless and until this country can say that there is no individual in this country who goes without medical care, enough to eat, I believe we have to have a reshaping of our priorities and congressional allocation of funds.

REVENUE SHARING

I do not favor spending \$30 billion under general revenue sharing during the next 5 years so that States and localities can build tennis courts while the aged in this country are still living in poverty and while there are so many people in this country on welfare.

Senator FONG. It was intended that the State and local governments take care of their poverty needs, but they don't do that. They put it into something else and then they raise a holler and say the Federal Government is cutting down on payments for some of the needs that they have.

Mr. COHEN. I testified before the Ways and Means Committee on revenue sharing. I felt all along, Senator Fong, that we made a tragic mistake in revenue sharing in putting \$30 billion on a low-priority program. I am not saying that there wasn't need there in the States and the cities. But I am saying Congress and the administration made a tragic mistake in allocating that \$30 billion and then cutting back on all of these other programs of higher priority, medical research, medical and health programs, medicaid, OEO, and so forth.

Senator FONG. Some of the revenues from revenue sharing was supposed to take care of those items, but the States and localities have not done that.

Mr. COHEN. That is correct.

Senator FONG. They have used it for something else and then they say the Federal Government has cut down on items we have revenue sharing to take care of.

Mr. COHEN. I think from that standpoint we made a mistake.

Senator CHURCH. I can say, Mr. Cohen, for that reason I voted against revenue sharing in the first place.

Mr. COHEN. Yes. If we had \$30 billion to give away, it would be a nice way to distribute \$30 billion. But with a limited budget and inflation and with priorities I think it is unwise.

Senator CHURCH. To speak of staggering deficits.

Mr. COHEN. That is right. Mr. Mills said one time, and I don't think he took his own advice, if we are going to share Federal revenues with States, maybe we should also share the deficits with the States. But nobody seemed to take up that challenge.

SUPPLEMENTARY SECURITY INCOME

The supplemental security income program established in 1972 was an important and historic step in the right direction. This completely federally financed administered program which will go into effect January 1 of next year should be further improved so that income poverty will be abolished for all aged, blind, and disabled persons in the Nation. The changes recently enacted by the Congress were sound in raising the amount to \$140 a single individual. I might say in testimony before the Finance Committee I recommended \$160 and I think the \$140 was a very good improvement.

The supplemental security income program should be amended by reducing the age from 65 to 62 and then in 2 additional years to age 60 and in 2 additional years to age 55. The net result would be to provide an income guarantee to older people over age 55 where they are having a difficult time in adjustments.

With the changes proposed above, the number of persons in poverty in the United States should be reduced from about 25 million to between 15 to 20 million persons. A program of public service employment could bring this total down to less than 15 million persons by 1976.

The number of persons in poverty would then be less than 7.5 percent of the population. In my opinion, it would be possible by 1980 or 1985 to virtually eliminate poverty in the United States if additional measures were taken by the Congress.

This may seem rather farfetched, but in my opinion the Senate of the United States stands at the point today where it is possible for someone to say we could eliminate poverty in the United States. The cost of eliminating poverty that is bringing everybody up to the poverty line at the present time is \$12 billion. Now when we are spending \$5 billion to \$6 billion on revenue sharing a year, that is half of the cost of bringing everybody in the United States up to the poverty level.

I think it would be not only compassionate and humanitarian but be the greatest political international weapon we could have with other countries to say the United States of America has abolished poverty. I think we are overlooking that opportunity. So I hope in your study of the future directions of Social Security you will consider how it may be.

Senator FONG. You say, Mr. Cohen, that to eliminate poverty we need to get the Federal Government to give them the money so that they can be outside of the poverty level. You have said that supplementary income, for example, should be reduced to persons 55 years old so that he could have \$140 together with his wife's, which would give him some \$200 odd.

Mr. COHEN. Yes.

Senator FONG. So that he would be out of the poverty level.

Mr. COHEN. Yes, that is right.

Senator FONG. What you are saying is that the Federal Government should infuse this into people's pocketbooks?

GUARANTEED INCOME?

Mr. COHEN. Yes. We are already committed for people over 65. We have already made this for the blind. We have already made this for the disabled. We have already passed that route. The only question now is a person 64, is he less desirable in having an income guaranteed than a person 65.

Senator CHURCH. I think there is a different standards of measurement here than just age alone, because for people over 65 or for the disabled, the blind, the assumption is that they are either by virtue of age or retirement or by virtue of disability unable to secure an adequate income for themselves. I think you step beyond that line when you suggest that people younger than 65 or younger than the age required to be eligible for retirement benefits should get supplemental income.

Mr. COHEN. Let us look at that, Senator. You already have age 60 and 62 in Social Security.

Senator CHURCH. Yes, but still, whatever the age is for Social Security, that the Social Security program is a retirement program

at that point. It becomes a retirement program. That is why we have a retirement test. If you go below that age with the supplemental income program of this kind. I think you go beyond anything we have yet committed ourselves to do.

Mr. COHEN. Now there is a question about that.

Senator CHURCH. And you raise a philosophical problem which is, what responsibility should the Government bear toward guaranteeing citizens a minimum income who are otherwise presumed capable of working for themselves, who are neither of retirement age or physically handicapped in such a way as to require special help.

Mr. COHEN. Yes, I agree with you.

Senator CHURCH. That is a big philosophical step.

Mr. COHEN. Yes, sir.

Senator FONG. Fifty-five years old is pretty young.

Mr. COHEN. I think you are just a youngster when you are 55.

Senator FONG. You say give him supplemental income up to \$140. Aren't you really giving him something for nothing?

Mr. COHEN. Well, it depends on how you look at how our economy is going to operate.

Senator FONG. A man of 55 years could work if he is able bodied then why should we give him \$155 or \$145 or \$165?

Mr. COHEN. First, there are a lot of people in our system, industrial people, thrown out of work. There are many older men who no longer perform what industry wants. You take the miners in West Virginia. I am certain one of the reasons why President Kennedy did so well there in 1960 was that there were thousands of miners, age 55 or over, who could no longer work in the mines. They are healthy in the sense they could do something else, but they couldn't work in a mine in West Virginia and get employment. I think there are many men being let out of assembly line jobs today, what I call the older worker, who is no longer being accepted by American industry. That is why I picked age 55. I think those people cannot find satisfactory jobs in an industrial, technological society as we have today, and they are the people who are becoming the discontented and disillusioned people with the affluent society.

NOT A "CADILLAC" INCOME

Now I would like to see them get some income. I also recognize your problem. The \$160 a month at today's price level is not what I would call a Cadillac income. I would think keeping the income at a modest point would serve to make it possible for people who are having difficulties in adjustments as they become older, they have some form of income without receiving too much as an incentive for not working.

