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EXECUTIVE SESSION

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THURSDAY, SEPTEMBER 8, 1977

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United States Senate,
Committee on Finance,
Washington, D.C.

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The Committee met, pursuant to notice, at 2:20 p.m. in room S-146, The Capitol, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Byrd, Nelson, Bentsen, Hathaway, Matsunaga, Moynihan, Curtis, Dole and Danforth.

The Chairman. The first thing, I think, is something -- the first couple of things, I may explain to the Committee; I do not need a quorum to act, anyway.

I want to record to all here and to those who are not here we had a meeting and Cliff Hansen, our representative from the Republican side, talked to the leadership about how to move this energy bill along. It was generally thought that the Finance Committee ought to take charge of the revenue aspects of it, and the other committees for the most part, the Energy Committee ought to handle the parts of it that fall within their jurisdiction.

The question is whether we should try to have a consolidated conference. We do not think we should. We think they



1 should pass their part of the bill, hold a conference and
2 we will pass our part of the bill and hold the conference on
3 our part.

4 There is no dispute between Senator Jackson, myself and
5 the Democratic leadership and the Republican leadership. We
6 all think that that is the best way to act.

7 So we have developed a technique where we can do that on
8 our side. I think we could just take the House-passed bill,
9 take everything else, enact it, then add to it the parts that
10 we want, then add behind it the part they want with the
11 provision that their part does not become effective as long
12 as our part is not effective. So the whole thing is a Senate
13 Committee amendment. Go to conference, and we can put the
14 pieces together however you want to put them together and put
15 it before the President and see if he signs it.

16 They do not have a House-passed bill they could use for
17 that purpose to try to solve that. The only way to solve it
18 is as we already took the bobsled bill and put that on another
19 bill, on the mattress blanks bill, we are saying we will let
20 you have the bobsled bill and you can put your rider on the
21 bobsled bill.

22 That was agreed to by unanimous consent.

23 Our point of view is that this problem has been resolved.
24 All that remains to be done is for the House to agree they
25 will do business with us.

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From my point of view, I do not think that the Senate is going to want to try to do business the same as the House, all the ad hoc committees and all of that. They can do business how they want to, but my point of view is we will report what is within our jurisdiction, and we will confer with whomever they want us to confer with.

I wish I could have had time to explain it to the Committee but Bob Byrd wanted to have that bill, so I asked unanimous consent yesterday to report that bill out. We have plenty of numbers here to do business on the bills that we want to do business on.

The next item here is this Budget Committee problem in regard to the Finance Committee legislation.

Mike, will you explain that for us?

Mr. Stern. Yes, sir.

The Committee indicated its views on what ought to be allowed for legislation in a letter you sent to Senator Muskie at the end of July and the Budget Committee, by and large, took the opposite action. In the area in revenues, for example, you suggested that they allow some additional revenue reductions above the energy tax bill, and what they did was allow the same amount as the House bill.

So I assume, when you take up the energy tax bill, if you have some revenue reducing ideas, we will just have to make them effective in later fiscal years.

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The second thing that they did is to take a fairly strong policy position that nothing ought to be done in Social Security that has any fiscal year 1978 impact. This is true that this is not subject to a point of order, because you can always raise revenues, but I assume that if the Committee does something that will have a fiscal year 1978 impact, you can expect that Senator Muskie would say this is against the policy that the Budget Committee had in mind, and put together into the resolution.

Senator Byrd. The memorandum says it is subject to a point of order, because the funds automatically appropriate.

Mr. Stern. Yes. If you decide to do something in fiscal year 1978, you will have to change the law to the extent of saying --

Senator Byrd. If the law is not changed, it is subject to the point of order?

Mr. Stern. That is right. For all of these years, you operated on the basis that whenever revenue is raised, it is also appropriated into the Trust Fund, and you have to make some special provision for the temporary period, namely to the end of the fiscal year. That would be true. You can do something that would not be subject to a point of order.

What I was saying really was it was probably not a point of order problem, but you could expect that the Budget Committee would object on economic grounds.



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1 On the spending side, they assume that you will save
2 \$300 million in the income maintenance area, Social Security,
3 welfare, social services and that you will spend \$200 million.
4 Actually up to now you have been operating on a basis of
5 \$450 million. They are operating on a basis, when you are
6 all done, you should have a bill that has a net savings of
7 \$100 million; even though you have actually approved a
8 provision to save \$350 million, you also have other provi-
9 sions that cost money.

10 So at this point, your decisions are at about the level
11 of \$50 million.

12 Senator Byrd. \$350 million over?

13 Mr. Stern. You now have a bill that costs plus-\$300
14 million. The Budget Committee assumes that you will save
15 \$100 million. That is a difference of \$400 million.

16 There are ways that you can save that amount of money,
17 and I can give you suggestions, if you want to go that route.
18 In the health area, they do assume enactment of the hospital
19 cost control proposals. There, I think it is pretty unrealistic
20 to look for a bill that the President will sign. The House
21 is much less far along than the Senate.

22 In the Senate, the Human Resources Committee has reported
23 out a bill and the Finance Committee is going to be acting in
24 that area.

25 However, Senator Talmadge has a proposal that does not

1 have that degree of immediate savings. It is really more
2 geared towards longer run savings.

3 So, as was indicated in the letter, the Budget Committee
4 said it is not realistic to imagine that you can save that
5 amount of money because legislative action will not be
6 complete in this Congress, and the things will not be that
7 immediate.

8 If you do not actually amend the Budget Resolution, I
9 think that you will want to consider ways of saving more
10 money as a part of this bill that you have been considering.

11 Senator Curtis. As far as the Budget Resolution is
12 concerned, are they dealing with welfare costs and Social,
13 Security tax receipts as one item?

14 Mr. Stern. No, sir. In general, no. Certainly on the
15 expenditures side, no. The expenditures are only for the
16 welfare and Social Security expenditures. The Social Security
17 receipts do get into this category of budget authority, but
18 as you suggested when this came up before, you can postpone
19 the appropriation of the revenues into the Trust Funds until
20 next year and not run into any of the budget problems.

21 Basically, they are two separate things. Social Security
22 receipts are separate.

23 Senator Curtis. In other words, we cannot, if this
24 Committee and the Congress saw fit to increase Social Security
25 taxes, would that violate the budget act?

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1 Mr. Stern. No, six.

2 Since the Budget Committee made such a definite statement
3 in their report about how they did not think it was desirable,
4 for economic reasons, to have any effect in fiscal '78, you
5 ought to be aware that probably, it will be opposed on the
6 Floor, or somebody will make a statement.

7 Senator Curtis. Technically, what is the situation?

8 Mr. Stern. You are not in violation. You can raise
9 revenues whenever you want. The only restriction in the
10 budget act is against cutting revenues, but you can raise
11 the revenues. As far as budget authority, if you can suggest
12 a way of avoiding a point of order. It is not a question of
13 whether you are in violation of the budget act, the numbers
14 in the Budget Resolution, but a problem whether you wind up
15 getting a fight from the Budget Committee.

16 Senator Curtis. What?

17 Mr. Stern. Getting some sort of opposition from the
18 Budget Committee.

19 The Chairman. Here is the kind of thing that you are
20 likely to run into.

21 The Social Security tax, if we want to put a tax into
22 effect, keep the Social Security fund from going broke, even
23 if we recommend what the President has recommended, when we
24 bring it out there, I guess they could say, well, you cannot
25 put that in the Trust Fund. Is that right?



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Mr. Stern. I think we can suggest a way.

The Chairman. But to do that, to put the tax on and say that the tax would go to the General Fund and after it would appropriate to the Social Security fund after the first of the year, we can do that.

If we do that, then they will say, hold on just a minute. We said in our Committee report that we did not think it was a good idea to think any more taxes on in view of economic conditions. Now, if they do that, that is just a matter of them trying to bind you by their Committee report.

The answer is, if they have enough votes, they can bind you to anything. If they do not have enough votes, they cannot bind you to a damn thing.

So it is just how the Senate wants to vote.

Basically, it amounts to them saying, all right, they will want to contend, I think, that when the Senate voted the Budget Resolution they agreed they were not going to have any increase in Social Security taxes. Again, it is just a matter of how the Senate wants to vote on it. If they want to vote for it, they can.

In view of the fact that they are letting us know they expect to oppose an increase in Social Security taxes at this time, we may want to take that into account when we decide whether we want to recommend the Social Security tax that will go into effect this year.



