95th Congress } COMMITTEE PRINT
1st Session }

Social Security Financing

COMMITTEE ON FINANCE
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

Summary of Testimony of Public Witnesses Before the Subcommittee on Social Security: June 16, 23, and 24, and July 15, 1977

SUBCOMMITTEE ON SOCIAL SECURITY

GAYLORD NELSON, *Chairman*

JULY 1977

U.S. GOVERNMENT PRINTING OFFICE
93-293 WASHINGTON : 1977

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SUMMARY OF TESTIMONY ON SOCIAL SECURITY FINANCING

I. Testimony of Witnesses at Public Hearings

WILBUR J. COHEN, Former Secretary of Health, Education, and Welfare, Dean, School of Education, University of Michigan

Supports the general thrust of the administration's proposals; recommends further increases in employee maximum earnings base; recommends stretching out the repeal of the ceiling on earnings subject to employer tax over a longer period than the 3 years recommended; suggests further consideration of mandatory coverage of State, local, and Federal civilian employees; endorses Church-Vanik bill to make the Social Security Administration an independent agency.

ROBERT M. BALL, Former Commissioner of Social Security

Supports the administration's proposals in full.

RITA RICARDO CAMPBELL, Senior Fellow, Hoover Institution, Stanford University

Believes that enactment of the administration's proposals will transform social security into a welfare system; favors decoupling by price-indexing; believes that use of general revenues will hide the true costs of the system and that the 6 percent unemployment trigger point for general revenue financing is indefensible since current unemployment rates are overstated; feels that the proposed increase in employers' payroll tax is deflationary and that employers will not pay increases in payroll taxes out of profits, but rather will shift the tax primarily on their employees either through lower wage rates than otherwise would occur or by hiring fewer workers, and secondarily, by increasing prices to the consumer; suggests that all government workers be covered so as to raise additional revenue and to minimize the ability of some to "play the system for individual gain"; feels that a reduction in the reserve level to an amount equal to four months' benefits may be impractical because it implies that congressional action, if necessary, can become effective within only four months; opposes the administration's dependency test for spouse benefits, and suggests that all dependent spouse benefits be phased out in the future.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS; Andrew J. Biemiller and Bert Seidman

Supports the administration's proposals in full but with modification of the grandfather provisions.

NATIONAL COUNCIL OF SENIOR CITIZENS; Nelson H. Cruikshank

Supports the administration's proposals in full.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW; Melvin A. Glasser

Supports the administration's proposals in full.

NATIONAL FEDERATION OF INDEPENDENT BUSINESS; James D. McKevitt

Opposes the administration's proposals; believes they are generally harmful to small business; suggests as an alternative that the OASI program be divided into two programs—Part A and Part B. Part A would be financed by employer-employee contributions, would resemble an insurance program, and would pay benefits based on individual contributions (regardless of household status, earnings, or need); Part B would be patterned directly after the existing Supplemental Security Income (SSI) program with general revenue financing and would focus on family need.

WILLIAM C. HSIAO, Associate Professor of Economics, Harvard University

Supports decoupling by price-indexing rather than by wage-indexing; recommends raising the maximum taxable earnings base to $20,100 in 1978 and maintaining it at a level which would tax full earnings of about 90 percent of all employees; recommends increasing the payroll tax rate on employers and employees by 0.3 percent; opposes general revenue financing.

ROBERT J. MYERS, Professor of Actuarial Science, Temple University, and former Chief Actuary of the Social Security Administration

Proposes an immediate increase in the tax rate on both employers and employees of 0.5 percent; favors restoring the self-employed tax rate to 1½ times the employee rate; opposes any increase in the maximum taxable earnings base over that produced by the automatic provision; opposes counter-cyclical general revenue financing; favors wage indexing with replacement ratios at a 10 percent lower relative level than at present; favors a permanent savings clause to prevent benefits from ever falling below what present law now provides.

OTTO ECKSTEIN, President, Data Resources, Inc., and Paul M. Warburg, Professor of Economics, Harvard University

Supports counter-cyclical general revenue financing; favors a delay on taxing employers on their entire payroll until after the decisions on the expenditure side have been made; supports in principle the decoupling approach adopted by the consultants to the House Ways and Means Committee (i.e., price indexing); suggests that the Administration proposals will have a small but significant negative effect on overall economic performance, slowing real final demand and increasing inflationary pressures; believes that 3 major problems must be dealt with if social security is to remain viable: loosened eligibility standards for the disability fund, membership in multiple public retirement plans, and the minimum benefit; recommends that Congress find temporary financial solutions, speed up the process by which expenditure reform can be achieved, and then enact the proposed new employer tax if it is still needed.

NATIONAL ASSOCIATION OF COUNTIES; R. Michael Mett, Supervisor, Milwaukee County, Wisconsin

Supports the optional inclusion of the public sector work force in the social security system and opposes any legislative efforts to extend coverage mandatorily to the public sector; opposes efforts to bar, limit, or inhibit the voluntary withdrawal of local and State governments from the social security system; expresses concern that any changes in the financing of social security which will weaken the insurance principle and earnings-related nature of the system may stimulate withdrawals from the system by local units of government; suggests that the direct and indirect impact on Milwaukee County of adoption of the administration's proposals would be to require an increase in county property taxes, increase apprehension among county officials that the new demands placed on Federal revenues by the social security system would decrease the amount of Federal aid available for other programs in the future, and require that employees be laid off or services reduced in order to meet the additional payroll costs.