While I recognize exactly what you and Senator Church are saying, I think what this committee should talk about is the problem of older workers. You should not merely talk about the people 65 and over, but you have to start talking about the problem of the people 50 and 55 and over.

That is why I offer this kind of suggestion, that this is a very serious problem in many parts of the country. In Kentucky, for instance, again, I have been down to Kentucky several times. There are a lot of people down there age 55 and 57, 60 who can't get jobs. Now you can say to them why don't you move out of West Virginia and Kentucky.

But they don't want to leave their communities, their homes, their churches and children. So unless you bring industry in, like Congress tried to do, you are faced with a very difficult human problem.

And this was my idea of how to deal with a very difficult human problem in a compassionate way, but not at an amount so high it would be a disincentive to work. I think there is a lot to reflect on in that kind of problem.

Senator FONG. Well, in welfare we are facing the problem that there are a lot of people who refuse to work.

Mr. COHEN. Not in the age 55 and over group.

Senator FONG. The welfare amounts are going higher and higher and higher, and there doesn't seem to be any stopping it.

WORK TRAINING PROGRAM

Mr. COHEN. If you would like to discuss that, first, you have not established a viable alternative job opportunity program to really test those people's capacity to work, Senator. I favor, for instance, Senator Bellmon's amendment to provide another work training program of a different type than we have at the present time in the welfare program. There is no sense in offering a person a job that is unrealistic in terms of his educational and skill opportunities and having him work 2 days and then having the employer say he is not capable and then he quits the job. These people on the welfare rolls represent people of little educational attainment and little skill. They are unsatisfactory from the standpoint of their employer in the community.

Congress has to provide, if it wants to do this, a better job opportunity and training program for people of lesser skill, and I think that the Bellmon amendment is a very, very desirable approach.

Senator FONG. We poured billions of dollars into manpower programs in the hope that we will be able to retrain people so they can get jobs. Somehow the results have been very, very appalling.

Mr. COHEN. That is correct. I agree with the conclusion. That is why I am not talking about a manpower program in the usual training sense. I am talking about a job opportunity program. The Bellmon amendment and the others say we will give you a chance to work inside a State hospital for the mentally ill, or in the nursing home, or in the library in your community, or in a school so that an unskilled person would be able to get, let us say, \$1.60 or \$2.20 an hour, whatever the minimum wage is, that would really make it possible for them to do some kind of work that would be a benefit to the community, but not requiring a skill or not a requirement that is beyond his capacity.

Senator CHURCH. Mr. Cohen, we have been asking you as you have been going along, and I see you have about six pages more in your statement. I would suggest that you complete your full statement so that we will have the full benefit of it before we have to call a halt to this morning's hearing. Then for much time as remains we may ask questions.

Mr. COHEN. I would be glad to put it in the record.

Senator CHURCH. We have one other witness here that we want to hear this morning. Why don't you just go ahead and complete the statement and we will withhold, if that would be all right with you, withhold the questions until you are finished.

Senator FONG. Yes.

PRIVATE RETIREMENT PLANS

Mr. COHEN. The Social Security and private retirement systems are not a burden on the economy. They are a key element in a free, competitive and dynamic economy and a compassionate society. They provide a major incentive to the saving which is required for the investment which makes it possible for our economic system to grow, expand, and innovate.

Private pension plans should be continued and strengthened. They can and should be a useful and important supplement to Social Security. They can never be the basic plan unless the Congress were to compel every employer to provide some specific level of protection and then repeal the Social Security program. That is not a realistic approach.

Every major business enterprise should be required to provide a minimum supplementary protection to Social Security which is financed through a private plan. Such a plan would be a requirement for Federal tax purposes and would require a vesting of benefits, reinsurance of the program, full reserves after a period of years, and complete public disclosure of investments, liabilities, and expenditures.

Congress should establish a nonpartisan commission to review various proposals and experience, with particular reference to the congressional debate on the welfare reform proposal recommended by President Nixon, and to present to the Congress in 1977 proposals which, if adopted, would abolish poverty in the United States by 1982.

It is based on some of the discussion that we just had, that you have to find a way to solve the questions you have raised.

The \$2.5 billion limit on Federal expenditures for social services established by Congress in 1972 should be reexamined. Special consideration should be given to expanding social services to the aged, in early childhood, for the mentally retarded, and for family planning. A cost of living increase in the limit should be considered.

I believe that the productive genius of our Nation will continue to result in improvements in the real income of the people of this Nation. The increased income must be shared in some appropriate and acceptable way among all those who helped make the increase possible. A Social Security system is one way to assure that the aged, the disabled, and widows and orphans share in the increased affluence.

FLEXIBLE RETIREMENT AGE

One of the important and perplexing questions involved in retirement policy is whether there should be any normal retirement age in Social Security and whether the present normal retirement age of 65 should be lowered, increased, retained or whether there should be several ages at which individuals are eligible for benefits.

The original idea of a single normal retirement age of 65 embodied in the 1935 law has now been changed by Congress to a variable or flexible retirement age.

If a person is unable to work due to disability, he or she may retire at any age and draw full benefits.

A widow may begin to draw her benefits at age 60, while a disabled widow may begin drawing benefits at age 50.

While full benefits normally begin at age 65, individuals may draw an actuarially reduced benefit at age 62. In addition, an individual may receive an increased benefit if he or she retires after age 65.

At age 72, an individual may draw full benefits and full wages.

There are, therefore, several options and choices for the individual. Many people are not aware of this policy in the law. The American people are not aware of this changed policy which the Congress has adopted.

The Older Americans Act should be amended to provide retirement counseling to persons beginning at age 50 so they can intelligently plan their retirement and so we can dispel the idea of a single retirement age. Individuals differ in their health, occupation, strength, attitudes, interests, and experiences. They should be free to choose that combination of benefits and circumstances which best suits them. That is meaningful freedom of choice.

The idea of complete retirement at a given age is becoming more unacceptable. Two related developments are occurring more frequently: phased retirement and work and retirement.

This approach can best be explained by utilizing some possible examples from university employment.

At age 62 a faculty member might retire and draw one-half of his private retirement benefit and teach one-half of the year. He could elect whether to draw the actuarially reduced Social Security benefit for that part of the year when not working, or defer the benefit to age 65.

At age 65 an individual might draw two-thirds of his private retirement benefit and teach that proportion of the year which entitled him to draw his normal Social Security benefit.

At age 67, he or she could draw the full private retirement benefit and the full Social Security benefit increased by 7 percent. What I am trying to illustrate is that there are lots of flexible options in the present law which require a great deal of foresight and intelligence on the part of each individual, his wife, and even his children.