1 Senator Nelson. Has Senator Muskie said they are opposing
2 a tax effective fiscal '78?

3 The Chairman. Yes.

4 Mr. Stern. Their report says very clearly that they
5 oppose anything that has an effect in fiscal year '78. In fact,
6 they are encouraging the Finance Committee to approve legisla-
7 tion to solve Social Security's financing problems, but it
8 should not have any effect before October 1, 1978.

9 Senator Nelson. Is there a rationale for that? Any of
10 our proposals may well require that it start January of '78.

11 Mr. Stern. The rationale is on economic grounds. The
12 Committee believes that imposition of additional taxation
13 effective 1978 will prove counterproductive to the economic
14 recovery.

15 The Chairman. Of course, if that logic is correct, what
16 they are seeking to mandate us to do by telling us we ought
17 to cut back on Social Security benefits, that would violate
18 their own mandate right there, would it not?

19 That means there would be less money in circulation.
20 Is that not right?

21 Mr. Stern. Yes.

22 The Chairman. In other words, they want to mandate,
23 they want to cut back on Social Security benefits. They also
24 want to mandate us not to raise the Social Security taxes
25 to achieve the same result.

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1 But I suppose really if the Senate wants to go along
2 with it, we could do whatever we wants. That indicates what
3 they want us to do. That is what it amounts to.

4 Senator Dole. They do lose occasionally.

5 Is there any thought of amending the resolution that is
6 on the Floor now? You are suggesting ways to avoid that.

7 Mr. Stern. Yes.

8 The Chairman. We could amend it if we had to. We could
9 offer an amendment, but I am inclined to think that it would
10 be just as well, if we do want to go contrary to what they
11 have got in their Committee Report or something of that sort,
12 we have that right.

13 I would just as soon fight the battle on one of our bills
14 where we are asking the Senate to vote for our bill rather
15 than fight on their bill where they are asking the Senate to
16 sustain their Committee.

17 If we report something out and they come in and complain
18 about it and want to object -- I would just as soon fight on
19 our ground rather than fighting on their ground.

20 Senator Bentsen. I would much rather.

21 The Chairman. We have been through all of that before, and
22 we have not done badly. Let them go ahead and pass the
23 resolution.

24 Senator Nelson. Still, we would not be subject to a point
25 of order?

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1 The Chairman. We could get around the point of order,
2 if we want to. If you want to put the Social Security tax
3 as the President recommended it, if you want to do it that
4 way, then you just say -- you put the tax on -- you say that
5 that money may be appropriated into the fund, the general
6 fund, then appropriated to the Social Security fund after the
7 1st of next year.

8 So if you do it that way, then it is not subject to a
9 point of order. If they want to, they can contend -- if you
10 want to do that -- that that does not violate the letter but
11 the spirit of the resolution. If that is the case, it is not
12 subject to a point of order, it is just whether the Senate
13 wants to do it that way.

14 Senator Nelson. For the Administration's Social Security
15 plan, the Finance Committee's and alternative plan here, all
16 of them contemplate some taxes going into effect in '78.
17 There will be a several billion shortfall on any one of the
18 plans that we are looking at. If we are going to do anything
19 about it, we will have to go ahead and put it into effect
20 this year, the employer's tax, increasing --

21 The Chairman. As far as I am concerned, whatever you
22 would like to do would be fine with me. There is a budget
23 resolution out there. We should get moving in a hurry. It
24 is out there now. It is on the Floor.

25 Senator Curtis. I would like to ask this question:

1 supposing we do not do anything about the Budget Resolution.
2 What, if anything, are we giving up in the way of freedom of
3 action in financing Social Security?

4 Mr. Stern. You are not giving up any freedom of action in
5 the sense of their being any parliamentary move or point of
6 order that can be made. The only question is, if you were
7 to offer an amendment to the Budget Resolution and win, you
8 would then have the Senate on your side in advance.

9 If you lose, that really does limit your action.

10 Senator Curtis. I am inclined to follow the Chairman's
11 suggestion, have the whole legislation. If we were to have
12 an amendment to the Budget Resolution, what would be our
13 amendment? Of what nature?

14 Mr. Stern. You could have an amendment which actually
15 either raised the revenue figure higher, or even if you did
16 not want to do that, raise the budget authority figure higher,
17 and therefore, in effect, announce right now that you intend
18 to raise Social Security taxes.

19 Senator Curtis. I understood from your previous conver-
20 sation that that would not be necessary.

21 Mr. Stern. I do not believe it is necessary, no, sir.
22 I think the question of whether Social Security taxes should
23 be raised or not, however you do it you will wind up with the
24 opposition of the Budget Committee, either now because it is
25 offered as an amendment to the Budget Resolution, or later on

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1 when you report out the legislation, and the Chairman is
2 suggesting it would be easier to deal with in the context of
3 actual Finance Committee legislation rather than the Budget
4 Committee's resolution.

5 Senator Curtis. I do not want to prolong this, but it
6 seems to me that they are struggling with two proposals
7 attractive to them. One is they want to hold down the Federal
8 deficit and the other one is they want to manage the economy
9 and say, if we have money flowing, it looks like with the
10 concept of the unified budget -- which I do not think is a
11 good concept, but it is here -- that we would be easing their
12 problems if at a later time we increased Social Security
13 taxes.

14 Mr. Stern. I think that that might be why it would be
15 easier to handle in the context of a Finance Committee bill,
16 because at the time you actually go to the Floor you will
17 have a bill that improves the deficit position, because the
18 amount of money you raise in this Social Security is going to
19 offset any additional spending.

20 The Chairman. Our bill would reduce the deficit. If
21 you take the kind of bill we are talking about, it would
22 reduce the deficit.

23 Mr. Stern. Yes, sir. Probably it would be several
24 billion dollars worth of increased revenues.

25 The Chairman. The bill, on balance, would reduce on a

1 consolidated budget basis, the bill would reduce the deficit.
2 It would move towards fiscal responsibility.

3 The only thing -- it would take care of both things
4 they recommend to us, but it does recommend a few things they
5 did not think of, and that being the case, insofar as we have
6 to go contrary to something they did not anticipate and
7 recommend it first, then we would have to persuade the
8 Senate that that was a good idea.

9 Obviously, if the Senate passed the resolution, they are
10 putting fine print in their Committee report. We fought the
11 bill before, and they lost. At least we have that much going
12 for us, precedent is on our side for that.

13 Senator Bentsen. Mr. Chairman, would you also work on
14 whatever we submitted on the long-term solution to the
15 problem of decoupling?

16 The Chairman. That would be part of it.

17 Mr. Stern. Up to now, we have only been talking about
18 what the Budget Committee did.

19 Senator Bentsen. I understand that.

20 The Chairman. Let us finish our discussion of the
21 Budget Committee. Is that all there is on the Budget
22 Committee?

23 Mr. Stern. Yes, sir.

24 The Chairman. I would suggest we just let it go the way
25 it is and take our chances on this. They have demonstrated



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to us that we do not control them, and our advice is purely discretionary. I think we can demonstrate the same consideration for them. We love them just as much as they love us.

Senator Curtis. Is that reciprocity?

Senator Bentsen. I would say that is true decoupling.

The Chairman. Why do we not go on to the next thing.

Mr. Stern. The next thing, Mr. Chairman, is Social Security financing. In the folder, you have a blue staff pamphlet.

Basically, you have two alternatives to the Administration's proposal, which the Administration proposal at this point, since you voted not to have general revenue funding, I suggest you just look at the alternatives.

One is the proposal --

The Chairman. What page are you on?

Mr. Stern. Page 38.

What is labelled on that chart as alternative proposal is really the Administration's proposal without general revenue funding and with the dates moved up. You remove the ceiling on wages that are taxed for Social Security, for employer purposes, but you can do it in calendar year '78 rather than the increased deficit the Administration proposed.

That makes up as much or more than the Administration recommended in general revenues. In order to have a little more money further down you move up the tax rate increase,



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which in the Administration proposal takes place in 1985.

We make that effective in 1981.

Basically, that is the alternative proposal, the Administration proposal number 1, without general revenue financing.

Number 2, without removing any funds from Medicare into cash benefits.

Number 3, changing the effective dates.

The other that is shown here is Senator Curtis' proposal in which the basic additional revenues come from a tax rate increase.

Senator Curtis. What page?

