

tor, in regard to this matter and set up our administrative machinery effectively so that waste and excessive burdens on the insurance phases of this problem may be eliminated.

I call your attention to the fact that the effective operation of a Federal-State system of unemployment offices-labor exchanges, as the British call them-will be absolutely essential in the States and nationally, to the effective administration of unemployment compensation. Payments of benefits, and fixing eligibility, rest here.

Now, we have made a start, a real beginning on it, under the 'Wagner-Peyser Act. In Pennsylvania, Senator Guffey knows that our new secretary of labor and industry, Mr. Jones, is tremendously interested. We recently had a meeting of the advisory council of our Pittsburgh office, with representatives of employers and labor leaders, and considered this very matter-to continue to raise the standards of administration of a unified employment office system.

This country serves vast and diverse interests and it seems to me we will have to make haste slowly, set standards of administration, and work out the most constructive State measures, and then, sir, with the aid and leadership of the Federal Government, attempt to extend those effective standards. But I do think, sir, in considering the adjustment of the unemployment compensation titles of this bill, you might very well strengthen the hand of the Federal Government in guiding these States, not in coercing or embarrassing them.

The CHAIRMAN. Thank you very much. If there is any statement which you want to incorporate in the record, you may give it to the clerk. Mr. Murray Latimer.

STATEMENT OF MURRAY LATIMER, WASHINGTON, D. C., CHAIRMAN, RAILROAD RETIREMENT BOARD

Mr. LATIMER. My name is Murray Latimer, Washington, D. C. I am chairman of the Railroad Retirement Board.

The CHAIRMAN. Were you on the technical board of the Economic Security Committee?

Mr. LATIMER. Yes; I was chairman of the technical board's subcommittee on old-age security.

Mr. Chairman and gentlemen: I have a statement here which is too long to read so I should like to add it in the record, in addition to my oral statement.

The CHAIRMAN. The statement may go in the record and then you can elaborate it with any additional statement you wish to make.

Mr. LATIMER. I should like to discuss rather briefly four points, confining myself entirely to the old-age security provisions of this bill. I do not think it can be overemphasized that the old-age assistance laws, which are to be created and strengthened under the stimulus of title I of this act, are not and will not be a permanent solution of the problem of old-age dependency in this country. There have been a great many statements here about cost estimates which have been presented-, which show what the cost will be next year, and in 1980, all of which are guesses, and some of which I am responsible for.

The CHAIRMAN. What is your best guess now?

Mr. LATIMER. Of course a guess right now would be based on factors involving political judgments as to how fast States will pass these laws under the stimulus of the 50-percent subsidy. I am not a judge

of political situations. In order to do that one would have to know something about conditions in each State, which I do not.

The CHAIRMAN. You know something about the State of Mississippi?

Mr. LATIMER. Yes, sir; I do.

The CHAIRMAN. On the 65-year proposition, about what would be the cost, and how would it go up, and so forth, if they should pass a law such as is contemplated? There are about 77,000 who are over 65 years of age, is not that right?

Mr. LATIMER. I think that was in 1930. I should judge now, if the number of persons who are over-65 years of age has increased in equal ratio with the number who are 65 years of age and over in the country as a whole, there would be something like 87,000. According to the census of October 1934, taken by the Federal Emergency Relief Administration, there are some 12,700 persons 65 years of age and over on relief. No census has been taken since, but we have estimated what that number would have changed to if the number of persons 65 and over had changed in the same ratio as the number of single-person families on relief. That, after discussing it with members of the Relief Administration, we thought was probably the best index of increase in the number of persons 65 and over on relief. That figure now, which I believe was filed with this committee last week (at any rate it was published in the New York Times on Sunday), was 14,200. Now it is extremely difficult to say what the level of relief in the State of Mississippi would be.

The CHAIRMAN. If you figure \$15 from the Government, donated by the Government, and \$15 from the State.

Mr. LATIMER. Senator, under existing circumstances I cannot see at all that it is likely that the level of old-age assistance in Mississippi would be \$30 a month, on the average.

The CHAIRMAN. Why?

Mr. LATIMER. A great many of the people over 65 years of age, perhaps most of them, have small farms, small homes, a chicken yard, a cow--they have no money income but nevertheless they have some sort of subsistence. I have been told recently, and I know from some personal knowledge, that in this depression there has been a substantial increase in this subsistence farming, on a small scale. The allowance of \$30 a month would be a comparatively high allowance for these people. As far as food, shelter, and such basic necessities are concerned, the State is somewhat better off than it has been for a good while.

The CHAIRMAN. With your knowledge of the situation, in a State like that, which is maybe somewhat similar to Georgia and other States in the South, what would you think the State should put up in order to provide such sums as would fall within the meaning of "compatible with health and decency"?

Mr. LATIMER. I should hazard the guess that even with some increase, and I think this law would increase the numbers who would qualify for assistance as compared with the number of persons who are 65 years of age and over on relief, Mississippi initially would not spend more than \$3,000,000 a year in a total amount. I doubt whether it would do that much.

The CHAIRMAN. That is Federal assistance?

Mr. LATIMER. That is both.

Senator GEORGE. State and Federal?

Mr. LATIMER. State and Federal.

Senator CLARK. If the Federal Relief Administrator under this act would take a notion that it required \$40 a month for the lowest standard of subsistence, compatible with health and decency, the State of Mississippi would have to contribute \$25 a person and it would not be able to create a fund out of which to pay that amount; isn't that true?

Mr. LATIMER. If the Federal Relief Administrator took such a notion, which seems to me is inconceivable.

Senator CLARK. The entire administration of this act is under the Federal Relief Administrator.

Mr. LATIMER. The standard of health and decency has some relationship to the current custom, it is not a fixed and arbitrary standard. I think the State would still have a good deal to say about it.

Senator CLARK. The reason I asked that question, it has been testified by the author of the bill, Senator Wagner, that according to the figures at his disposal that \$40 a month was a minimum.

Mr. LATIMER. Of course I cannot speak for the Senator, but I think that would not apply to Mississippi; \$40, I grant you, would be desirable. It would raise the standards of persons over 65 years of age in the State of Mississippi, immeasurably, but I do not think it would be done. I shall not comment on whether it is desirable or not, it will not be done and it cannot be done, in the present financial circumstances that exist in the State of Mississippi.

Senator COUZENS. Do you believe there should be some agency of review, some court or something, set up against the arbitrary ruling by the Government agency?

Mr. LATIMER. I should suppose the State would always have the option of suing for a writ of mandamus in court.

Senator COUZENS. I think it should be provided, if we are going to retain it in the bill at all.