While such flexibility and options might not be immediately suitable for manufacturing or assembly-line work, it may prove acceptable in professional, service, and related activities which are growing in our economy. Employers and unions should be encouraged to consider this approach.

GROSS NATIONAL PRODUCT INCREASING

The Congress, our economy, the Nation is faced with several important social policy decisions in the future as our gross national product increases. I am one of those who believe the gross national product is going to increase at least in the same way it has done in the past. If you don't accept that assumption, then the United States is in for some very hard times.

So if we assume that in the future our gross national product will increase at about the same rate as it has in the past, and I think we are conservatively taking into account technological and scientific improvement, then how shall the increase be distributed. Congress, in my opinion, is one of the major sources for making this policy decision. That is handled through private retirement systems, Social Security, the congressional retirement system.

Is it going to be increased incomes to those who work and their immeriated families? Increased income to those who have retired, or are disabled, or are widows? In increased educational services to the young as well as to the individuals throughout their lifetime? In increased funds for medical research, and access of high-quality health and medical services to all the people? In increased payments to reduce or eliminate poverty? In increased payments for the control of environmental pollution? In some decreased taxes?

We will probably do some of each or all the seven during the coming decade as income increases. I believe that what Congress should now be doing is developing a 10-year plan that attempts to assess these priorities in these areas to see where, as our increasing income during this next 10 years comes about, where it wishes to put it.

I have to say this, I cannot make a very great contribution as a former member of the Cabinet on next year's budget. Next year's budget is probably 98 percent all determined. By the time Congress gets through going over the appropriation bill, the President, the Cabinet officers have very little they can change in next year's appropriation. But you could have a lot to do with the appropriation bill of about 3 years or more from now when there are choices. Therefore, I favor a 5- or 10-year plan of assessing priorities, rather than concentrating on the issues of next year's budget while you have very few alternatives in terms of the choices.

If we are to have increased income growing out of an increased gross national product, before we lower the retirement age or reduce the working week too much, we should consider a policy of providing a 16-week sabbatical. Thus, instead of reducing the workweek from 40 hours to say 35 hours, we could have a 37½- or 36-hour week, and a periodic sabbatical for every worker every 10, 7, or 5 years.

A 16-week sabbatical would make it possible for an individual to return to a community college or university and take such courses as might prepare him or her for a second career, retirement, or a college degree. This alternative should be fully explored before we make decisions utilizing our available resources all in one direction.

DISTRIBUTION OF LEISURE TIME

This would refer to our discussion about community schools because I believe as our income rises, rather than having a lower retirement age, we should distribute the leisure of our lifetime. What we do in our society is continue the leisure before 18 and after 65 and then work like hell between ages 20 and 65.

Senator CHURCH. With 2-week vacations.

Mr. COHEN. In Congress you are lucky if you get 2 weeks. I remember when they had no August vacation whatsoever.

Senator FONG. The August vacation only started last year.

Mr. COHEN. I am suggesting the possibility of reducing the work-week, of retirement over a person's lifetime where they could go back to school where they could get more education or be with the family. Thus we would adjust to the changes in our society more appropriately.

The retirement deduction in the Federal income tax should be changed into a retirement tax credit. This would be more favorable to low- and middle-income individuals. Just giving it over to the tax

credit, the same amount, that would result in low-income people having the advantage, whereas now you have to be at the 70-percent rate and you get double deduction of 70 percent if you look at it from the marginal point.

So I would prefer if you want to do something for low-income aged persons, change the after-65 deduction to a tax credit.

If general revenue sharing is continued, a condition for receipt of Federal funds to States and localities should be a rebate of property taxes to older persons with low incomes. The reason I feel strongly on that is that older people are voting against property tax increases. Unless we find a way that older people will support the property tax or some resolution to it, our educational system in our country is going to deteriorate. I don't want to see that happen. Therefore, I strongly favor some manner of rebate of property taxes to older persons with low incomes. Such a requirement could be added to any other appropriate Federal grant to the States.

Consideration should be given to termination of the general revenue-sharing law when its 5-year duration terminates. The \$30 billion authorized under that law should be devoted to higher priority needs of our economy with a specific determination by the Congress of what these priorities are.

DETERIORATION OF RELATIONSHIPS

Federal-State relationships under the public assistance, maternal and child health, and social service provisions of the Social Security Act have greatly deteriorated in the past 4 years. A complete reexamination of this important relationship should be undertaken with a view to making changes in the Federal law and administrative and organizational relationships.

Senator CHURCH. Thank you very much, Mr. Cohen, for a comprehensive statement that is full of suggestions, all of which we will want to look at very carefully.

I have one question that I did not ask during the course of your testimony. Today's Congressional Record contains an H.R. 1 memorandum by Senator Kennedy. The memo acknowledges the administration's proposal for so-called cost sharing under Medicare has no chance of congressional approval. But it then proposes and I quote, "More effective cost-sharing provisions in the context of modified benefit provisions."

Would you hazard a guess as to what that means?

Mr. COHEN. Well, I can only hazard a guess. I would say whatever I am going to say is my guess. My guess would be that if the deductible and coinsurance were increased, that the saving of money could be put into a benefit increase as, for instance, let us say coverage of prescription drugs.

Let us assume for the moment that a plan for the inclusion of prescription drugs would cost \$1 billion. One could increase the deductible and coinsurance features in the law by \$1 billion and therefore rob Peter to pay Paul. I would be opposed to any such suggestion because it would not be a net improvement in the law. That is not to say that there isn't some desirability of maybe changing the deductible in coinsurance as the prices go. But I think as you

increase the deductible all you are going to do is make more people go on Medicaid to have their deductible paid. This is in the wrong direction.

Therefore, I would urge your committee, so far as it is concerned with this problem, to review the deductible and coinsurance provisions. If you think it warrants some changes and you come to that conclusion, I do not think there is any evidence so far that on that deductible.

I have suggested to you ways the benefits ought to be increased. I would support additional methods to finance those increases because I think people would accept them. The whole experience of Social Security has been whenever you made a benefit improvement and you explain to the Congress and to the American people that it costs x dollars and you had to put x cost to finance it, it has been accepted. The AFL-CIO or any major labor union or national council of senior citizens groups has supported responsible financing of new substantial benefit increases.

NATIONAL ADVISORY COUNCIL

Senator FONG. The problems with Social Security are so complex we should now have a national advisory council. You would say it would be best if the operating council was working on that problem all the time.

Mr. COHEN. Yes, sir. I am very, very unhappy that a combination of the change in the law last year and the policy of the present Secretary of HEW has resulted in the almost complete cessation of the health insurance benefits advisory council on the Medicare program. I think that was unwise. I believe that if you are going to have a big program like this you have to have the participation of the physicians and the taxpayers and so on.