Mr. Stern. On page 38 there is a chart that really compares it. I do want to note that we think that the actuaries have understated the savings that are possible from a proposal relating to dependent's benefits, and that tends to show the Curtis proposal in the out years as being less than the Administration proposal.

We would suggest it is not. In fact, all three proposals do raise about the right amount of money.

If you look at chart number two on page 40, you will see these compared in terms of what the reserves are as a result of the next year's outgo and all three are in the same range. I do not see any significant difference in what these three proposals raise and what they do in the trust funds.

The decision really would be concerned with slightly



1 different amounts of money. All three are viable proposals
2 for dealing with the deficit and the amount of money that you
3 put in the trust fund.

4 Basically you rejected the Administration proposal of
5 the package by rejecting the general revenue financing, but
6 the alternative proposal, it consists of the same mechanisms,
7 but different effective dates.

8 I understand Senator Nelson wanted to raise a point.

9 Senator Nelson. Yes.

10 Mr. Chairman, when the Finance Committee, I think
11 unanimously, agreed in their posture of rejecting the Adminis-
12 tration's use of general funds to back up or support in any
13 way the cash benefit programs. My thought was when we
14 conducted the hearings that it was our responsibility to see
15 if some additional alternative could be worked out.

16 So, during the past month, Scott Ginsberg and a member,
17 a representative of HEW, have worked, and I have worked with
18 them. I briefly discussed this with the Chairman. I think
19 their proposal has been submitted to Mike for consideration,
20 which the Administration was for.

21 And it tackles the question by providing one, that you
22 would remove the limits in three steps on the wage base
23 taxes paid by the employer, in three steps starting in 1978,
24 '79 and '80; we would raise the base to \$25,000 in '78, to
25 \$40,000 in '79, and take the limit off in '80. But I would

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1 be inclined to leave a \$100,000 minimum.

2 Number two, the proposal would have rate increases in
3 addition to the scheduled one and those rate increases on the
4 employee and employer be .1 percent in 1981 and .3 percent
5 in 1985 and .6 percent in 1990.

6 Then we deal with the self-employment tax question, as
7 everybody else does. One provision of it would use general
8 fund money somewhere down the line, 1982, if there is no
9 cost containment; 1988 if there is, to support the hospital
10 insurance aspects. That is Part A. Starting in the earliest
11 in '82, because the additional taxes would be diverted and
12 knocked on to the hospital insurance fund.

13 With this, and some of the other provisions, you end up --
14 at the end of 25 years -- you end up with a balance of a
15 +.7 percent. In other words, the fund is secure; there is
16 a 50 percent balance in it, and we are in a position of a
17 +.7 percent of income over outgo.

18 In the 75 year projection, which gets pretty speculative,
19 but at HEW's figures, it would be a deficit of 1.8 percent
20 as contrasted to the current projections at current levels of
21 8.2 percent.



22 I think that all in all, we have gone through it several
23 times, we have looked at it. It is a pretty good proposal.

24 I would like to hand out this alternative plan, so
25 everybody can get a picture of what, in fact, it does.

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1 Let me say, as to the hospital insurance, I agreed, and
2 do agree -- although I used to think somewhat otherwise, I
3 do not, myself, want to support the concept of general funds
4 supporting the cash benefits plan. I would not like it for
5 any of them until we got around to national health insurance.

6 However, this does not violate any principals from where
7 we are now. Under Part B of Medicare, I am advised that now
8 the general fund this year is paying about 70 percent, of
9 the beneficiary, 30 percent of the premium, for that physician's
10 care. Next year, it will be 80-20.

11 On the hospital insurance side, it is 2 or 3 percent
12 general funds in it, so that you could divert -- what you are
13 really diverting is income that would otherwise go into the
14 hospital insurance fund starting at the earliest in '82 and
15 possibly as late as '88.

16 Under current financing, incidentally, if you did nothing
17 about the hospital insurance fund, it would be out of money
18 in 1988.

19 So that I pass this out. It has been looked at very
20 carefully, analyzed, evaluated, all the figures have been given
21 to us by HEW. The Administration would support this proposal,
22 I believe, although it did not clear the White House. Maybe
23 after everybody has had a chance to study it, maybe we can
24 lay it down beside the other proposal and see if we can come
25 of here with a plan that is not in deficit.

1 As I say, this one is not for 25 years. It is expected
2 to be 1.8 at the end of 75 years.

3 The Chairman. Let me say this. It seems to me that if
4 we would just vote for enough taxes to keep this program
5 solvent up until 1981, then if we vote for a tax increase, it
6 would go into effect in 1981, which should not be a difficult
7 thing to ask the Congress to do.

8 It seems to me that we could then have the program, in
9 effect, solvent by 1990 or thereafter. If we could get this
10 program to where we are projecting solvency as far as ten,
11 fifteen years ahead, we would be in pretty good shape.

12 At some future point, some future Congress will look at
13 this thing and tackle all the problems that are implicit in
14 it, and try to make it solvent from then on. But I personally
15 feel, as I indicated before, if we cannot get the Congress to
16 vote the money to finance, to pay for the benefits we are
17 hoping to achieve, you cannot get them to vote for anything.

18 In any case, I do not like them putting us in the
19 position of suggesting we use the income tax to pay for all
20 of this, to make the so-called general fund solvent before
21 you can theoretically -- you are supposed to have a surplus
22 before you transfer to Social Security or somewhere else,
23 make the general fund solvent.

24 You fellows should be able to come in to vote for a
25 \$60 billion tax increase. That is beyond the realm of any-

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1 anybody's idea. I have friends -- I think I have better
2 friends in labor than anybody here. They are good friends of
3 mine and I hope they can always be my friends, but I do not
4 see that we have to buy this assumption that they want to buy
5 that we are going to keep this replacement rate at some
6 given level and we are going to do it by paying it out of
7 the income tax rather than the Social Security tax that we
8 vote.

9 If they want to buy that -- and it does not make any
10 difference at all whether you try to buy it for many years.
11 When would be the date that we would have to find more money
12 in order to retain that replacement rate they are talking
13 about?

14 Mr. Stern. If you do the kinds of things you are
15 talking about in the short run, I think you could keep the
16 replacement rate constant for at least ten years.

17 The Chairman. As we are providing the dough for ten
18 years in advance, I do not know why we cannot -- if you have
19 the ways to find the money, if you do that, you have a few
20 other things going for you. One of them is you might get a
21 break on some of these assumptions.

22 For example, these assumptions, if I understand it, are
23 badly outdated as far as females working are concerned.

24 Mr. Stern. The program assumptions and the relation
25 between benefits for working women was really based on



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1 attitudes towards women working that are 30 and 40 years
2 old, and I think if you were to start a Social Security pro-
3 gram now, you would really not do it in quite the same way.

4 That is one area, I think, that deserves some thought,
5 and you might very well restructure benefits in a way that
6 we could save money.

7 Senator Moynihan. With the woman working, it is to
8 increase the income rather than the outgo of the fund?

9 Mr. Stern. Yes. Since they are mostly entitled to
10 the benefits on their husbands, benefits anyway, the incremental
11 benefit they can get is much less.

12 Senator Moynihan. The actuaries may, in fact, be over-
13 estimating the deficit.

14 Mr. Stern. No. I think their assumptions now are based
15 on women in the labor force. I was referring to something
16 different, namely you might well decide that a wife's
17 benefit, instead of varying with the amount of the husband's
18 benefit, may wind up being a fixed benefit, and that would
19 increase the value of a woman working considerably more.

20 That would be one way you might restructure the program.

21 Senator Curtis. Mr. Chairman, what I am about to
22 suggest has to do with the procedure here in this Committee
23 and I am not proposing it as a matter of delay, but just so
24 we could know what we are doing and, if possible, get every
25 Senator on the Finance Committee to participate.

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1 I would assume that most of us are agreed, the Chairman,
2 Senator Nelson, supporters of the Administration's plan and
3 myself, on three of the minor items: raising the tax on the
4 self-employed to a full one and one-half times the employee's
5 tax; and on the decoupling, there is something about that,
6 some alternatives there; and then on this problem raised by
7 the Supreme Court over the husband being entitled to benefits.

8 That can be reached by an offset against other Federal
9 programs, I think, or other programs. Probably there is not
10 much controversy there.