CHAMBER OF COMMERCE OF THE UNITED STATES, NATIONAL ASSOCIATION OF MANUFACTURERS, BUSINESS ROUNDTABLE, AND COUNCIL OF STATE CHAMBERS OF COMMERCE; John R. Wall, Stanley L. King, and Preston R. Bassett

Opposes counter-cyclical general revenue financing; opposes taxing employers' entire payroll; favors increasing self-employment tax rate; opposes increasing employee and self-employed tax base; favors dependency test for spouse benefits; favors wage indexing with replacement ratios equal to those in effect prior to the adoption of the 1972 benefit formula; favors increasing the tax rate on employers and employees by not less than 0.3 percent, to become effective on January 1, 1978.

NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS; James M. Hacking, Thomas C. Borzilleri, and Ralph W. Borsodi

Generally supports the administration's proposals, but opposes any reduction in the trust fund reserve levels, does not support at this time advancing the planned increase in tax rates from 2011 to 1985 and 1990, and favors wage indexing with replacement ratios higher than those presently prevailing.

SMALL BUSINESS LEGISLATIVE COUNCIL; Paul H. Jackson

Opposes counter-cyclical general revenue financing; opposes taxing employers' entire payroll; favors increasing self-employment tax rate; recommends that the proposals to: (1) divert hospital insurance taxes to OASDI, (2) increase the employee and self-employed tax base and (3) advance the planned increase in tax rates from 2011 to 1985 and 1990, should be referred to the next Social Security Advisory Council for their analysis; favors dependency test for spouse benefits; favors administration's proposal on decoupling.

AMERICAN COUNCIL OF LIFE INSURANCE; Robert J. Myers

Opposes counter-cyclical general revenue financing; opposes taxing employers' entire payroll; favors increasing self-employment tax rate; opposes diversion of hospital insurance taxes; opposes increasing employee and self-employed tax base; favors dependency test for spouse benefits; favors wage indexing with replacement ratios 10 percent lower than those proposed by the administration: favors advancing planned increase in tax rates from 2011 to 1985 and 1990.

NATIONAL ASSOCIATION OF LIFE UNDERWRITERS; Jack E. Bobo

Opposes counter-cyclical general revenue financing; opposes taxing employers' entire payroll; favors increasing self-employment tax rate; recommends that no action be taken at this time on proposal to divert hospital insurance taxes to OASDI; opposes increasing employee and self-employed tax base; favors dependency test for spouse benefits; favors wage indexing with replacement ratios 10 percent lower than those proposed by the administration; recommends that the payroll tax remain as the essential financing tool of social security; recommends an increase in the tax rate of 0.5 percent on employers and employees, to become effective in January 1978, or as an alternative, a progressively graduated tax rate increase to be applied to the earnings of employees within the wage base.

II. Statements Submitted for the Record

WILLIAM H. JOSEPH, Director, New Jersey Division of Pensions

Opposes any increase in the tax paid by employers and employees since the tax is regressive and is already at a level which makes it an economic disincentive for the economy; believes that the payroll tax should be eliminated, or at the very least, frozen at its present level; in any event, the employee's share of the tax should be eliminated at the bottom level of the economic order in the form of a tax rebate; believes that general revenue financing of social security would help assure the financial stability of the system.

NATIONAL LEAGUE OF CITIES, Hon. Richard E. Carver, Mayor of Peoria, Illinois

Favors the current provisions regarding local government entry or withdrawal from social security; suggests that social security benefits be proportioned to contributions; recommends elimination of the earnings limitation; feels that if the administration's proposed changes in the financing of the system are enacted more local governments will seriously consider withdrawal; opposes general revenue financing; opposes an employer tax on the full earnings of the employee; believes that if employers are taxed on total payroll, city governments will absorb some of the cost (thereby requiring a reduction in services), will pass some of it backwards to employees, and will pass some of it forwards to consumers; favors decoupling; believes that the purpose of the social security system and its relationship to other programs needs to be reexamined.

HEWITT ASSOCIATES

Characterizes the problems of the current system as (1) rising benefit levels, (2) rising costs, (3) loss of public support, and (4) an inability to fulfill the system's dual roles of social adequacy and individual equity; recommends a two-tiered system composed of a flat Old-Age Benefit payable to all persons past retirement age and an earnings-related OASDI program which is no longer weighted for low pay levels; the earnings-related benefit would be related proportionately to average earnings in the highest paid 10 years of work and supported by equal contributions from employers and workers; the Old-Age Benefit would be paid for by a combination of payroll taxes and general revenues; analyzes the role for private pensions and suggests that total retirement income from public and private plans should not exceed some specified maximum and should not provide a greater percentage of pre-retirement pay for high-paid employees than for low-paid employees; suggests that private plans should be allowed to integrate with the total social security benefit and that any coordination of public and private benefits should be on the basis of benefits received; recommends certain changes concerning individual retirement accounts (IRA's).

HON. MILTON J. SHAPP, Governor of Pennsylvania

Points out that elimination of the ceiling on wages taxable to employers will reduce the funding available for the State pension plan and thus raises a question as to the relative roles social security should play in relationship to public and private pension programs; suggests that increases in the wages taxable to employees above those recommended by the administration, coupled with a progressive tax rate for the low-paid employee, would be preferable; objects to any changes in law or regulation that would require more frequent deposits of State contributions for social security.

U.S. INDUSTRIAL COUNCIL

Generally opposed to the administration proposals but approves the proposals to increase the self-employed tax rate to 1½ times the employee rate and the imposition of a dependency test for spouse's benefits; recommends that the automatic cost-of-living provisions in the law be repealed, that the ratio of trust fund assets to income be maintained at the 50-percent level and that if additional financing is still needed, the tax rate for employer and employees be raised by 0.25 percent or by 0.3 percent.

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