So I most heartily endorse your proposal for a single operating advisory council for the total Social Security and Medicare program.

Senator FONG. I have introduced that.

Mr. COHEN. I would support that enthusiastically. I am very disappointed. The health insurance benefits council was something I supported in the law in 1965. I told both Mr. Mills and the House committee in executive session that I would do everything in my power to enlist the participation of the physicians and contributors. I think I carried out my obligation while I was in office. I think you can't make a system that is spending \$50 billion a year work well unless the people who are paying the taxes and are affected have a voice in it. I do not think that termination of the Medicare advisory council and the health insurance benefits advisory council was a wise thing. I would wholeheartedly endorse your proposal.

Senator FONG. Thank you for all of your novel suggestions this morning.

Mr. COHEN. Some of them will undoubtedly need modification in the light of practical consideration, but I thought it was best to propose them for your consideration.

Senator CHURCH. That is exactly what we wanted from you, Dean Cohen. As I say, you have given us a most comprehensive statement, filled with many suggestions that we are certainly going to take under advisement. You have been very helpful and we thank you for your testimony and your time.

[The material referred to follows:]

SOURCES OF FUNDS IN SELECTED OLD AGE SECURITY PROGRAMS ABROAD *

1. CANADA

Insured person.—Universal pensions, 4% of taxable income up to \$6,000 a year (all taxpayers). Insurance pensions, 1.8% (employee) or 3.6% (self-employed) of earnings.

Employer.—Universal pensions, 3% of income subject to corporate income tax. Insurance pensions, 1.8% of payroll.

Government.—Universal pensions, yield of 3% manufacturers' sales tax; also temporary loans or grants covering any deficit. Insurance pensions, none.

Earnings limits for insurance contributions.—Maximum, \$5,400 a year, (1-2% automatic annual adjustment until 1976 for consumer price increases; from 1976 in average wages). Minimum, contributions not payable on first 12% of above maximum (i.e., \$600 a year, as adjusted).

2. FEDERAL REPUBLIC OF GERMANY

Insured person.—8.5% of earnings (none if earnings below 10% of ceiling). Rises to 9% in 1973.

Employer.—8.5% of payroll (17% for employee whose earnings below 10% of ceiling). Rises to 9% in 1973.

Government.—Annual subsidy of about 15% of total cost of system.

Maximum earnings for contribution purposes.—2 times national-average earnings in past 3 years (1971 ceiling, 1,850 marks a month).

3. NORWAY

Insured person.—Employees, 4.9% of taxable income; self-employed, 8.55% (part of contribution of farmers and fishermen raised by tax on products).

Employer.—11.2% of payroll.

Government.—1.5% of total taxable income (shared equally by national and local governments).

Maximum earnings for contribution purposes.—12 times "base amount"; for benefit purposes, 8 times "base amount", plus 1/3 of earned income between 8 times and 12 times "base amount".

4. UNITED KINGDOM

Insured person.—Employee, £0.68 (men) or 0.58 (women) a week, plus 4.75% of weekly wages between £9-18 and 3.25% over £18 up to £30 (contracted-out man, £0.8; woman, 0.672, plus 0.5% of weekly wages between £9-18, and 3.25% on wages over £18 up to £30). Self-employed, £1.073 (men) or 0.897 (men) or 0.897 (women). Nonemployed, £0.823 (men) 0.65 (women).

Employer.—£0.75 (men) or \$654 (women) a week, plus 4.75% or weekly wages between £9-18, and 3.35% over £18 up to £30 (contracted-out men, £0.87; women, 0.730; plus 0.5% of weekly wages between £9-18, and 3.25% on wages over £18 up to £30).

Government.—Amount equal to 25% of above flat contributions (33 1/3% for self- and nonemployed); lump-sum subsidy; and full cost of income-tested pensions.

Above flat and government contributions also finance flat cash sickness, maternity, and unemployed benefits.

Graduated contributions also finance sickness and unemployment benefits.

ILLUSTRATIVE MODELS OF CHANGED FINANCING OF SOCIAL SECURITY **

SIMPLISTIC MODELS

1. *Equal Tripartite Model—Classical Model*

A. Employer and Employee each contribute 5 percent of payroll.

B. Federal general revenues equal to 5 percent of covered payrolls.

* See statement, p. 250.

** See statement, p. 251.

2. *Transactions Tax—Townsend Plan*

A. Finance cost by a 2 percent tax on all transactions.

3. *Income Tax Model A*

A. Finance all or practically all of the cost from an earmarked or allocated Federal income tax.

4. *Income Tax Model B*

A. Introduce dependents' deductions and increasing rates in social security contributions.

B. *Maintenance of Equal Employee-Employer Sharing Principle But Justify Increased Employer Contribution on Tax Deductability.*

5. *General Model A*

A. Increase employer contribution on payrolls to 6 percent with no maximum earnings limit.

B. Reduce employee contribution to 4 percent with a maximum earnings limit of \$20,000 a year.

C. Refund from general revenues 10 percent of earnings to low-income individuals.

D. Pay from general revenues part or all of the cost of benefits not financed by 40 years of contributions.

E. Consolidate parts A and B of Medicare with general revenues paying one-half of all Medicare expenditures.

6. *Corporation Tax Model*

A. Increase the corporation income tax by one or two points and allocate the income to the social security system.

B. Reduce employer contribution on payrolls to 4 percent.

C. Reduce employee contribution to 4 percent.

D. See D and E above.

7. *Double-Decker Plan*

A. Finance a basic benefit of say \$140 a month to all aged persons out of general revenues.

B. Finance the second tier of benefits out of equal employer-employee payroll contributions.

EMPLOYER TAX RATES UNDER THE SOCIAL SECURITY ACT, 1935 AND 1973

The ultimate employer tax rate under the 1935 Act was 3% for social security and 3% for unemployment insurance, or a total of 6%. If we take into account that the tax rates were applicable to the first \$3000, the effective rate could be computed as being 5.8% on total. If we took into account that the average corporate tax rate was about 13.75% in 1935, the ultimate employer tax rate for social security and unemployment insurance could be translated into an overall rate of 5.0% for the original 1935 Act.

Under present law, 1973, the nominal rate for unemployment insurance rate is 3.28%, but with the .08% being temporary tax this ultimate rate could be viewed as being only 3.2%. If we took into account the effect of the \$4200 base and the experience rating procedures, the effective unemployment insurance rate on all payroll would be 0.8% of payroll. For social security the present ultimate employer tax rate (old age, survivor, disability, and hospital insurance) is 7.3%. If we took into account the effect of the \$12,600 maximum earnings base, the tax rate on all payroll would be 6.3%.