11 Now, the real controversy is, shall we take the Adminis-
12 tration plan, shall we take the Nelson plan, shall we take
13 the Chairman's plan, which would basically advance the date
14 for the increase of the tax on employers, or I have my
15 proposal that we would face the issue right now with a .3
16 increase in tax next year and an additional .2 the following
17 year.

18 I wonder if a good procedure would not be, after we
19 discuss it today, and somebody else may have a plan, that the
20 staff reduce to just as few sentences as they could, those
21 three plans and set up a specific time tomorrow to vote on
22 them, and see what the will of the Committee is.

23 There is just barely a quorum here now. I think we
24 should go ahead and discuss it.

25 Senator Nelson. Voting tomorrow?

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1 Senator Curtis. If, after we discuss this, and the staff,
2 with concurrence of the proponents, would get out a statement
3 just as briefly as they could about each of the alternatives
4 to vote on and then set up a specific time to vote, and get
5 that summary in their hands and there is a time that it is to
6 be voted on, and get as near a full Committee here, and work
7 the will of the Committee.

8 Senator Nelson. We are talking about tomorrow?

9 Senator Curtis. I am not definitely fixed on what day
10 it should be, but sometime soon.

11 Senator Nelson. I am prepared, but I have spent off and
12 on over a month on this alternative, so I have the advantage
13 of knowing what is in that aspect of it. I do think if
14 people had a chance to look at each of these over the week-
15 end, that your suggestion would be a good one.

16 But to ask somebody to go through something that HEW
17 has run through computers and we have been discussing in
18 one day --

19 Senator Curtis. What would be the will of the Committee
20 here? I am willing to cast proxies of absentees on such a
21 basic question, and also I think the members would like to
22 look at the proposition to see what the alternatives are.

23 The Chairman. I would like to see us just nail down
24 as many things as we can and sometimes you do it better by
25 just taking items that are not too controversial.

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1 Let me ask you this. Can we agree here that we ought
2 to have a decoupling? Can we settle that part of it?

3 That is one point.

4 Senator Bentsen has been saying all along whatever you
5 do, you should do the decoupling part of it. Are there any
6 problems on the decoupling?

7 Mr. Stern. The question is, how much money you want to
8 put back into the program. The decoupling saves you money,
9 but it causes the benefits to decline steadily over a period
10 of time.

11 The decoupling part of it, everybody agrees on how you
12 decouple. The whole question is, what do you do then? Main-
13 tain a replacement rate? Maintain it at the rate it is now,
14 what it was in 1970?

15 The Chairman. If we vote to decouple, that moves us to
16 the next step. Can we agree on it?

17 All in favor, say aye.

18 (A chorus of ayes.)

19 The Chairman. Opposed, no?

20 Senator Danforth. Mr. Chairman, what do we mean by
21 decoupling? What are we going to keep, the price indexing or
22 wage indexing?

23 The Chairman. That is the next step.

24 Senator Danforth. We just voted to do something.

25 Mr. Stern. You just voted in an increased cost of living.

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1 The only people it affects are those already getting benefits.

2 Now, the question is, what are you going to do with all
3 the people retiring in the future?

4 The Chairman. That is going to be harder to decide.

5 Senator Curtis. Let us decide it right now.

6 The Chairman. There are a couple of other things.

7 Senator Nelson. The self-employment tax. I think
8 everybody has agreed on the principle of putting it at 1.5
9 times the regular rate.

10 The Chairman. Is there objection?

11 Without objection, settled.

12 What is the other point?

13 Senator Nelson. As of 1981, in the alternative proposal
14 I do not recall what it was in yours; the effective date
15 on the proposal I would have is 1981 --

16 Senator Curtis. We can move the date around.

17 The Chairman. What other point is there?

18 Mr. Stern. The one Senator Curtis raised, the
19 dependency test.

20 Under the law, a woman does not have to prove her
21 dependency on a man in order to get widow's benefits or
22 wife's benefits, but a man does have to prove his dependency
23 on a woman. And since that has been knocked out in the
24 courts, it has opened up a fairly expensive situation where
25 a man who simply was not under the Social Security system



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1 because he was a mailman, or something like that, and his
2 wife was under the Social Security system, he is now able
3 to draw benefits even though he in no way was dependent upon
4 her.

5 The Administration has a proposal; we have another one.
6 Their proposal is based upon an income test and our proposal
7 was based on simply reducing benefits, dollar by dollar, based
8 on whether they get benefits from any public pension program.

9 It is an offset. In the case I mentioned, if the hus-
10 band, in fact, is getting a Civil Service retirement benefit,
11 that is probably going to be more than the Social Security
12 benefit he would be entitled to.

13 Senator Curtis. In other words, that is the only group
14 where it is a real dollar issue, because if both husband and
15 wife are under Social Security, the husband has to elect
16 between his own benefits, or his benefits as a spouse, anyway?

17 Mr. Stern. That is correct.

18 Senator Curtis. The only major places where it is in
19 any significant financial interest is where the wife is on
20 Social Security and the husband is not. And what you are
21 proposing is that he not be denied the survivor benefits,
22 but they be offset on any other public plan supported by
23 taxation?

24 Mr. Stern. That is right. It would either be Federal
25 Civil Service or state and local Civil Service.

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1 The Chairman. As I understand it, the Secretary of
2 HEW tells me that the Administration recommendation would
3 save more money. Would you mind explaining why?

4 Mr. Stern. We have tried to find out why they think
5 that. As far as I can tell, the reason is there is one body
6 of data that the actuaries have on public pensions; there is
7 another body of data that they have on income, and the two are
8 inconsistent with each other, and they come out with differ-
9 ent numbers, because in fact, programatically it is very
10 difficult to conceive of a type of case where they would not
11 fall under both categories.

12 We would think, in fact, for our test, because the test
13 that they are proposing is a one-time test, and subject to
14 a manipulation of income.

15 Perhaps somebody in the Administration wants to speak
16 to that?

17 Mr. Thompson. There are several factors. There will be
18 more people hit by the dependency test than the pension
19 offset. There will be cases where the pension offset would
20 not trigger, and the dependency test would trigger.

21 There is a second consideration, which is the pension
22 offset is calculated at the time that the benefit is first
23 awarded and then not adjusted, so as cost of living increases
24 occurred, the Social Security benefit, such benefit as is
25 left, rises.

1 Senator Curtis. That latter point could be provided
2 for.

3 Mr. Thompson. With a lot of complexities, it is
4 possible to work something out.

5 Mr. Stern. I wonder what kind of cases you are talking
6 about? That is the difficult thing. We could not see what
7 kind of cases you are talking about that are covered in the
8 Administration's proposal that are not covered in this one.

9 Mr. Thompson. I do not think I can tell you. We can
10 theorize as to what kind of cases there are. I cannot tell
11 you from the data what cases there are.

12 Mr. Stern. We could think of a lot of cases that would
13 work the other way, where you could manipulate the income
14 in the three years before retirement so as to meet the depen-
15 dency test under the Administration's bill, where in other
16 cases it would be reduced, dollar for dollar.

17 Senator Curtis. Let me ask a question. This involves
18 retirement, it does not involve benefits paid by reason of
19 the fact that the survivor is left with minor children? Is
20 that correct?

21 In other words, if a wife were under Social Security and
22 she dies, there are minor children, and the benefit is paid
23 to the surviving spouse for the benefit of the children.
24 This proposal would not affect that? It affects the retire-
25 ment as they could draw as the surviving spouse?

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Mr. Humphreys. It would not affect the payment made for the children; it would affect the payment made for him to enable him to stay home with the children if he had his own retirement benefit also.

Senator Curtis. If he had not reached retirement age?

Mr. Humphreys. If he did not have a benefit, no.

Senator Curtis. In other words, it would never come back down. The family benefit, by reason of either the wife or husband, would not be cut down by your proposals?

Mr. Humphreys. That is right.

Senator Curtis. The savings would come out of the benefits paid at the time of retirement, with the exception of those few cases where the husband was on retirement, and there still are minor children?

Mr. Stern. Yes.

Senator Dole. What do they estimate as to be the difference in cost?

Mr. Humphreys. In the early years, the first five years, the difference is between \$2 and \$3 billion. Their estimates go up more, so over a ten-year period, I think they estimate an \$8 billion differential cost.

Senator Curtis. Between the two plans?

Mr. Humphreys. No, cumulative over the ten years.

Senator Curtis. That much between the two proposals



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or between doing something and not doing something?