The CHAIRMAN. Let me ask you, Mr. Latimer. This provides, of course, that the State should put up an equal amount to the amount put up by the Federal Government, and the Federal Government putting up \$15. You could not take every individual case, you would have to take the average of the number of persons in the State, would not you, in order to determine the amount required for a standard which is compatible with health and decency?

Mr. LATIMER. Yes; except you would count the person receiving in excess of \$30 a month as receiving \$30. There would have to be some segregation of those in order to calculate the amount of subsidy due.

The CHAIRMAN. You think that under the law you would have authority to look into individual cases then?

Mr. LATIMER. I think so; yes, sir.

The CHAIRMAN. Do you think it is advisable to write into the bill that the average should be taken, and so forth?

Mr. LATIMER. That would aid a good deal; yes sir.

The CHAIRMAN. Do you see any objection to that?

Mr. LATIMER. It would increase the cost somewhat to the Federal Government; for this reason, that in New York, as I remember, the average is \$22.16. Now there are some cases in the city of New

York in which the amount is in excess of \$30, and that is true perhaps of some of the other cities, and if those are counted as \$30 the average would necessarily fall below \$22.16. So the Federal Government would put up something less than one-half of \$22.16 on the average. How much the reduction would be I have no way of knowing, because I do not believe any detailed frequency distribution of amounts of monthly assistance have been published.

The CHAIRMAN. You have given a great deal of study to this proposition. What do you think of the suggestion, which was made by someone, that this tax is levied on the citizens of every State, on the employers and employees, and the fund is created, and the amount that is collected in one State for instance, that has not passed this law, on old-age pensions, that it go into a matter of bookkeeping, that it be earmarked, if you want to call it that way, and be held there to be utilized by the State when and if it passes the law?

Mr. LATIMER. Just let me get this clear. Are you referring to the tax under title III of the act?

The CHAIRMAN. Yes.

Mr. LATIMER. Of course that is for a national system of compulsory contributory old-age insurance, which is supposed to supplant these systems of State old-age-subsistence laws, insofar as it is practical to do so and as quickly as we can. Now the questions which you have brought out here this morning emphasize the very thing which I started out to discuss, namely that the assistance laws are unsatisfactory for solving the long range problem and we want to get rid of them as quickly as possible.

The CHAIRMAN. Some question has been raised that if some States do not pass that law, the citizens of those States are taxed that amount and the people of other States may be getting the benefit of it.

Mr. LATIMER. They may be taxed for the general revenues of the Federal Government. There is no specific revenue, under the proposed Federal law, from which the Government makes grants to the State as subsidies for old-age assistance. The taxes in title III are not levied to provide a fund from which the old-age-assistance subsidies may be paid. It may be that in a fiscal emergency of the Government some borrowings may be made on the general security of the Federal Government from the old-age-insurance fund. It may be inexpedient temporarily to raise the old-age-assistance grants through taxes. The old-age fund is to be invested in Government securities. These may be acquired from the public or from institutions-banks, insurance companies, and so on-or the fund may absorb directly additional indebtedness which the Government has created. But in any event there will not be an outright gift. Investments will take the form of a note of the Federal Government, or a bond or a guaranteed obligation, which will draw interest. Technically, and I hope actually, there will be a complete distinction between the operation of these two systems of old-age security.

Of course all these questions that you have raised emphasize one aspect of the unsatisfactory nature of the old-age-assistance laws; namely, that individual States are not able financially to give adequate support to them, that the Federal Government must come in if they are to be at all successful and at all workable, and if the Federal Government does come in, it can legitimately, and should, attempt to set some standards in order that greater security may be given to

the aged group in this country. By setting those standards it may have some trouble with individual States, there is no use denying that fact, which will, for some reason or other, wish to contest the standards set by the Federal Government. I think, with a reasonable administration, these difficulties will be overcome.

It is of course to be hoped that the standards of life in the aged group may be increased. If the maximum effectiveness of old-age security cannot be reached under these laws it must be supplanted by this further system.

Of course there are certain other troubles which we have with these old-age-assistance laws; one of which will be the decided increase in cost. Just how rapidly that cost is going to increase nobody knows, but it is bound to increase, I think, and we can be certain from a number of factors which are already in existence,

First, we know that unless something cataclysmic happens to the death rate in this country, the number of the population in the group 65 and over is going to increase very rapidly. We know that the employment opportunities are declining for older persons. That decline seems to have been a little less rapid in the period 1920 to 1930 than it was from 1900 to 1920, but it has probably set in again, due to the depression influences which have been so overpowering and so dominant in the last few years.

There are also declining employment opportunities for persons in the middle-age group. That was beginning to be a fairly serious problem in the twenties. With so many out of employment now and with still further progress in industrial technique it will be a much more serious problem in the future. Such savings as persons in the middle and working classes had, have largely been lost in this depression. All these factors are going to put a burden on the generation that is now young, even greater than it has had in the past, so that their own old-age dependency ratio is likely to be affected.

There seems to have been some confusion about the Economic Security Committee's report which states, on the one hand, that 50 percent of the population 65 years of age and over is dependent, and estimating, on the other hand, that only 15 percent would qualify for old-age assistance initially under these laws. Of course the difference is accounted for by the fact that a considerable percentage of these persons 65 years and over, is dependent and will continue to be dependent on their children.

If there is to be, as there almost certainly will be, this great growth in the number of persons qualifying for assistance it is extremely doubtful whether a means test will be any deterrent at all. The old-age assistance will, in the absence of any other assistance, become the customary thing and we will have an increase in the qualification ratio which will probably be out of line with the increase in the dependency ratio. That does not say that there will be any subterfuge or any deliberate act calculated to increase the possibility of qualifying for the assistance, but nevertheless there will be an increase.

I think we are, therefore, forced to the conclusion that some further system is necessary if the aged group is to have the security which it demands.

Passing on to the system of old-age insurance I should like to discuss, briefly, three major points: The benefits, how to get-started, and the matter of who pays for the cost. I think we can say that it

*will be impossible effectively to start a system of old-age insurance if the only benefits which were paid were those which were provided, on an actuarial basis in the technical insurance sense, by the contributions of the group receiving the annuities with, say, equal amounts paid by their employers.

The cost of annuities rises rather rapidly with age. Persons who are now 60 would have to contribute approximately 25 percent of their pay, or with the aid of their employers, over the period of 5 years, if they are to receive even as little as 15 percent of their wage as annuity beginning at 65. It is utterly inconceivable that any such large portion of the aged group's wages could be set aside to provide that benefit.