The combined employer social security and unemployment insurance nominal rate of 10.5% reduces to 7.1% when the effect of the earning base and experience rating are taken into account. If we further take into account that the average corporate tax is about 48%, the employer tax rate for social security and unemployment insurance would be further reduced to 3.7%.

This indicates that the ultimate employer tax rate under the present law for social security and unemployment insurance is lower than the ultimate tax rate on the original 1935 Act, if we take into account the effect of the taxable earning base, experience rating, and corporate taxes.

Senator CHURCH. Our next witness is Mr. Max Manes from New York City, who is chairman of the Seniors for Adequate Social Security.

**STATEMENT OF MAX MANES, CHAIRMAN OF SENIORS FOR
ADEQUATE SOCIAL SECURITY, NEW YORK, N.Y.**

Mr. MANES. Thank you.

Senator CHURCH. Mr. Manes, it is good to see you again, and I want to welcome you here this morning. Would you proceed to read your statement and then there may be questions.

Mr. MANES. Yes, sir. If I may, I would like to read from a telegram, before I read my statement, that was sent to the chairman, Senator Church, from the Senior Grass Roots Conference that was held in New York City last November 30:

Honorable Frank Church, Chairman of the Special Committee on Aging:

We welcome your announcement of hearings to be held by your committee on the new directions in Social Security. We agree that "this Nation can no longer rely on catchup benefit raises or even the cost-of-living adjustment mechanism." More fundamental changes are necessary. In searching for a solution to the income problem of the elderly, they themselves should be heard. We therefore urge your committee to hold sessions with the elderly and where they are to be found and can participate. Some of these sessions should take place right here in New York where one out of every two of us live below the poverty level.

I hope that such hearings take place.

Now I will proceed to my prepared statement.

My name is Max Manes. I am chairman of Seniors for Adequate Social Security (SASS) which is affiliated with the National Council of Senior Citizens and the Greater New York Congress of Senior Citizens. Thank you for inviting me to testify.

First let me tell you that the elderly people in New York, and I meet and speak with many, are dissatisfied with the 5.9 percent Social Security increase. It is too little to begin with, and then to have to wait until July 1974 before it goes into effect proves to the elderly once again that there is a lack of sensitivity in Washington toward their needs.

To quote some of the reactions I have heard: "The way prices are going up, this is an insult," "It's an outrage," "It is just not enough," or "What good is it? We will only lose our Medicaid and food stamps."

These are samples of the milder expressions. To make up for the actual loss in buying power caused by the spiraling cost of living in the past year, the size of the increase should be substantially raised, and the date of its effectiveness advanced a year.

An elderly woman said to me the other day:

Doctors and nutritionists tell us to eat high protein foods, meats, eggs, and put us on special diets to keep us healthy. But these are the things that went up most. They are out of reach now. How can we keep healthy and avoid illness, doctors, hospitals, medicines and the huge expenses that follow?

The elderly know that the things they need and buy have gone up much more than 5 or 6 percent, and are still going up with no end in sight. But they are told to wait another year before they get an increase of 5.9 percent, which is not enough to make up for the loss in buying power that has already taken place. This is a creeping increase trying to catch up with a galloping inflation.

LIVING BELOW POVERTY LEVEL

The smallness of the increase and the long delay in the date when it will take effect means it will be impossible for the elderly to catch

up with the cost of living. They can only continue to fall behind, while their living conditions will get worse. The millions of elderly who live below poverty level or close to it seem doomed to remain there, unless there is a drastic change in the approach to the problem.

Those of us who are not now in that category live in constant fear that we, too, will sink to poverty level in the face of the runaway cost of living.

The retirement income crisis which a task force of your committee spoke of some time ago is worse now and is rapidly deepening. It is high time that Congress and the administration faced up to this crisis.

Speaking to a demonstration of seniors organized by the National Council of Senior Citizens June 7, Senator Harrison Williams referred to the 1971 White House Conference on Aging, at which, he said, "3,600 delegates came up with an outstanding program to make life better for older Americans." And he pledged to do all in his power to see that the recommendations of that conference "are made meaningful."

We Seniors for Adequate Social Security feel that both the administration and Congress have neglected the recommendations of that conference.

That conference put the finger on the most important problem facing the elderly when it said: "Many needs of the elderly and many problems of isolation and unhappiness facing the elderly can be traced to the inadequacy and insecurity of their incomes," and also, "Only when their incomes are adequate and secure can the aged be expected to lead meaningful, self-respecting and independent lives."

We agree wholeheartedly with this, and therefore think both the income recommendations of the conference, and what is closely related, the health recommendations, must not continue to collect dust.

One recommendation called for "adoption now, as the minimum standard of income adequacy, of the intermediate budget for an elderly couple prepared by the Bureau of Labor Statistics." At present figures, this would be about \$5,200 annually. The conference also recommended for individuals 75 percent of the budget for a couple.

This was considered only as a first step to be adopted right after the conference.

Another recommendation calls for "As a followup in the progression of the benefit floor, not later than 1974 the minimum income for Social Security and adult assistance beneficiaries be upgraded to provide the elderly with the 'comfortable' standard of living established by the Bureau of Labor Statistics." I don't have the latest figures with me, but I think it is about 50-percent higher than the intermediate budget.

Furthermore, the conference pointed out that:

This Nation can never attain a reasonable goal of income security as long as heavy and unpredictable health costs threaten income of the aged.

Priority consideration should be given to the establishment of a comprehensive national health security program which would include the aged as well as the rest of the population.

The conference also recommended that:

Until such a system is established, the benefits of Medicare-Medicaid should be increased immediately to include, at a minimum, out-of-hospital drugs, care of the eyes, ears, teeth and feet, including eyeglasses, hearing aids, dentures, et cetera, and improved services for long-term care.

They stressed that "there should be no deductibles, copayments, or coinsurance."

CHANGES ARE LONG OVERDUE

It is more than a year and-a-half now since the 1971 White House Conference on Aging was held. The enactment and implementation of its recommendations are long overdue. The problems of the elderly cry out to be solved now. We don't have time to wait.

Thank you.

Senator CHURCH. Mr. Manes, I share some of your frustration over the slow progress that has been made in implementing many of the recommendations of the Conference on Aging. I also understand full well how the elderly feel about the current inflation.

When we enacted the cost-of-living provision last year, hoping to make the Social Security program inflation proof, the triggering date was January 1975. That has been moved up to June of 1974, but it is still a year away. I think the mistake was not to fix the triggering date much earlier. Certainly in my judgment it should have been and could have been set for January of 1974, that is the end of the year.