Mr. Humphreys. Between the two proposals.

Senator Curtis. This is the difference we cannot understand. We have talked with Bob Marters, who is consultant to the Committee, and he cannot see any reason for the difference of any significance.

Senator Dole. What are some of the cases you theorized?

Mr. Thompson. There is a theory factor, and the actuaries have to make certain assumptions about the enforceability, and they have assumed that a dependency test is much more enforceable than a pension offset, and so that a pension offset requires the perspective beneficiary to self-declare the pension, which can then trigger the loss of his benefit; where the dependency test requires a positive action in order to get the benefit, you have to file the forms.

And I think that also affects the differential in the cost, the assumptions of enforceability.

Mr. Humphreys. One of our problems with the Administration's proposal is that it is very manipulatable. If somebody is close, you are either in or out for dependents benefits. If somebody is close, by stopping work for a couple of months or something like that, they can play the system and they can qualify, where somebody who is not that smart might not do it.

As I understand it, the Social Security actuaries did not

1 include any assumptions as to how much they might lose in a
2 savings of that kind of manipulation.

3 Mr. Thompson. I think that is fair.

4 Senator Byrd. A military retirement would be considered
5 an offset?

6 Mr. Humphreys. Yes.

7 Senator Byrd. Railroad Retirement?

8 Mr. Humphreys. Yes.

9 The Chairman. Let us just leave that. Let us just
10 not decide that right now. Let us just pass over and we will
11 talk about it later on, and I would think that the staff could
12 hopefully get us a memo on some of the issues, some of the
13 alternatives that are available to us, and everybody go home
14 and study it and think about it and maybe come back here.

15 If the Senators cannot decide which approach they like
16 better, we can see where we go.

17 I think my position is fairly clear. I think my vote is
18 for the Administration's tax, if they are recommending it.
19 I would take the Curtis approach ahead of their deficit
20 financing, which I think is very irresponsible.

21 I guess the Curtis amendment would not be my first
22 choice, but my second choice. I would vote for it ahead of
23 what the Administration is suggesting here, on that part of
24 it, anyway.

25 I guess that is all we can do with Social Security now,

1 or is it?

2 Is there anything else we can nail down?

3 Mr. Stern. I think everything else in the Social
4 Security area can only be resolved by a vote.

5 The Chairman. That is a big item to vote on.

6 Senator Curtis. I would like to raise a point. The
7 reason I am raising this right now is because at one time it
8 was offered on the Floor and it was under those conditions
9 with Senator Proxmire opposed the consideration of any
10 amendment that had not been considered before the Committee.

11 When we get to this major item, I do not think we should
12 bother about it, I will just mention what it is. If an
13 employee works for several employers, then he has withheld
14 more tax on more wages than he has supposed to have, he can
15 get a refund. But if the employer is the same parent employer,
16 for instance, if the American or Nebraska Automobile
17 Association, they have a separate unit that is a casualty
18 company and a separate unit that is membership, if they have
19 a salesman that works for two or more of those entities,
20 and they pay him more than \$16,500, he can file and get back
21 what is in excess of what is taxed him, even though it is
22 the same ownership. The employer cannot.

23 I do not want to press it right now, but I would like
24 to raise it.

25 Mr. Stern. This is something that the Committee has



1 approved in the past. It becomes not important, of course,
2 if you eliminate the ceiling.

3 Senator Curtis. Yes. That is the reason I am not
4 pressing it now. I am just giving notice.

5 Senator Nelson. Everybody agrees on decoupling, but there
6 are various levels. I trust you will have all the facts on
7 the cost implications.

8 I think decoupling fundamentally is probably the most
9 important thing we will do in this bill. I will simply say
10 to this alternative that I passed out, the proposal is to
11 decouple at the present rate of 1976.

12 Now, the Administration is going to allow it to be as
13 of 1979, when we get there. I believe Mike feels that you
14 should reduce that replacement rate below the '76 level.

15 Mr. Stern. My feeling only is that I would recommend
16 whatever you do in the long run, it ought to come out in
17 actuarial balance. If you decide you want to maintain the
18 replacement rate at the '76 level, then you should do it
19 until you cannot afford to do any more, which I believe is
20 for about ten years, and then let it drop after that.

21 At least next year, when the actuarial report comes
22 in, there will not, in the newspaper accounts, of how the
23 Social Security fund is still going to go bankrupt at some
24 future date. Whatever you do, that it pays for itself, and
25 you can maintain whatever rate for ten years.

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next ten years. It works out exactly the same, and the only thing it takes to make it better, the more promising politicians come along in the next decade, they will just vote through a tax. That does not leave us in a difficult situation as the state of Louisiana was where our legislature voted to promise all these pay raises to schoolteachers. They voted it all, but they did not vote for a tax to pay for it, so every year there are parades and bonfires and everything on that legislature to pay us that money you owe us, you irresponsible politicians.

I am just trying to save everybody from going through all that pain forever. During the next ten years, nobody will know the difference, and sometime in the interim, all we have to do is vote for a tax. Then you can promise more; just pay for it.

If we depart from that, we will rue the day. We will just get ourselves into a difficult situation.

I have been through a lot of these things where we have made too many promises. Suppose we turn now to see if there is anything more we can do about moving along to this next item, Public Assistance amendments.

Senator Hathaway. I have a couple of amendments to Social Security. I do not think they will be controversial.

The Chairman. All right.

Senator Hathaway. One is to do for the Social Security



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1 recipient what we do for veterans now. If at the end of the
2 month falls on a Saturday or Sunday, they mail out their
3 check two or three days ahead of time so they will be sure
4 to get it on Friday.

5 You know, people in the lower incomes, it is extremely
6 important that they do not have to wait for the following
7 Monday. They are probably out of dough before that week-end
8 comes up.

9 They do that for veterans. It passed last year. I think
10 we ought to do the same thing.

11 The Chairman. Does anybody see any problem there?
12 Senator Hathaway. I have it drafted here someplace.

13 The other one --

14 The Chairman. Is there anybody in the Administration who
15 has a problem with that?

16 Mr. Thompson. We generally do it now.
17 Senator Hathaway. Good.

18 The Chairman. All in favor, say aye?
19 (A chorus of ayes.)

20 The Chairman. Opposed, no?
21 (No response)

22 Senator Hathaway. When there is a biannual 3 percent or
23 more inflation rate, that we make the adjustment every six
24 months rather than every year, so that the recipient gets that
25 benefit twice a year rather than once if the inflation rate

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1 goes above 3 percent.

2 Also, I think we ought to have some kind of review on
3 the price index that is used for Social Security recipients,
4 to concentrate more the things that people are buying rather
5 than the general price index.

6 Senator Curtis. Are we coupling or decoupling?

7 Senator Hathaway. This has nothing to do with coupling
8 or decoupling. It is doubling, not coupling. Same thing.

9 Mr. Stern. I would think there would be a cost associated
10 with that. You would be moving up benefit increases.

11 Senator Hathaway. At the end of the year you are going
12 to give them the benefit anyway.

13 Mr. Stern. I was thinking about part of that.

14 Senator Hathaway. They will get it a little sooner.

15 Senator Curtis. Does it also work like compound inter-
16 est, the subsequent percentage? I would rather draw 3
17 percent interest every six months compounded than 6 percent
18 annually.

19 The Chairman. Why do we not pass over that now and
20 think about it later on.

21 Let us turn, then --

22 Mr. Stern. The two items you had left, the first item
23 relates to the treatment of the territories under the Social
24 Security Act, welfare and social services programs. And you
25 have two remaining issues for Committee consideration.

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1 The first issue relates to the treatment of territories.
2 The most significant fiscal impact relates to Puerto Rico.

3 Basically, both the program of Aid to Families with
4 Dependent Children and social services, you have the overall
5 dollar limitation by territory, a Federal matching rate of
6 50 percent. The proposal that was pending -- I should say--
7 the House bill -- extends the SSI program to the territories
8 at a cost that runs up to \$185 million for a full year.

9 And the alternative that you are considering, at the
10 time you last discussed this, was number one, increase the
11 50 percent Federal matching rate to 65 percent; and number
12 two, increase the dollar amount limitations by territory,
13 by 50 percent.

14 There is a table on page 2 of this document that shows
15 both the states and the territories per capita expenditures
16 for SSI, Food Stamps and AFDC, and you can see that the
17 territories do come out significantly higher. In the case of
18 Puerto Rico, it is \$173 of Federal per capita expenditure
19 for these three welfare programs. The highest state is the
20 District of Columbia, \$137.