It has been suggested that these benefits might start off on an earned basis, with some subsidy under the old-age assistance laws. That, it seems to me, would involve very considerable difficulty, because there would inevitably be a comparison between persons who receive assistance and those who do not, both of whom have contributed, and dissatisfaction with the workings of such a plan would, it seems to me, be quite intense.

Now those large benefits are needed. First of all they are needed in order to induce a good many of the people who are 65 and over and who are looking for a job, even though the chances of their finding one is rather small, to withdraw from the labor market. Such withdrawal would have a very definite, perhaps not tangible, but quite definite effect on the wage rates. Trade unions have established a number of systems for the support of their aged members: This has involved a heavy cost with the result that they have had to maintain dues at a high level, some of them extremely high. Taking this load off the trade unions would enable dues to be lowered in many cases, which would assist the legitimate trade unions organizing their legitimate field.

There are moreover a number of industrial companies whose level of productive efficiency has been and is being reduced by the fact that they have a number of old men whom they would like to retire but cannot, on account of public pressure, and at the same time they have not sufficient funds available to start a pension system.

I should like to say that I have been connected, in one way or another, with a number of corporation pension plans. I have never yet been connected with one which would even think of starting off a plan with only 15 percent annuity. Initial annuities averaging twice that high are considered low. In the great majority of plans the employer assumes some cost in respect of service prior to the date of the plan in order that reasonably adequate benefits may be paid from the start, otherwise the employees will not accept the plan.

The very important factor here is that if a contributory system is to be started it will be collecting the contributions from employees at very young ages whose worries about their old age haven't begun and to whom the spectre of dependency in old age is rather remote. What they think of their contributions as buying is not only an annuity for themselves but also as enabling the employer to pay a benefit, which will remove aged persons from the pay roll giving the younger employees a chance to be promoted, and making possible reabsorption of a certain number of those unemployed. The process

will make for some orderly and regular absorption of persons who have not yet been in industry at all.

The Railroad Retirement Act experience in this connection, it seems to me, is significant. We have had almost no complaint whatever, although some was anticipated, about the fact that all classes of employees were to contribute 2 percent of their pay. The fact that there are in the railroad industry some 4 or 5 percent of persons 65 years of age or over, and a good many others who are eligible to retirement, running up to 10 percent of the total, is, in the minds of the young, efficient men, a sufficient inducement to contribute, if it would get the older people out of the way. The younger worker is not going to be willing to contribute any substantial amount unless, rather quickly, there would be some removal of the older persons from employment. It is not necessary to go to the fantastic lengths of the Townsend plan to get the stimulus for that removal.

The benefits initially provided under this act, of course, are very considerably lower than they are under the Railroad Retirement Act.

The CHAIRMAN. When was the Railroad Retirement Act passed?

Mr. LATIMER. It was signed by the President on June 27, 1934. It was passed in the last session of Congress and on the last day or two of the session, as I remember it.

The CHAIRMAN. That matter now is before the Supreme Court, is that right?

Mr. LATIMER. Yes, sir; it is on the docket for hearing, on the 5th of March. The act was declared unconstitutional by the Supreme Court of the District of Columbia and an injunction was entered the Board prohibiting it from putting the act in operation.

The CHAIRMAN. Let me ask you about this Railway Retirement Act. Does that apply to all railway employees?

Mr. LATIMER. Yes, sir; and certain others, like the express company, the Pullman Co., and so forth.

Senator GEORGE. The carriers?

Mr. LATIMER. Yes.

The CHAIRMAN. And it provided for a contribution by the employee of 2 percent?

Mr. LATIMER. The initial contribution was 2 percent by the employees and 4 percent by the carriers.

The CHAIRMAN. The carriers had to put up how much?

Mr. LATIMER. Four percent. They put up twice as much as the employees. The employees contributed 2 percent to a maximum of \$6 a month.

The CHAIRMAN. All right.

Mr. LATIMER. The question might be raised as to why the level of benefits under this particular act, under this bill, is lower than that provided under the Railroad Retirement Act. The Railroad Retirement Act provides for benefits which are measured in part, by the service prior to the effective date of this act. We have estimated that the initial benefit would be somewhere in the neighborhood of \$950 a year, which is payable immediately in the absence of any litigation it would have begun on February 1, of this year.

Senator COSTIGAN. Is the constitutionality of the Railroad Retirement Act before the Supreme Court?

Mr. LATIMER. Yes, sir. The hearing is now set for March 5. So that on the average the initial annuities under the Railroad Retirement Act would be perhaps a little in excess of 50 percent of the

current wage level of the people retired on the railroads. It is much in excess of 50 percent of the average compensation of railroad employees, which was not much more than \$1,200 in 1933.

The CHAIRMAN. Did the Government start the fund off with any amount?

Mr. LATIMER. No, sir; there is no Government contribution, other than the fact that we receive the privilege of franking mail and services from the Department of Justice, and the Treasury and other Government offices without cost. The Board is given the power to adjust the rate of contribution so as to provide for the benefits which the act calls for. It cannot, however, change the ratio of contributions, one-third from employees and two-thirds from the carriers.

Now there is a vital difference between the act which is now under discussion and the Railroad Retirement Act. The main purpose of the Railroad Retirement Act is to promote efficiency and safety in the national transportation system. It starts with the premise that the creation of the Railroad Retirement Act will promote efficiency and safety in the national transportation system.

The CHAIRMAN. Does it compel retirement at the age of 65?

Mr. LATIMER. Yes, sir. It starts off with the promise that a person in the transportation system who is 65 years of age or over is a menace to the public safety and a handicap to the national transportation system. It therefore compels the retirement of everybody 65 years of age or over. However, by mutual consent of the Railroad Retirement Board the time may be extended to 70, but not beyond 70. That provision does not apply to executives during the first 5 years of the act, but 5 years after the initiation of the act there can be no person in the service of any character who is more than 70 years of age.

The CHAIRMAN. Tell us about the Civil Service Retirement Act. That is voluntary, as I understapd it?

Mr. LATIMER. No, sir; that is not voluntary. The employees in the civil service, with the exception of those of the Railroad Retirement Board, who are covered by the railroad retirement system must contribute; membership is not voluntary, I think there are also some civil-service employees who are covered by the Panama Railroad System.

The CHAIRMAN. What is the percentage that they are required to put up?

Mr. LATIMER. They are required to contribute 3½ percent, but in the event of withdrawal the employee receives back his contribution of 3½ percent, less \$1 a month, with interest. They lose a dollar per month.

The CHAIRMAN. In other words it raises the whole fund?