That would mean that the adjustments would come each year and you wouldn't have to wait this extra long period of time. Though we have improved this some, we haven't improved it enough. I think that we should have put this whole cost of living adjustment into effect at the beginning of the coming year and then have it take effect and let it be automatic each year. Now not only do you have to wait until June of next year for this 5.9-percent increase, which I think is much too long, but at the same time we have a rampaging inflation.

The last figure I saw indicated that the inflation is now proceeding at an 8 percent annual rate. It is hitting in the very places that hurt the older people the worst. The worst of the inflation is in the food prices.

In terms of what the elderly face, it isn't even an 8-percent inflation. A very large part of their budget goes to buying foods, and it is right here that the prices are going up even faster than elsewhere in the economy. So the elderly, it seems to me, like all people limited to incomes, are the principal victims of the inflation. I agree with you in what you have said. I can understand why a 5.9 percent increase does not look large in the face of the present inflationary condition and in view of the fact that you have to wait until June of next year to get it.

I just want to say to you that I fully understand why the elderly feel so hard pressed as they go to the grocery store from day to day and face the price increases that are occurring in food.

Mr. MANES. If I may, I just would like to add this. I worked in a senior lunch program last Friday on the west side of Manhattan and a number of the people there surrounded me and they started talking to me like they almost held me responsible for doing it. I witnessed the same thing yesterday when I attended another group in East Harlem, out in Central Park. They asked me to come over and speak to them. There are very strong feelings among the elderly all over the city about it. They feel that something dirty has been done to them.

SLOWNESS OF ACTION

Another thing I want to say for myself, it strikes me that everybody in Washington knows everything about the elderly, probably more than I do. They know all of the problems. It has been studied and restudied so many times, but I am amazed at the slowness of any action. The White House Conference recommendations, and there is a wealth of material in those documents that came out of the White House Conference. Well, it seems people have forgotten about it. It is just staying there, waiting for somebody to dig them up again.

I want to say that I come here not only to the Senate committee, but we have communicated with the White House. We wrote a letter to President Nixon and pointed out that his policy runs counter to the commitments made at the White House Conference. We pointed out that instead of doing what has to be done, we pointed out that after 18 months have passed in this since the White House Conference recommendations on poverty among the elderly.

It would bring us nearer the goal of adequate income and retirement in accordance with the American standard of living and the administration has not lifted a finger to carry out that recommendation.

Instead of proposed increases charged under Medicare and reduced benefits, he has cut programs for aged and has defeated the legislation and impounded funds for such programs. All this is not in the interest of the elderly.

I want to point out that what our group is trying to do, and I hope you will cooperate, we want to get an opportunity to the elderly to speak for themselves. They feel that they have not been properly represented in Washington, and that is why we want you to come to New York and we want to encourage the elderly—this is the work of the group—to encourage the elderly and get them up to speak for themselves. They may not be as articulate as some of the professional people, but they can still tell their story just as well in their own way.

Senator CHURCH. Thank you.

Mr. MANES. Thank you, sir.

Senator Church. You are a spokesman in your own right. We appreciate your coming.

Mr. MANES. I would like to leave here some letters that we sent to President Nixon and copies of letters, and also a petition that we have circulated calling for enactment of the White House Conference income recommendations and also a resolution that was adopted at the Senior Conference last November 30.

Senator CHURCH. Those papers will be included in the record.

[The information follows:]

SENIORS FOR ADEQUATE SOCIAL SECURITY,
New York, N.Y., May 24, 1973.

President RICHARD M. NIXON,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: In your 1973 Senior Citizens Month Proclamation you state: "Our older citizens have given their best to America. Now they deserve the best from America."

No older American will disagree with that. But the policies of your Administration in dealing with the problems of the elderly do not reflect the spirit of these words—they run counter to it.

Eighteen months have passed since the White House Conference on Aging. The income recommendations of that Conference would reduce poverty among the elderly. It would bring us nearer the goal of "An Adequate Income in Retirement in Accordance with the American Standard of Living." Your Administration has not lifted a finger to carry out these recommendations.

Instead you have proposed to increase charges under Medicare and reduce benefits. You have cut programs for the aged. You have vetoed legislation and impounded funds for such programs. All this is not in the interest of the elderly.

We Seniors assembled in Brotherhood-in-Action Auditorium on May 24, 1973, call upon you to reverse your present policy and to proceed without delay to implement the Income Recommendations of the White House Conference, and also those dealing with health and other problems facing America's elderly.

Sincerely,

MAX MANES, *Chairman.*

RESOLUTION ADOPTED AT GRASS-ROOTS CONFERENCE

We, delegates assembled at the Senior Grass-Roots Conference at Brotherhood-in-Action Auditorium, Thursday, Nov. 30, express our deep concern over the failure of Social Security, Medicare and other programs for the aged to really meet our needs.

Recent measures heralded as great improvements fade into insignificance in the face of the magnitude of the problem. The widespread poverty, the hardships and innumerable difficulties the elderly encounter in their daily lives cry out for much more meaningful action.

The first objective of the 1965 Older Americans Act is "An Adequate Income in Retirement in Accordance with the American Standard of Living." Although this Act has been law since July 14, 1965, it has not yet been implemented.

The Income Recommendation of the 1971 White House Conference on Aging says that cash income in accordance with "the American Standard of Living" should be an immediate goal for older people. It calls for the adoption *now* as a minimum standard of the intermediate Budget for an elderly couple of the Bureau of Labor Statistics (the latest published figure is \$4,776 annually), with 75% of this amount for single individuals. This, too, still has to be acted upon.

The entire level of Social Security Benefit payments should be raised, based on the above as a minimum; and coverage should be extended to all the aged.

This Conference urges seniors to set up local action committees to work for this goal; and also for full and free coverage of all our health needs, and for the improvement of all programs for the aged at Federal, State and local levels.

To attain this, broad public support must be rallied. An educational campaign to acquaint the public with the crucial problems of the aged should be developed. Our petition to Congress can be used here. Also, a large public rally with prominent speakers, who can attract a wide audience, should be planned for early spring.

We urge the Senate Special Committee on Aging to hold its announced hearing on New Directions in Social Security where the elderly can participate. Some of the sessions can take place right here in New York, where half of all the elderly live below poverty level. (A telegram to this effect was sent to Senator Church, Committee Chairman, from the Conference) If necessary, a large delegation of seniors should be organized to go to the hearings in Washington.

The Conference expressed its dismay at the continuation of the war in Vietnam. It also urged the elimination of the limit on earnings for Social Security recipients.

A Continuations Committee was set up, empowered to implement the above proposals.