21 The Chairman. The Federal expenditure for the District
22 of Columbia, is that not sort of a different situation? That
23 is because it is the Federal government, is that not part of
24 it?

25 Mr. Stern. Perhaps it is, because the District of

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1 Columbia is only a city, and more comparable to other cities.
2 In terms of amount of money spent, it is probably anomalous
3 because it is a city.

4 The Chairman. Is this what it would be if it passed?

5 Mr. Stern. This is present law, actually -- fiscal year
6 '76.

7 The Chairman. If we pass what we are talking about, where
8 is that?

9 Mr. Stern. You can see that Puerto Rico, under
10 SSI is \$3.5 million. That is not SSI, but aid to the blind
11 and disabled. Puerto Rico under the SSI program here, instead
12 of \$3.5 million in that column 2, it would be \$185 million.

13 The Chairman. What is the population of Puerto Rico?

14 Mr. Stern. 3,214,000. Roughly speaking, that would
15 increase \$173 to \$235.

16 Senator Byrd. You are going from \$3.5 million to
17 \$185 million?

18 Mr. Stern. That is what the House bill will do.

19 Senator Dole. How would the benefit compare with, say,
20 the benefit in New York?

21 Mr. Stern. The benefit would be \$102 in Puerto Rico
22 compared with about \$178 in Federal benefit, which is nation-
23 wide. In other words, in the 50 states, it is \$178. It would
24 be \$102 in Puerto Rico.

25 Senator Dole. What is that based on?

1 per capita basis, what we are suggesting? Will that increase?

2 Mr. Stern. Well --

3 The Chairman. Would it increase the amount they get and
4 the matching? What does that do for them?

5 Mr. Stern. Probably about \$4 per capita.

6 The Chairman. \$4 per capita. That is because a
7 relatively small percentage of the people are disabled.

8 Mr. Stern. That is right, and the same is true with Aid
9 to Families with Dependent Children. The payment levels are
10 very low. You are enabling them to make an increase in the
11 amount that they pay. It would not be anything like the
12 universal applicability.

13 Senator Matsunaga. Mr. Chairman, I think with reference
14 to Puerto Rico, the Virgin Islands and Guam, taking just the
15 case of Puerto Rico, just looking at the total figure and the
16 per capita figure, it might be misleading for this reason.
17 The SSI exception provision of H.R. 7200 is not a wholesale
18 giveaway of welfare funds to the territories for broadbased
19 welfare programs. Rather, the bill is narrowly focused.

20 It simply entitles the aged, the blind and the disabled
21 Americans benefits proportionate to those received by those
22 received by citizens residing in other areas of the United
23 States.

24 In Puerto Rico, the elderly citizen receives only \$19 a
25 month under the old categorical assistance programs, while his

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1 counterpart in Mississippi, the state with the lowest per
2 capita income, received \$167 per month under SSI, which abolished
3 the categorical aged, blind and disabled programs in 1974.

4 The argument that the resident territories should receive no
5 increase in Federal benefits because they pay no taxes into the
6 Federal Treasury has no application to SSI, since SSI is for
7 citizens who are aged, blind and disabled, and these are the
8 ones who do not pay any taxes whether they live in New York
9 or Hawaii or Louisiana or wherever it may be. They do not
10 pay taxes.

11 And the important issue, I believe, is that of equal
12 treatment of the aged, the blind and the disabled citizens.

13 The Chairman. Let me invite your attention to two states
14 that are comparable in population. Louisiana is a pretty big
15 welfare state. At one time, we were known as the welfare
16 state. I guess Puerto Rico probably displaced us, or maybe
17 New York has by now. At one time, Louisiana, with a mere 2
18 percent of the population, was succeeding in paying out more
19 money for the aged people than New York with those vast,
20 burgeoning numbers up there.

21 So here we are, with little Louisiana being a great
22 welfare state. We are paying taxes for liberality, and our
23 Food Stamp program, \$151 million.

24 Look down here in Puerto Rico. They have less population
25 than we have -- \$540 million. And that \$540 million, that

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1 exceeds everything we in Louisiana had managed to lay our
2 hands on for any purpose.

3 We have a lot of people in Louisiana who would like help
4 too. If you add it all up, they are doing very, very well
5 indeed.

6 We are getting \$103 per capita, all things considered,
7 and they are getting \$173 per capita, a lot more than we are
8 getting already.

9 I am suggesting that we increase it for them.

10 If, in Puerto Rico, they can put 75 percent of their
11 people on Food Stamps with the number one useful purpose of
12 putting the SSI down there, to show how many people they can
13 qualify as disabled, with the unemployed on that island, they
14 can claim the benefit. That program right now is out of
15 control.

16 When we started changing over from the Federal-state
17 matching program, you had 1 percent of the population classi-
18 fied as disabled. What is it now? 3 percent is the last I
19 heard.

20 Senator Matsunaga. Mr. Chairman, the SSI, the initial
21 number is projected to be 135,000, which will amount to about
22 4 percent of the population, which is equal to the national
23 average of 4 percent in the fifty states.

24 The Chairman. Mark my word, that is not a safe assump-
25 tion at all. With the high unemployment they have down there



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1 and all the people who are going to feel that they cannot get
2 a job compared to others, with the high unemployment they have
3 and suffering any degree of handicap, you are going to have
4 those people coming in and saying they are disabled.

5 Once a person convinces himself he is disabled, it is not
6 at all likely to convince everybody -- it is not that difficult
7 to convince everybody else he is disabled. As I understand
8 the record in the Department itself is, those whom the
9 Department finds disabled, I have never seen anybody say there
10 is any problem with what the Department finds disabled. If
11 they lose it, they take appeal, and when they take it to court,
12 there is 50 percent.

13 Senator Matsunaga. Recipients will still need to meet
14 definite, established qualifications in order to participate
15 in the SSI program. What you are saying, Mr. Chairman, that
16 there would be no administration of the program. I think there
17 we can correct that by stringent oversight.

18 But what we are concerned with is legislating to treat
19 all the blind, disabled equally.

20 Senator Dole. They are not treated equally anyway. They
21 get less of a benefit in Puerto Rico than any of the other
22 test states.

23 Senator Matsunaga. Now they are getting \$19. That is
24 all they are getting, and the cost of living in Puerto Rico
25 has been calculated to be higher than in Mississippi.

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1 Senator Curtis. How much of an increase does this give
2 Puerto Rico, the proposal before us, percentagewise?

3 Senator Dole. You cannot compare it that way, because
4 they do not have the same level of benefits now,

5 Mr. Stern. About a 5000 percent increase. It goes
6 from \$3.5 million to about \$185 million.

7 Senator Matsunaga. Would not the Food Stamp program be
8 cut down because of the increase in SSI benefits?

9 The Chairman. No.

10 Mr. Stern. I think the answer is no if the Food Stamp
11 bill gets through.

12 Senator Byrd. What is the total Food Stamp cost for
13 fiscal '76?

14 Mr. Stern. Approximately \$5.4 billion.

15 Senator Byrd. This is 10 percent of that total.

16 Senator Curtis. You say this would be a percentage
17 increase of 5000 percent? How much of a percentage increase
18 would it be for an individual recipient?

19 Mr. Stern. For an individual recipient, I am not sure
20 you can use the \$19 figure. I think that is the average
21 benefit. I do not know what the standard is. Perhaps it is
22 \$35, so it would increase it three. It is \$102.

23 Senator Matsunaga. \$102.

24 The Chairman. What we are talking about for Puerto
25 Rico, that applies -- if you take the AFDC approach, or take

1 the dependency approach, that would apply to the aged and the
2 disabled, is that right, for that program?

3 Mr. Stern. That is right.

4 The Chairman. Can you tell me what we are paying to those
5 people right now for aged and disabled, what they are putting
6 up?

7 Mr. Stern. I believe they are putting up about \$24
8 million and getting about \$24 million in Federal funds. What
9 does not show up in the first two columns here is the adminis-
10 trative cost, but we were told by someone from Puerto Rico
11 that they are already at just about the \$24 million level, as
12 between AFDC, aid to the aged, and the administrative process
13 associated with the 50-50 money.