Mr. LATIMER. No, sir. The contribution by the Federal Government was supposed to cover the service which was credited prior to the date that act was initiated, which was back in 1920. The service period before 1920 was used in calculating the amount of annuity which an employee would receive. Let us say, as the act now stands, as amended in 1929, the annuity provided by the Government is \$30 a year for each year of service, to a maximum of 30. Now an employee who retired in 1930 and who began in 1900 would calculate that part of his annuity provided by the Government by using 20

years prior to the effective date of that act in 1920, and 10 years after 1920. Two-thirds of the Government annuity in that case is based on prior service; and the cost was to be paid by the Government.

The CHAIRMAN. What about the retirement?

Mr. LATIRIER. They are retired at 70. I think in some classes of service the retirement age is 62, and in others it is 65, and in still other classes the compulsory retirement age is 70. There was some exception to that before the enactment of the act of 1932. As I understand it the Economy Act of 1932, practically forced out of Government service the persons who were 70 years of age or over.

Senator GEORGE. And who had had a certain length of service?

Mr. LATIMER. Yes; who had a certain length of service, I believe it was 20 years of service, or some such period, or perhaps it was 10, I am not sure of those figures offhand, in order to qualify for an annuity under the act.

There is one point further there. There are some resemblances between the Civil Service Retirement Act method of financing and the method financing in Senate bill 1130 as it now stands. Of course when you start off a pension system there are relatively few persons as compared with the total number of employees who are in the upper age groups. There were perhaps five or six thousand, as I remember, over 70 years when the Civil Service Retirement Act was begun. Obviously the cost of paying the annuities in that year was rather small. The employees of the Government were paying in 3½ percent, and in event of their death or retirement from service for any cause, they were to be refunded their money with 4 percent interest. The amount of money which was to be refunded in the event of death or withdrawal, plus the annuity payments, both on account of reaching the normal retirement age and on account of the disability feature were very much less than the 3½ percent provided by employee contributions if all the employees died. If all employees died or withdrew from service obviously there would be no money left in the fund, but they did not. Consequently there was a reserve accumulated which was nominally the property of the employees. There is some disagreement as to the soundness of operating what is essentially a private fund of this sort on that kind of basis, but nevertheless the Government could and did borrow money from the employees' contribution to pay annuities.

Now, as a consequence, the technical liability of the Government increased by leaps and bounds. As I remember now, the last actuarial investigation, which was made in 1930, showed that the Government contribution would be required to put the plan on a technically funded basis and would be very considerably higher than 3½ percent, which was being contributed by the employees.

Senator COUZENS. Have you the actual amount of that?

Mr. LATIMER. That shows in the report of the Actuarial Board, the Government Board of Actuaries, consisting of Mr. George B. Buck, Mr. McLeod, the Government Actuary, and Mr. Brown, who was then chief of the Bureau of Efficiency, as of June 30, 1930.

Senator COUZENS. You do not have it with you?

Mr. LATIMER. I do not have it with me. I cannot recall the figures off-hand, but they are in that report.

Senator GEORGE. From the date of the passage of the Federal Employees Retirement Act up until 1929 the contribution was only 2½ percent, I think, from the employees. It was increased at the time the act was amended, I believe it was in 1929, to 3½ percent.

Mr. LATIMER. Yes; I was speaking of the 3½ percent.

Senator GEORGE. There was a considerable technical liability of the Government at the time of the amendment to that act in 1929, and there is still now, technically. I believe it is actually set up on the books.

Mr. LATIMER. It shows in the valuation; yes, sir.

Senator GEORGE. There was a considerable liability on the part, of the Government.

The CHAIRMAN. Do you know approximately what it is, the technical liability?

Senator COUZENS. Something over \$100,000,000, isn't it?

Mr. LATIMER. It runs into the hundreds of millions. I am unwilling to say off-hand, because I do not remember the figures. I could very easily get that for you, sir.

The CHAIRMAN. I think you can get it and supply it to the clerk.

Mr. LATIMER. Yes, sir; I can do that. That is as of June 30, 1930. There is now under way, as I understand, a revaluation. I do not know whether it will be published or not, but I know last summer there were further amendments under this economy act which allowed employees to retire at 68, I think it was, rather than waiting to 70. There were some provisions, which I do not remember off-hand, which had the effect of increasing the liability of the Government.

What it finally came to I do not know, but the only figure which I have is the one as of June 30, 1930. I presume there will be another valuation published as of June 30, this year.

But the point I was wanting to make at the time when we started on this other discussion is that because of the necessity for 'forcing persons out of the service of railroads, it was inevitable and impossible to do other than to provide an amount, a very considerable amount of annuity, because you were forcing a man to drop, in most cases, the only possible source of livelihood he had. In the act under consideration, S. 1130, there is no such forcing out of employment, on the part of any act of Congress, at any rate, so that it is reasonable to set, initially, annuities which are perhaps somewhat lower. Whether the relation between the two initially is reasonable I do not know, it is a matter of judgment; but nevertheless in my own judgment the annuities set in this act are to be regarded as minima amounts rather than maxima for the purpose which the system is supposed to accomplish, namely, the protection of the aged group, their removal from employment, and the quick supplanting of what we think is a system which would be unsatisfactory in the long run.

The CHAIRMAN. Mr. Latimer, your statements will be in the record. This committee, when we begin to get in executive session to begin to study this bill, will probably want you to stand by so we may confer with you, because you have all this data at hand. Your statement covers the point pretty fully.

Mr. LATIMER. There are two points which my statement does not cover. I have been following the hearing here. There has been some emphasis on some things, which have not been cleared up. I should

like to clarify the situation and I should like to cover those additional points.

The CHAIRMAN. I wish you would do that.

Mr. LATIMER. If you would like to have me appear before you, I will be in Washington.

The CHAIRMAN. I thought we would confer with you when we get in executive session on this proposition.

Mr. LATIMER. I might say I am having a series of charts prepared which, so far as the actuarial side of this is concerned, attempts to give a simplified picture of the matter. I know this is a rather technical subject. I have had experience in explaining it on a good many occasions and I find that some sort of a graphic method presentation serves to clear up some points which might otherwise be rather hazy.

The CHAIRMAN. I wish you would amplify your statements and we can get in touch with you when we finish the hearings.

(Mr. Latimer subsequently submitted the following:)

RAILROAD RETIREMENT BOARD,
Washington, February 13, 1935.