PETITION—TO THE CONGRESS OF THE UNITED STATES

Whereas, thirty-five years after the enactment of Social Security many millions of older Americans live in poverty and lack security, and

Whereas, long recognized shortcomings and inequities in the Social Security and Medicare programs have remained uncorrected, and

Whereas, the situation of the aged continues to deteriorate without a solution in sight to their numerous problems of income, housing, health, transportation, etc., be it therefore

Resolved, That we call on Congress to enact into law the resolution of the recent White House Conference on Aging calling for a minimum Social Security payment based on the intermediate budget for the elderly of the Bureau of Labor Statistics (currently \$5,200 for a couple) with 75% of this for an individual, to be increased automatically as living costs rise; and be it further

Resolved, That in order to establish real security, including complete health care, for all the aged, we call on Congress and the White House to make basic changes in the Social Security and Medicare programs to fulfill the commitments of the 1965 Older Americans Act, the first of which calls for "An adequate income in retirement in accordance with the American standard of living."

Senator CHURCH. Thank you, Mr. Manes.

Our hearing will recess until 10 tomorrow morning. We don't have quarters of our own in this committee so we have to go where space is available. The hearing will begin at 10 tomorrow morning in room 1114.

[Whereupon, at 12:40 p.m., the special committee recessed, to reconvene at 10 a.m. on Thursday, July 26, 1973.]

APPENDIXES

Appendix 1

ADDITIONAL MATERIAL FROM WITNESS

LETTER FROM WILBUR COHEN, DEAN, SCHOOL OF EDUCATION,
UNIVERSITY OF MICHIGAN, IN RESPONSE TO A LETTER FROM
SENATOR CHURCH, AUGUST 10, 1973

AUGUST 10, 1973.

DEAR SENATOR CHURCH: In response to your letter of July 27, I submit the following replies to your 11 questions:

I believe that in the past you have suggested that consideration be given to a differential in the contribution rates for employers and employees, with a higher corporate rate. Do you still favor such a change?

It is one possibility among many. It should be considered along with the other proposals I presented.

I have received complaints from self-employed persons about the inequity of charging them one and one-half times the employee contribution rate. Will you please explain the rationale for the present provision and give us any suggestions for change.

The rationale for charging self-employed persons less than the combined employer-employee contribution rate is that some self-employed do not retire at age 65 and employers can deduct the employer contribution as a business expense. Consequently, the combined contribution was reduced by about 25 percent for the self-employed. One possibility is to allow the self-employed to deduct from their income tax one-half of their contribution as a business expense.

In suggesting that disability benefits be paid to individuals unable to engage in their customary occupations, would you apply this change to younger as well as older disabled workers?

No. Only to individuals age 55 and over.

You propose as an immediate step that Medicare be broadened to cover prescription drugs and hearing aids and glasses "with appropriate costsharing of costs." What administrative difficulties might be caused? How could they be avoided?

Any deductible or coinsurance provision causes some difficulties. I propose a very simple deductible for prescription drugs such as \$2 or \$1 per prescription and a coinsurance of 20 percent of the cost of any devices, glasses, or aids.

You suggest a novel approach to Social Security coverage for housewives. Would you provide additional arguments for your view that this coverage be compulsory? How would low-income families participate?

It would enable all women to have protection against the major hazards irrespective of whether they were married, divorced, single, sick or disabled. Low-income individuals could participate by making contributions only on a minimum earnings basis.

Since wives are already eligible for one-half the husband's benefit, without payment of additional contributions, would not this be of benefit primarily to other relatives—the maiden aunt, for example—or some other household member who maintains the home?

Yes. This is an important small group which is now left out of protection. My proposal would enable them to be protected.

Dean Cohen, does your suggestion for gradually reducing the age of eligibility for SSI to 55 mean that you favor working toward a lower retirement age for Social Security benefits?

Not necessarily.

Should Congress have its own actuary, or actuaries, to help it arrive at sound Social Security legislation?

Yes.

It's become fashionable to say that Medicare contributed enormously to the rapid increases in the rise of health care costs. Would you tell us more about your views on this subject?

I don't think the facts really bear this out. Medical costs were rising before Medicare. In addition, medical costs have risen for services not covered by Medicare such as pediatric, obstetric and dental services. It is just too simplistic to say that Medicare caused the increases. Medicare just happened to come along when costs were rising because of other factors. It is unfair to blame the situation on Medicare.

Dean Cohen, when you testified before this committee in May 1970, you supported the administration's endorsement of prepaid group practice, and specifically a proposal for adding a new section to Medicare (p. 1793). Are you satisfied with subsequent efforts by the administration to promote what we have come to call HMO's?

No, but I am also disappointed in the failure of Congress to take prompt and effective action on substantive legislation and appropriations in this area.

Do you not think that private pensions should have complete portability just as the Social Security system does?

No. It would be too costly. However, I do favor vesting under appropriate conditions.

With best personal wishes,

Sincerely,

WILBUR J. COHEN, *Dean.*

Appendix 2

LETTERS FROM INDIVIDUALS AND ORGANIZATIONS

LETTER FROM NELSON H. CRUIKSHANK, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS, INC., WASHINGTON, D.C., TO SENATOR CHURCH, AUGUST 21, 1973

AUGUST 21, 1973.

DEAR SENATOR CHURCH: Thank you for giving me an opportunity to comment on proposals—made at your recent hearings on new directions in Social Security—for establishing an independent, nonpolitical board to administer the Social Security system.

At this time, I am expressing my personal views, rather than the official position of the National Council of Senior Citizens. Bill Hutton and I consider this matter so important and timely that we are placing it on the agenda of our September board meeting. Since I am sure that you too will wish to explore the whole subject most thoroughly, there will undoubtedly be future opportunity for presenting the NCSC's official position.

Every man, woman and child in this country has a vital stake in the Social Security programs of OASDI, HI, SMI, and SSI, and has a right to be assured that the trust fund will be administered with integrity and objectivity, and that there is continuous review of the system's effectiveness and fiscal soundness. Accordingly, I wholeheartedly favor the principle of administering these programs through an independent, nonpolitical agency, be it called a "board," a "commission," an "authority," or whatever.

Such an independent agency would underscore in the public mind the essential difference between these social insurance programs and other operations of the Government. It would also provide greater visibility and prestige as well as optimum responsiveness to the constituents—and again I point out that the constituency encompasses all our people, regardless of age. An important specific charge to this agency should be to develop and carry out an aggressive informational program. Our observation of social insurance programs in other countries indicates that this informational responsibility is an important part of the right to know on the part of beneficiaries, and of the effective administration of the program.

An independent, nonpolitical agency could assure continuity in both the review of the system's effectiveness and in its day-to-day administration—a continuity that cannot possibly be achieved under the present system when the administering officials are subject to change every few years and the program is reviewed only intermittently by an advisory council or by the Congress.