14 The Chairman. I was thinking that it would be all right
15 with me to work it out so they can get twice as much, but what
16 we are proposing ought to be assuming they put up no more
17 money, that they would get an extra \$24 million. Is that it?

18 Mr. Stern. We would be giving them 50 percent more
19 money, and a 65 percent matching. You are actually giving them
20 about twice as much, because you are increasing the total
21 amount of money by 50 percent, but you are providing 55
22 matching, which is almost two-thirds, rather than 50 percent
23 matching.

24 So the two-thirds matching at one-and-a-half times comes
25 out to be a doubling.



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The Chairman. How can you give them 50 percent more money and work out where it is doubling?

Mr. Stern. You have increased the matching rates. Instead of the Federal government paying 50 percent, they will be paying 55 percent of the higher total.

The Chairman. Are you raising the total, or is that open ended?

Mr. Stern. You are not. You are raising the total.

Senator Curtis. That is assuming the local interests will continue to raise the same dollar amounts.

Mr. Stern. That is right. In other words, 50 percent of \$48 million is \$24 million. That is where you are now. It is because the \$36 million is an overall limit, they have to put up less money to get the \$36 million, but it is only a 50 percent increase. That is correct.

The Chairman. Here is what I am thinking. Could we work those figures out so that Puerto Rico gets twice as much? If we do that, you will then go -- if you get up to \$96 million, I guess you would be giving 75 percent matching.

Mr. Stern. If you want to give them twice as much money, you could raise the figure to \$48 million.

The Chairman. I thought \$48 million was what you had right now?

Mr. Stern. I mean the Federal share. Right now, you have \$24 million Federal and \$24 Puerto Rico.



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1 The Chairman. That is \$48 million.

2 Mr. Stern. If you made it \$48 million and \$48 million --
3 well, you would not make it \$48 million and \$48 million; you
4 would make it \$48 and about \$24 million, and that would keep
5 the \$24 million constant.

6 The Chairman. I am talking about something different.
7 If you started off and say why can we not provide them enough
8 money where they can do twice as well as a beneficiary unless
9 they want to double it, you start out saying, if \$24 million
10 in Puerto Rico money against \$24 million Federal money.

11 Mr. Stern. If you change that three for one --

12 The Chairman. A three to one ratio, then that gives
13 us \$96 million, a \$48 million increase over what they are
14 getting.

15 Senator Curtis. May I ask a question?

16 Senator Matsunaga. The recipient would get double?

17 The Chairman. We would double it. Puerto Rico would
18 not be required to put up matching funds for the additional
19 19.

20 Putting the same thing as they are putting up now and
21 they get twice as much.

22 Senator Moynihan. I think that is a very fair-minded
23 proposal.

24 Senator Curtis. I want to ask a question. They have
25 local administration, I assume?

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1 Mr. Stern. Yes, sir.

2 Senator Curtis. And when we go from 50 percent to 75
3 percent, we are changing it. Is there any way that you could
4 increase the amount of actual help the needy would get down
5 there without going to 75 percent? That exceeds any matching
6 formula in the states.

7 Here you have an economy that is geared and thinking in
8 terms of welfare and benefits and so on, and up to now they
9 have to bear half the cost. Does any state in the union get
10 more?

11 Mr. Stern. In SSI, in most states, I would assume that
12 the Federal matching is 75 percent, or higher. AFDC would
13 only be a couple of states where there would be 75 percent.

14 Senator Curtis. Not for most states?

15 Mr. Stern. Not for most states.

16 Senator Curtis. Is there any other formula that you
17 could come up with that would actually help the needy of Puerto
18 Rico without the temptation for a runaway situation of the
19 administration?

20 Mr. Stern. The reason you would not have a runaway
21 situation you would assume because you have a flat dollar
22 figure.

23 The Chairman. What is our matching rate on social
24 services?

25 Mr. Stern. In general, it is 75 percent.

1 distributed benefits, which is rather different than increasing
2 the amount of money for Puerto Rico totally.

3 Senator Matsunaga. Mr. Chairman, I do not wish to delay
4 things by being adamant on this. I can see where we are going
5 to be stuck on this unless we strike a compromise.

6 I would be willing to compromise on the proposal the
7 Chairman made that we double the recipient's amount without
8 requiring Puerto Rico to come up with matching funds.

9 Senator Moynihan. If I could say, Senator Matsunaga
10 and Senator Dole have spent a very long time on this. I think
11 your proposal is a very reasonable proposal.

12 Mr. Stern. We only suggest the effective date be the same
13 as the House bill, April 1st.

14 The Chairman. All in favor, say aye.

15 (A chorus of ayes.)

16 The Chairman. Opposed, no?

17 (No response)

18 Senator Curtis. Do we have a budget problem over any
19 of these, a problem with the Budget Committee over any of the
20 parts of the welfare proposal?

21 Mr. Stern. The problem is not over any specific part,
22 it is just how much your bill costs by the time you are all done.

23 Senator Curtis. In this staff paper, on page 3, down
24 about the fourth paragraph, that is all taken care of, is it
25 Mike? Paragraph 4, page 3.



1 Mr. Stern. Of the Budget document? Yes.

2 Senator Curtis. I am talking about the total of the
3 bill.

4 Mr. Stern. The total of the bill, you are about \$400
5 million too high. If this is the appropriate time that I could
6 make a suggestion to you for an amendment that would save
7 \$400 million as recommended by the Administration, it deals
8 with retroactive Social Security benefits.

9 When a person comes into benefits now and he is aged
10 65 or 64, he can get up to a year's retroactive benefits in
11 one check, and then simply have reduced, actuarially reduced,
12 benefits thereafter. Over the long run, actuarily, it ought
13 to work out just the same.

14 The President has proposed, as President Ford did before
15 him, that the retroactive benefit feature not be allowed and
16 there are good programmatic reasons for that. It is not only
17 a budget savings, but a person otherwise gets a big check and
18 then forever after has reduced benefits. If you do that, you
19 make it effective at the beginning of the fiscal year. You
20 can save \$400 million.

21 Senator Curtis. You say, if they do not apply at age
22 65?

23 Mr. Stern. A person comes in and he is age 65 or
24 less and right now he is able to say, I would like benefits to
25 go back a year, assuming he was eligible during that period, and

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1 give me one check with twelve months worth of benefits in it,
2 and from now on I will take an actuarially reduced benefit, as
3 though I had applied for benefits when I was a year younger.

4 Senator Curtis. It would only apply to those who would
5 elect to ask for retirement benefits under 65?

6 Mr. Stern. As a practical matter, yes.

7 Senator Curtis. There is another side of that coin that
8 raises a very serious problem and I have one case -- I have
9 introduced a bill that has not been printed. A man, after
10 considerably inquiry, elected not to take his retirement. I
11 think he worked to about 69 or 70, and he got an increased
12 benefit. He just drew a month or two, and died.

13 His wife, the widow's benefit, is based not upon his
14 increase, but they go back to age 65, which seems quite
15 inequitable to me.

16 Mr. Stern. The proposal we are suggesting here is just
17 the one that saves money.

18 The Chairman. We have Senator Curtis' amendment that
19 provides pretty strong disagreement in philosophy, and it
20 seems that staff has to suggest something that might help
21 bridge the gap and help us come together.

22 Would you mind explaining the staff suggestion? I think
23 that is a compromise of the Curtis amendment.

24 Senator Matsunaga. Before we go to it, Mr. Chairman,
25 I am assuming that the application of the last amendment would



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be to Guam as well as to the Virgin Islands.

The Chairman. Yes, without objection.

Mr. Stern. That is right. We also should suggest we put this provision in effect for the Marianas.

The Chairman. Without objection, agreed.

Senator Curtis. In reference to this recovery of the \$400 million --

Mr. Stern. We would suggest that it would be effective at the beginning of the fiscal year so you would get the full \$400 million. At that point, you are then in conformity in H.R. 7200 with the Budget Resolution.

The Chairman. Does everybody understand? The President recommended, which is sort of a windfall type thing, an unintended thing that people take advantage of? Does everybody understand what he is talking about?

Senator Byrd. A one-year savings.

Mr. Stern. It saves \$400 million the first year, I suppose it saves somewhat less as you go on, and then it does not save anything any more.

Senator Nelson. Actuarially, it does not save anything.

Mr. Stern. That is right. You are really giving that person the average of the benefits back.

Senator Nelson. It really only applies to people who are between 62 and 65.

Mr. Stern. That is correct.