Mr. FELTON M. J
Clerk Committee on Finance,

DEAR MR. OHNSTON In the hearings yesterday Senator Harrison made the civil-service

That valuation, as of June 30, 1930, is en-

The pertinent figures which were under discussion yesterday are given

The valuation balance sheet shows that the liability of the Federal Government is \$730,192,797. Table 8 on page 14 shows that the annual payment required to amortize this accrued liability over 68 years would be \$31,414,814. The cost to the Government of services which are being rendered currently, according to the same table, is \$20,638,850, making a total annual cost to the Government of \$52,053,664.

I now understand that the report of the actuaries containing the valuation as of June 30, 1934, show the changes in liability caused by recent amendments to the Civil Service Retirement and Disability Act, and that the report has recently been sent to the Committee on the Civil Service of the House. Am hoping to secure a copy of this. (See reprint from H. Doc. No. 29, 74th Cong., 1st sess. pp. 757-759.)

Enclosed also is the additional statement which as I understand it the committee will allow to be inserted in the record.

Yours very truly,

MURRAY W. LATIMER.

REPRINTED FROM HOUSE DOCUMENT No. 215, 73D CONGRESS, 2D SESSION,
THIRTEENTH ANNUAL REPORT OF THE BOARD OF ACTUARIES OF THE CIVIL-
SERVICE RETIREMENT AND DISABILITY FUND (PP. 12, 13, AND 14)

COST OF BENEFITS TO PRESENT EMPLOYEES

Had contributions been made at the percentages of salary given in tables 3 to 6 by, or in behalf of, every employee from the time when he entered the service, the funds in hand, together with future contributions at these rates, would be adequate to provide all benefits payable. But employees in service at the time of the establishment of the fund have been given credit for their past years of service. For this reason contributions in the future at the normal rate alone will not be sufficient to provide benefits for the present employees.

In order to obtain knowledge of the contributions required in addition to normal contributions to provide the benefits for the employees covered by the fund on June 30, 1930, a valuation of the total liabilities of the fund on account of the prospective benefits payable to present annuitants and employees was made. As an

offset against these liabilities there are available the present assets of the fund and prospective contributions of employees at 3½ percent of salary. The remainder represents the liabilities which are not covered by employees' contributions.

The detailed figures are given in the balance sheet, which follows:

TABLE 7.- A valuation of the assets and liabilities of the civil-service retirement and disability fund as of June 30, 1930

LIABILITIES	
Benefits payable to annuitants on the roll:	
Retired on account of age and involuntary separation:	Present value of pay- ments to be made
Employees with normal retirement age 62.....	\$11, 223, 350
Letter carriers and postal clerks with normal retirement age 65.....	41, 691, 828
Mechanics, laborers, and other employees with normal retirement age 65.....	20, 796, 579
Employees with normal retirement age 70.....	12, 401, 845
Total.....	<u>86, 113, 602</u>
Retired on account of disability:	
Employees with normal retirement age 62.....	2, 386, 602
Letter carriers and postal clerks with normal retirement age 65.....	16, 618, 827
Mechanics, laborers, and other employees with normal retirement age 65.....	6, 997, 425
Employees with normal retirement age 70.....	9, 435, 882
Total.....	<u>35, 438, 736</u>
Prospective benefits to members of active service who will retire on account of age:	
Employees with normal retirement age 62.....	206, 078, 166
Letter carriers and postal clerks with normal retirement age 65.....	494, 441, 815
Mechanics, laborers, and other employees with normal retirement age 65.....	111, 955, 047
Employees with normal retirement age 70.....	173,376, 262
Total.....	<u>985, 851, 290</u>
Prospective benefits to members of active service who will retire on account of disability:	
Employees with normal retirement age 62.....	18, 976, 728
Letter carriers and postal clerks with normal retirement age 65.....	82, 836, 126
Mechanics, laborers, and other employees with normal re- tirement age 65.....	16, 924, 437
Employees with normal retirement age 70.....	61, 316, 066
Total.....	<u>180, 053, 357</u>
Prospective benefits to members whose service will be discon- tinued through no fault of their own prior to the attainment of retirement age:	
Employees with normal retirement age 62.....	4, 054, 637
Letter carriers and postal clerks with normal retirement age 65.....	15, 102, 589
Mechanics, laborers, and other employees with normal retirement age 65.....	7, 331, 870
Employees with normal retirement age 70.....	20, 352, 179
Total.....	<u>46, 841, 275</u>

TABLE 7.-A valuation of the assets and liabilities of the civil-service retirement and disability fund as of June 30, 1930—Continued

LIABILITIES-Continued	
Contributions to be returned to present employees with interest at 4 percent upon separation from service without retirement benefits:	Present value of payments to be made
Employees with normal retirement age 62.....	\$16, 527, 858
Letter carriers and postal clerks with normal retirement age 65.....	67, 171, 767
Mechanics, laborers, and other employees with normal retirement age 65.....	18, 240, 283
Employees with normal retirement age 70.....	60, 643, 135
Total.....	<u>162, 583, 043</u>
Grand total.....	<u>1,496, 881,303</u>
ASSETS	
Funds in hand.....	<u>156, 546, 419</u>
Contributions of employees of 3½ percent of salary:	
Employees with normal retirement age 62.....	49, 247, 392
Letter carriers and postal clerks with normal retirement age 65.....	169, 387, 811
Mechanics, laborers, and other employees with normal retirement age 65.....	36, 093, 413
Employees with normal retirement age 70.....	102, 200, 900
Total.....	<u>356, 929, 516</u>
Appropriations required of Government:	
To meet normal cost accruing annually.....	253, 212, 571
To meet accrued liability.....	730, 192, 797
Total.....	<u>983, 405, 368</u>

PROVISION FOR ACCRUED LIABILITY

The preceding balance sheet shows the total liabilities of the civil-service retirement and disability fund have a present value of \$1,496,881,303 on June 30, 1930, of which \$121,552,338 (\$86,113,602 plus \$35,438,736) represents the liabilities on account of benefits already granted and the balance of \$1,375,328,965 represents the liabilities on account of annuities and other benefits to be granted in the future on account of active members. To meet its liabilities the fund has present assets amounting to \$156,546,419. The present value of the prospective contributions of employees at 3.5 percent amounts to \$356,929,516. Subtracting the value of these contributions and the present assets from the total liabilities, we have \$983,405,368 as the liabilities to be met by contributions by the Government.