Another advantage is that it would be made clear that the agency has its own source of funding through the trust funds it administers. Indeed, our Social Security system now has, but this is a fact not commonly recognized by the general public who are surprised to learn that *their* Social Security system owns its own buildings and equipment and finances its own operations.

An important essential would, of course, be removal of the Social Security trust fund expenditures from the consolidated budget. Thus, Social Security expenditures could be assessed on their own merits and in relation to sound actuarial principles rather than primarily through their immediate impact on the annual Federal budget. Furthermore, the other programs now under DHEW would be relieved of the need to absorb more than their reasonable share of Department-wide budget cuts when they are imposed—cuts that are heavily weighted by the sheer size of the Social Security program and its irreducible obligations.

One question you will wish to explore is the possibility that the agency could be truly independent with respect to both policy and operations but—for purposes of conforming to so-called "sound principles of public administration"—would be placed under the umbrella of DHEW, in somewhat the same manner as

such federally aided corporations as Howard University and Gallaudet College. I would suggest that the committee also study the Tennessee Valley Authority as a possible model.

You may be interested in my initial thoughts as to some of the specific provisions to be included in any legislative proposal. The "board of directors" should be small since these directors will be serving full time; five might be a reasonable number to assure continuity through staggered terms as well as representation of both parties. Employees should continue to be under Civil Service. There will be need for writing in certain controls on the agency, such as the requirement that the major legislative proposals would be cleared through the President and that the appropriation process be much the same as now. The board of trustees (the Secretaries of the Treasury, Labor, and HEW) would continue as managers of the funds, with the chairman of the agency's board of directors acting as secretary.

The statutory Social Security Advisory Council, the Health Insurance Benefits Advisory Council, and other special-purpose advisory councils would still be needed, but their membership would be appointed by the board of directors rather than by the Secretary of HEW—thereby enhancing the non-political character of the system.

Again thank you for giving me an opportunity to comment. As your committee pursues this important improvement in Social Security, NCSC stands ready to help you in any way.

Sincerely and respectfully yours,

NELSON H. CRUIKSHANK, *President.*

LETTER FROM ROY E. SOLPER, MAYWOOD, CALIF., TO SENATOR THOMAS F. EAGLETON, AUGUST 24, 1973

August 24, 1973.

HONORABLE SENATOR: I read in the editorial enclosed that you have been holding hearings which may well result in a drive for corrective legislation early next year. Your historical success will be permanently recorded and appreciated by our whole country.

I am also enclosing a copy of my article sent for publication by AARP News Bulletin dated December, 1971 to refute another article of Mr. Robert M. Hall published in the November, 71 issue of the same Bulletin.

There are actually about two million retirees whose pensions are either reduced or withheld on account of the "retirement test," and there is a total of ten million under 72.

This is what I propose for your consideration that might help to correct the actual legislation:

(1) Cancel that "retirement test" for retirees under 72.

(2) Specifically convert what it's called "benefits" into a regular pension. As such, it won't be subject to reduction or withholdings, nor it will increase any time, except for the current cost of living provisions.

(3) Any pensioner under 72, with adjusted gross income of \$3,600 and over per year, will pay Social Security and income taxes in accordance with the current tax tables.

(4) These Social Security taxes and Federal Income Taxes produced by such pensioners, will both engross the Social Security trust fund. As you know, the present "retirees," no matter their income, don't suppose to pay Social Security taxes, with the result that the S.S. trust fund loses a double revenue, the one paid by the employee, and the same amount paid by his employer. On the other hand, the income taxes of those presently paying them, are absorbed by the general U.S. Treasury. This revenue should go to the S.S. trust fund also, simply because it is produced by a "retiree."

There are many advantages with the above proposed amendment. The S.S. trust fund won't appreciably be imbalanced when fully paying the pensions. No need to provide for increases on the S.S. contributions paid by covered workers and employers. They already have been increased too much.

No need for the actual legion of employees checking and accounting for compliance by retirees with that "retirement test". The savings on those salaries will make up for any small deficit.

But the paramount advantage I see in the above proposed reassessment, will be that all pensioners will feel involved in life as producers of wealth with their continued active participation in the labor forces. Never again will they be considered as retired, economically needed, parasites, outcasts and inferiors. They will develop a superiority complex prodding them to show freely and gainfully, with their long earned experience and mature minds, that these qualities, not only the youthful ones, have achieved progress and fulfillment in our society.

For your continued success,

Respectfully,

ROY E. SOLPER.

[Enclosure.]

SOCIAL SECURITY

The nation's Social Security system today reduces the benefits of recipients whose post-retirement work activities earn them more than \$2100 a year. Yet there is no such penalty for those fortunate enough to have supplemental income of any size from pensions, rents, dividends, annuities or interest.

This long-standing injustice is in the midst of an objective reassessment by Congress. The Senate Subcommittee on Aging, headed by Sen. Thomas F. Eagleton (D.-Mo.), has been holding hearings which may well result in a drive for corrective legislation in early 1974.

Both sides of the question got their latest airing at a two-day hearing of the subcommittee on July 25 and July 26. Wilbur Cohen, former secretary of Health, Education and Welfare, defended the government's traditional position. The challenge came from the American Association of Retired Persons.

Cohen restated the official view that Social Security was never intended as a retirement program per se. Its purpose, he reiterated, was to help pad out income lost by retirement. He declared that no recipient should be allowed to earn more than \$2400 a year—the expanded maximum effective on July 1, 1974.

The opposition, in essence, contended that Social Security should become a true pension plan. It is seeking an early post-retirement earning maximum of \$3600 a year, but its ultimate goal is equal payment to retired persons regardless of their working or any other kind of supplemental income.

That's the way it should be. Philosophically, practically and on the basis of pure common sense, it is unfair and unwise to discourage people from trying to better their existence simply because they have quit the normal rat race.

If all restrictions on earned income for retired persons were removed, estimates indicate, it would cost the Social Security system up to \$4 billion more a year. This is a sizeable sum indeed, but the obscured fact is that federal income would automatically be increased considerably by lower welfare payments and higher income tax collections.

The essential point is that the present system is unfair from any viewpoint. Sooner or later it will have to be corrected, and the sooner the better.

CORRECTION

"FUTURE DIRECTIONS IN SOCIAL SECURITY" HEARINGS

Before the Special Committee on Aging

PART 1—WASHINGTON, D.C.

JANUARY 15, 1973

Correction:

page 74: Question 3; last paragraph; line 4, reads: "these extensive consultations, we do anticipate that there will be a need for pub-
Should Read: these extensive consultations, we do *not* anticipate that there will be a need for pub-