1 Senator Nelson. If you are over 65, that is the base
2 rate, but if you decide to draw at 63 for one year back, you
3 get your benefits permanently based upon the 62 base rather
4 than the 65 base?

5 Mr. Stern. That is correct.

6 The Chairman. Without objection, that is agreed to.

7 Suppose you explain to us what the staff is suggesting
8 here as an alternative to the proposal of Senator Curtis?

9 Mr. Stern. This really relates to access to information,
10 and Senator Curtis has proposed a fairly broad access to
11 information including non-Federal as well as Federal records,
12 and the suggestion we would make is, at this time we would
13 give authority to the states to verify earnings information
14 whose records are maintained by Social Security or state
15 employment security agencies.

16 That is based on the thought that the majority of the
17 information you want to get will be from those two sources.
18 That is really what the hearings related to, and this is
19 something that is under Federal control, and you know really
20 exactly what you are giving access to, and see how far that
21 takes you. If it is still necessary to go further for
22 information --

23 Senator Curtis. The proposal I made, I intended that
24 the Federal government grant the states the right to do this
25 if they want to. All it does is amount to a withdrawal of



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1 any Federal objection.

2 Mr. Stern. It amounts to a withdrawal of Federal
3 objection that could override other state law, including
4 state privacy acts, and so on.

5 Senator Curtis. As regards to Federal law?

6 Mr. Stern. The Federal Privacy Act protects Federal
7 records, but it does not affect state records.

8 Senator Curtis. But if we made it optional with the
9 state, and their legislature comes to the decision they want
10 to stand by their privacy laws, we have not forced anything
11 on them.

12 Mr. Stern. The situation, I think, could be that the
13 state welfare agency would, notwithstanding state law, have
14 access to state information. That is the difference.

15 Mr. Swoap. There is the observation the state legisla-
16 ture is really in the controlling position on that. If they
17 want to preclude themselves from doing so, they could do
18 so.

19 Senator Curtis. Mr. Galvin, did you have a proposal in
20 this area?

21 Mr. Galvin. The only thing -- your biggest problems in
22 overpayments and ineligible cases is the earned income side of
23 it. There are two suggestions in here about how to verify
24 income. At the present time, there are only about eight states
25 that are doing that. They are doing that by going to the wage

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would say that the state may request information?

Mr. Stern. That is right.

Federal agreement to make that information available.

The Chairman. The Federal government offers to make the information available. You are saying you think the states ought to request it?

Mr. Galvin. The income information, which is from the state wage boards and the Social Security wage records only on the income. The others can be optional.

Senator Curtis. Keep the rest of my proposal as optional.

Mr. Swoap. Other records involved are IRS records. I might point out that there are other kinds of data that are very important to eligibility determination. For example, a stepfather may be claiming children as dependents on his income tax return, but there is no way to verify whether he is doing that, whether the welfare mother, in turn, is receiving the full benefit based on the support of those children.

So that it is important to access other kinds of records for other kinds of information, other than income, and that is why we have school records in there, in order to verify the existence of the children. That is why we have automobile vehicle registration in there to verify address, because the multiple address is often an indication that there is someone else supporting the mother.



1 That is why we have IRS in there, so we can access
2 dependency information.

3 Senator Curtis. I think those things are important. If
4 it is just optional at the state, we ought to give them every
5 weapon they can to carry out honest enforcement. It will make
6 more money available for the real needy and will not hurt
7 anybody.

8 Senator Moynihan. Mr. Chairman, I would have to say that
9 Senator Curtis knows I share his concerns here. I think the
10 staff recommendation is one that the Senate will understand
11 better.

12 We are dealing with the Social Security Act. We are
13 saying certain benefits in the Social Security Act makes it
14 fair to expect someone applying for benefits, knowing that
15 information collected will be checked and the unemployment
16 compensation is an income maintenance provision.

17 We are in an area where the government is setting one
18 set of income maintenance records against another. We have not
19 gone into a field where everyone is wondering what in the
20 devil are we doing, turning the IRS files over and school
21 records?

22 I think I would like to stay to a remedy that is
23 proportionate to the request. Staff has made a sound proposal.

24 Senator Curtis. The way this has been proposed, the
25 state welfare agency would get to look at the entire income

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1 tax return, or if they would make a request to say, what
2 dependents and the names and ages of such and such a taxpayer
3 were claimed.

4 Mr. Swoap. Yes. This was explained on page 4 of the
5 staff document, "only to the extent needed to determine or
6 verify AFDC eligibility or payment amount or to enforce child
7 support."

8 Senator Moynihan. I would like to suggest, Senator
9 Curtis, I think there is a symmetry --

10 Senator Hathaway. We cannot overlook the fact, Mr.
11 Chairman, that the reason for nondisclosure of IRS information
12 is to make sure we provide an incentive for people to pay
13 their taxes, and that is the reason you want to minimize
14 whatever disclosure we might allow under IRS, which is why we
15 do not allow it for trials as evidence, so individuals will
16 pay their taxes.

17 If you are going to get enough information on these
18 other two recommended by the staff, at least for the start; if
19 we have any problem later on, maybe we can expand it.

20 Mr. Swoap. Except in the case I described, Senator,
21 he would be underpaying his taxes because he would be claiming
22 children which the welfare system would be supporting.

23 The Chairman. Let me make a suggestion here. It seems
24 to me we do not have any difficulty going as far together as
25 the staff recommendations go.

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1 oaky, then ask for it.

2 As far as I am concerned, if you get this much, you
3 can find out later on whether you really want to insist on
4 getting the rest of it. It may be that it does not make that
5 much difference.

6 Senator Hathaway. The study should include an assess-
7 ment of the detrimental effects as well.

8 Senator Moynihan. Yes.

9 Senator Hathaway. That will induce people not to pay
10 their taxes.

11 The Chairman. In other words, would GAO be the logical
12 one to do that? To make a study and see to what extent, if
13 they had known what information the Internal Revenue Service
14 had had and would have come out with the right answer, how
15 much difference it makes?

16 Is that fair enough?

17 Senator Curtis. Yes.

18 The Chairman. Without objection, we will agree to it
19 in that fashion.

20 Mr. Stern. I would recommend that you make it effective
21 immediately in terms of giving them access and giving them two
22 years, so every state legislature can make -- it would be
23 mandatory October '79, but they would have the access right
24 away.

25 The Chairman. Without objection, then, it is agreed.

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1 Mr. Galvin. There is one minor problem here. On this
2 centralized location, similar to a parent locator, I have
3 checked with all of the states. Very few states have computers.
4 To centralize, you have to have computers.

5 Now, you can centralize it in a county, county administered.
6 If they check --

7 The Chairman. What is the answer to it?

8 Mr. Galvin. The answer is to have it broken down into
9 large districts. Where the state has all the records, make
10 them do it by the state. That is the simplest way. But where
11 they do not, they are not going to have the computers you
12 authorized until another year or so.

13 The Chairman. What is the answer to it?

14 Mr. Galvin. I would say they would have to designate one
15 or more specific agents. In other words, for a city it would
16 be one agent, or for a county it would be one agent. That
17 would be the only one that is contacted.

18 Centralize it, to reduce as far as possible any leaks or
19 any misinformation. You do not do it all at once; you build
20 it up.

21 Mr. Swoap. Senator, I think the key is that you centralize
22 it at the requesting end, but not at the receiving end, - so
23 that you have a single requestor, but they go directly to
24 Social Security, rather than having to go through.

25 Mr. Galvin. Centralized, so not everybody in the agency --

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in a city, you do not want that. You cannot answer all of the telephone calls, for example.

Have it so one person is designated. Any agency that is doing a check would ordinarily do it anyway, or they should do it.

The Chairman. Why do we not try to do that?

Mr. Stern. Perhaps we could just leave it to the Secretary to determine on the HEW end how he wants to proceed with things, rather than make it explicit. Just state it in the report.

Mr. Galvin. One thing on Social Security, every agency I would say 99 percent of them -- are checking regularly for Social Security. That is the one check that they all make, because they all check the Social Security numbers. So each state is dealing with that.

The Chairman. Figure out how that can be done, and tell us at the next meeting.

I suggest, for lack of a better day, we think in terms of Friday a week from now. We have that day only. We will meet on Friday, a week from now.

(Thereupon, at 4:10 p.m., the Committee recessed, to reconvene Friday, September 16, 1977.)