If the Government were to make normal contributions on account of each group, which now represents a contribution of 2.45 percent of the total pay roll annually, this contribution, together with that of 3.5 percent by the employees, would equal 5.95 percent, which is the average normal contribution. This contribution would be sufficient to cover the continuing or normal cost, but it would not be sufficient to cover the liability on account of service rendered by employees prior to the establishment of the fund in 1920, when no contributions were made, nor would it cover credit for service since that date on account of which the Government has not made regular contributions related to the larger benefits of the later law. The liability on account of this past service may be obtained by deducting from the total liabilities of the Government to be met by Government contributions the value of the future contributions which would be payable by the Government to cover the normal cost.

An actuarial calculation shows that a contribution from the Government at the normal rate for the various groups on account of the pay roll of present employees has a present value of \$253,212,571. If the latter amount be deducted from the item of \$983,405,368 shown as the value of the Government's prospective appropriations, \$730,192,797 is left as the amount which must be placed in the fund to offset the lack of contributions in the past.

This amount technically is known as the "accrued liability." In order to amortize this accrued liability by means of annual payments distributed over a period of years in the future in accordance with the plan adopted by the Government in 1927, an annual payment of \$31,414,814 for approximately 68 years from 1930 is needed. This is equivalent to 3.73 percent of the present pay roll annually.

The following table has been prepared to summarize the annual contribution required for the support of the fund from both employees and the Government.

TABLE 8.—Annual cost of civil-service retirement and disability fund as percentage of pay roll

Group	Normal cost as—		Deficiency cost as—		Total cost as—	
	Percentage of pay roll	Annual amount as of June 30, 1930	Percentage of pay roll	Annual amount as of June 30, 1930	Percentage of pay roll	Annual amount as of June 30, 1930
Employees with normal retirement age 62.....	6.71	\$8, 222, 293	49.6	\$6, 077, 830	11.67	\$14, 300, 173
Letter carriers and postal clerks with normal retirement age 65.....	6.53	24, 212, 266	3.81	14, 126, 853	10.34	38, 339, 019
Mechanics, laborers, and other employees with normal retirement age 65.....	5.83	5, 520, 578	4.89	4, 630, 468	10.72	10, 151, 046
Employees with normal retirement age 70.....	4.78	12, 190, 137	2.58	6, 579, 613	7.36	18, 769,750
Total.....	5.95	50, 145, 174	3.73	31, 414, 814	9.68	81, 559, 988
Payable by employees--	3.50	29, 506, 324	-----	-----	3.50	29, 506, 324
Payable by Government.	2.45	20, 638, 850	3.73	31, 414, 814	6.18	52, 053, 664

REPRINTED FROM HOUSE DOCUMENT NO. 29, SEVENTY-FOURTH CONGRESS, FIRST SESSION, FOURTEENTH ANNUAL REPORT OF THE BOARD OF ACTUARIES OF THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND (PP. 15, 16, AND 17)

ESTIMATED LIABILITIES OF THE FUND AS OF JUNE 30, 1934

To furnish a better basis for estimating the appropriation payable by the Government under the law as it now reads, the approximate liabilities of the fund have been determined as of June 30, 1934, taking into account all amendments since June 30, 1930. The exact liabilities on account of annuitants could be determined inasmuch as records are maintained for them which could be tabulated and used for the valuation. For active members there are no current records available for use by the Board. The last data collected covered the membership as of June 30, 1930. The membership as of June 30, 1934, was estimated from the membership as of June 30, 1930, as described on page 5. The liabilities on account of the members as of June 30, 1934, were then determined on the basis of the June 30, 1930, valuation by taking into account the payments made against these liabilities in the interim and the increase in the liabilities due to the amendments. The results of the estimate are given in the following condensed balance sheet :

TABLE 9.—*Statement of estimated assets and liabilities of the civil-service retirement and disability fund as of June 30, 1934*

ASSETS	<i>Present value of payments to be received</i>
Funds in hand _____	\$262, 561, 643
The present value of prospective contributions of employees of 3½ percent of salary----	342, 850, 327
The present value of appropriations required of Government:	
To meet normal cost accruing annually-----	265, 464, 199
To meet accrued liability-----	1, 069,394, 974
Total assets -----	1, 940, 271, 143
LIABILITIES	
The present value of benefits payable to annuitants on the roll :	
Retired on account of age and voluntary and involuntary separation ¹ -----	211, 082, 193
Retired on account of disability-----	75, 022, 630
Retired on account of involuntary separation after 30 years--	90, 688, 154
	376, 792, 977
The present value of prospective benefits to members in active service-----	1, 563, 478, 166
Total liabilities -----	1, 940, 271, 143

The preceding valuation balance sheet shows that on June 30, 1934, the civil-service retirement and disability fund had liabilities on account of annuitants having a present value of \$376,792,977, as compared with \$121,552,338 as of June 30, 1930. The liabilities on account of annuitants have therefore more than tripled during the past 4 years. The estimated liabilities on account of active members has increased by about \$190,000,000. The present value of the contributions of members has decreased slightly while the value of the contributions payable by the Government has increased by slightly over \$350,000,000. The increase in the contributions payable by the Government is due to the amendments and to the fact that its appropriations in the past have not been quite sufficient to meet the normal cost of the plan and therefore have not covered any part of the accrued liability so that the latter item has increased.

At least an amount equal to interest should be paid on the amount of the accrued liability if it is to be kept from increasing. To cover the balance of the liability which accrues each year under the fund it is necessary to pay an amount equal to the normal contribution. If these two amounts are paid each year, the fund will not become an increasing burden to taxpayers as it grows older, because the annually accruing liabilities will be covered as they are incurred.

The following table shows the amount of annual appropriation payable by the Government on the basis of the present law as estimated by the board:

TABLE 10.—*Estimated appropriations by Government on basis of estimated liabilities as of June 30, 1934*

Item	Percent- age of pay roll	Annual amount as of June 30, 1934
Normal contribution by Government-----	2.71	\$22, 604, 360
Deficiency contribution by Government-----	5.53	46, 543, 294
Total contribution by Government . . .-----	8.29	69, 147, 654

¹ Excludes involuntary separations after 30 years.

Comparison with the corresponding figures prepared on the basis of conditions in 1930 shows that the appropriation required of the Government has increased during the past 4 years from 6.18 percent of pay roll to 8.29 percent, or an addition to the rate of 2.11 percent. The amendment of June 30, 1932, has caused an addition of approximately 0.73 percent to the percentage rate of payment. The increase in liabilities due to the amendment of June 16, 1933, made an addition of approximately 0.31 percent to the rate. Although this amendment involved a far greater annual cost than the first amendment, it was limited in its scope to about 2 years' operation. If it had not been so limited, the added liability would have been very great as indicated by the amount of the liability added for the 2 years of its application.

In addition to the 1.04 percent added to the rate of contribution of the Government due to the amendments, a further increase of 1.07 percent has resulted from the failure of the Government in the past to increase its contribution to the full amount indicated by the valuations as necessary to keep the liability from increasing.

This illustrates the danger in not having the annual appropriation fully cover the liabilities of the Government. There is no economy in arbitrarily reducing these appropriations, because not only does the amount by which the appropriation is reduced have to be made up but interest has to be paid on such amount until it is paid in.

SUPPLEMENTAL STATEMENT OF MURRAY LATIMER ON ECONOMIC SECURITY ACT,
s. 1130

This statement is confined to those parts of the social-insurance program with which I have been primarily concerned, namely, the old-age security aspects.

First, as to title I: The proposal for a Federal subsidy, to States for the payment of a part of old-age benefits under State laws, conditional upon enactment or revision of these laws in conformity with certain standards is not a new one. Congress for several years has had before it bills which were distinctly similar to title I of the bill now under consideration. There will be little disagreement that the time is ripe for the enactment by Congress of a scheme of this nature. This statement, therefore, will be devoted to a discussion of two further questions: Ought the type of system which would be created by title I be the permanent and sole measure for old-age security? If not, what should be the nature of a further measure, and when should it be initiated?

The answer of the President's Committee on Economic Security to these questions we know: There should be created immediately a national system of compulsory, contributory old-age insurance which would supplant insofar as such is found practicable, and as quickly as is feasible, the system of old-age assistance set up under title I.

This answer seems to me to be wise. I wish to present the line of reasoning which leads me to this conclusion.

The purpose of title I, as is indicated by the various section headings, is to provide "assistance for the needy" aged. This sort of security measure might be adequate and permanent if the "needy" aged were to be a minor part of the whole aged group of the population. We can be reasonably certain that such will not be the case.

The degree of dependency among the aged has been augmented by the depression, but the depression is not the primary cause of that increase. Even should there be further recovery to the 1929 level of production and employment, the aged group will not share in it appreciably, if at all; and there is every reason to suppose that unless we change the existing situation quickly, dependency among the aged will be as bad, if not worse, 5 or 10 years from now as it is at present. So far as the aged group is concerned, this depression bids fair to cause a rising trend of dependency for at least another generation.

The reasons for this are fairly obvious. In the first place, the numbers in the aged group will continue to increase for many years. Five years from now there will be probably 1,000,000 more persons 65 and over than there are now. And in 30 years the number will reach about 14½ millions.

Second: The trend of employment among the aged has been downward for 40 years. While this has been due in part to the shift from agriculture to industry, a process now temporarily at least ended, there appears no good reason to suppose that industry and other nonagricultural occupations are likely to absorb

any larger proportion of the aged, or, indeed, any greater absolute numbers of them.

Third: Not only will most of the persons in the aged group itself who are now unemployed never again be able to obtain employment, but it is likely there will be a large amount of permanent unemployment among the middle aged. This was beginning to be a serious problem before the depression, but it will be far more acute in the future than it has been in the past.

Fourth: Persons over middle age who do succeed in securing employment will in many instances owe their success to a willingness to make a sacrifice in the customary wage or be content with a highly routine job. The end result will be a wage which will not permit any appreciable surplus for old age, or indeed any surplus for any purpose other than the current maintenance of a rather low standard of living.

Fifth: While we are without quantitative data, it is reasonable to suppose that a large proportion of the savings of the middle-aged group have been wiped out. This fact, coupled with the increasing unemployability of the group, means that the relatively small percentage of the aged which in the past has been able to live on savings, or income from property, will in the future, as at the present time, almost vanish.

Sixth: The economic difficulties of the members of the aged and middle-aged groups will bear heavily on their children, and will be reflected in their own rate of dependency when they in turn become old.

In considering the longer range aspects of an old-age security program, the position of the older worker in the labor market needs to be studied. This aspect of the problem has never been adequately analyzed. There were, in 1930, according to the decennial census, slightly more persons 65 and over recorded as gainfully occupied than there were children from 10 to 17. I suggest that in economic consequences, old age and child labor have much in common. The fact, already pointed out, that numbers of persons over 65 reported themselves as gainfully occupied, when, in fact, they were not, suggests that many such persons were in the labor market seeking employment. This number is probably greater today than in 1930. There must be, therefore, a body of superannuated men—perhaps as many as a half million—who are looking for jobs, not as actively perhaps as younger men, but willing to take any rate of pay for any job.

It is well known, of course, that many unions have specific agreements by which substandard wage rates are paid older men. There are some notable exceptions, of course, as in the train service brotherhoods and other railroad labor organizations.

Among the reasons why this situation seems never to have attracted particular attention is that it is nothing new. The increasing unemployability of the aged has been, not a sudden shift, but a slow change. Younger men, moreover, are usually more than willing to see their older fellows get jobs. They see the job in its immediate aspects and fail to see that the pressure of the older persons on the market, taken as a whole, probably has an appreciable effect on the whole wage structure. The usual complaint has been that these older workers cannot get jobs. We might gain economically if we saw to it that still fewer secure employment by taking as many as possible out of the labor market.

There has been a vicious circle here; the permanent body of aged unemployed or partially unemployed attempt to secure or retain employment on a reduced wage basis, in order to avoid being a burden on other members of the family. The result is, eventually, to lower somewhat the general level of wages, and this in turn sets up other undesirable influences and results.

The harmful results of the pressure of older workers for employment have been partially recognized by some employee groups. A number of important trade unions have provided for payment of superannuation benefits. Several of these unions have attempted, through the medium of these systems, to encourage complete retirement of aged members from the trade. The general aim, it is fair to state, is, in part, the removal of the aged from the labor market.

The unions have found this a costly procedure. Most of the funds have been handled substantially on a current assessment basis, and it has been necessary to increase these assessments periodically. The end result has been a system of union dues which constituted a detraction rather than an attraction to prospective

members. Some of the systems have been abandoned and it is questionable whether any could permanently survive. One could go much further in showing how lack of a general social insurance program has been a major handicap for the labor movement in this country. Failure of these efforts to provide social security by the workers themselves does not, of course, mean that social insurance is uneconomical.

There is another side of the relationship of the older worker to the labor market—the continued retention by older workers of jobs which could be more effectively filled by younger men. This is, of course, becoming increasingly less important for the group of 65 and over, but it still bulks large in the minds of persons whose advancement would be hastened by the displacement of the relatively few old men at the top. And steady displacement of the aged group will help regularize the intake of industry at the youngest ages.

In general, therefore, the older worker is a disrupting factor in the labor market, both when unemployed and looking for a job, and frequently when employed.

Under such conditions I submit that old-age pensions of the type contemplated under title I of the bill under consideration would be found increasingly unsatisfactory as the main form of old-age security.

First of all, their intimate connection with the “means” test will prove a drawback. Under a situation where the problem of old-age dependency is less acute than it now is, and particularly in the initial stages of legislation of this type, a grant of pensions conditional upon a “means” test may be satisfactory. If, however, the attempt were made to extend this type of system to substantially the whole of the aged population, as the permanent exclusive form of old-age security, great difficulties arise. First, the “means” test would not be a permanent deterrent to making application for the pensions; claiming the benefit would tend to become the customary practice. This is clearly shown by the experience of other countries under noncontributory old-age pension systems. Use of the “means” test would set up certain arbitrary distinctions between the several classes of the community, and would be apt to cause some discontent among the more fortunate persons who are for one reason or another able to be self-supporting. In the end the pressure for change or abolition of the “means” test would be strong. Nor, if there were to be no other system, would such a change be undesirable.

Second, the level of pensions, even if raised considerably above existing standards, would not be high enough to induce any considerable voluntary withdrawals from the labor market; nor would employers be able to retire superannuated employees without friction. Moreover, the “means” test would have a bearing in this connection since employers in handling their personnel problems could not, and should not, differentiate as between employees on the basis of their private means.

Third, the rapid growth in the aged population, combined with the diminishing deterrent effect (or modification) of the “means” test, would almost certainly produce a rapidly mounting volume of expenditures under the State old-age-assistance laws.

In the immediate future, the expenditures under these laws will probably not be very great relative to what they might become later on. What they would be in the future, after a period of operation, is a matter upon which we may only conjecture. The actuaries have made estimates as to what the level of costs might be, based on certain arbitrary assumptions as to the rate of dependency. Except insofar as these estimates are based on projections of population, actuaries have no more competence to make estimates of cost than anyone else. As a matter of interest I present a table showing the population 65 and over as projected by the actuaries for 1940, 1945, 1965, and 1980, together with certain figures as to what expenditures for old-age pensions would be under certain assumptions as to the proportion of the population in the aged group which would qualify for these pensions, together with certain assumptions as to the monthly average per capita pensions. These assumptions may be varied indefinitely, according to anyone's ideas about the amounts of pensions which should be paid and the proportion of the group which will qualify.

Estimated population 65 years of age and over at specified years in the future with possible expenditures for old-age pensions under certain assumptions

[In millions]

	1940	1945	1965	1980
Population 65 and over	8.32	9.55	14.34	17.00
(1) 20 percent of aged population qualify; \$20 per month average per capita expenditure	399.2	458.6	689.2	816.0
(2) 20 percent of aged population qualify; \$30 per month average per capita expenditure	598.8	687.9	1,033.8	1,224.0
(3) 30 percent of aged population qualify; \$20 per month average per capita expenditure	598.8	687.9	1,032.3	1,224.1
(4) 30 percent of aged population qualify; \$30 per month average per capita expenditure	898.2	1,031.9	1,548.5	1,836.2
(5) 40 percent of aged population qualify; \$20 per month average per capita expenditure		---m-m-	1,376.5	1,632.1
(6) 40 percent of aged population qualify; \$30 per month average per capita expenditure		--o-----	2,064.7	2,448.1
(7) 50 percent of aged population qualify; \$20 per month average per capita expenditure		-----	1,720.6	2,040.0
(8) 50 percent of aged population qualify; \$30 per month average per capita expenditure		-----	2,580.8	3,060.2

For all these reasons it would obviously be unsound as a permanent policy to contemplate exclusive reliance on old-age pension systems of the present type in any program of old-age security. Rather, they should be regarded mainly as a mode of meeting the emergency and leading, if proper subsequent steps are taken, to a more adequate more soundly financed, and more comprehensive system.

The situation we face here is precisely that through which European countries have already passed. The general experience in European countries can be summarized by a brief quotation from a recent study by the International Labor Office:

"To judge by events in the last few years, it would appear that noncontributory pensions constitute, not a permanent, but rather a transitional measure, destined, sooner or later, to make way for pension insurance.

"The cost of pensions tends continually to rise, partly because of the increase in the proportion of the aged in the population and partly because of the pressure which is always being exerted in favor of higher pensions, greater exemptions and lower pensionable ages; consequently, governments find themselves after a time burdened with a much greater charge than was anticipated at the time when the pension was first adopted. In order to lighten their burden they introduce pension schemes based on compulsory insurance; in exchange for his contribution the insured person is offered a pension free from any condition as to means and sometimes also at a lower pensionable age, while widows may become entitled to a pension whether they have dependent children or not."

Just as it has been necessary in Europe to turn from the noncontributory form of pension system to the compulsory contributory insurance system, just so it is necessary to adopt such a policy in this country. The main questions are what should be the specific provisions of such an old-age-insurance measure, and when should it be adopted.

PROVISIONS OF AN OLD-AGE INSURANCE MEASURE

The specific provisions of an old-age insurance measure ought to be framed first with an eye to conditions which are to be met, and second, with due care that in meeting these conditions we set in motion no further sequence of maladjustments.

First of all, the amount of annuities to be granted should be fixed, having in view not only the benefit of direct payment to the recipient himself, but with the purpose of inducing as many as possible to withdraw from the labor market so as to be rid of the depressing influence on wages; to provide for the reabsorption of the unemployed, the ordinary absorption of the younger generation as they begin to seek employment; to aid in the organization of labor by enabling trade unions to lower their dues; and finally, but not least, to take off the backs of children already overburdened the further burden of their parents. Nor should the advantages of the maintenance of a large and continuing stream of purchasing power directed almost entirely to consumers' goods be overlooked.

Under the proposed scheme employees of all ages ought to pay taxes which are placed in the old-age fund. Young employees, generally speaking, are not so much concerned about their old age as are older employees. While it would be too much to say that they would generally object to paying the taxes, nevertheless it is true that if through their tax payments more immediate benefits would be derived, the tax burden would be assumed with fewer objections. An immediate benefit which would be directly related to such contributions would be the payment of annuities sufficient to retire older persons from the labor market, opening up channels of promotion and providing reabsorption of the unemployed. This same process, moreover, would solve pension problems of employers which they have been unable to meet without assistance because of the inability to finance pension plans where the costs involved are not borne by competitors.

Clearly, the larger the annuity, within reasonable limits, the greater the extent to which we will realize these subsidiary aims. I submit that from this point of view the annuities scheduled under title IV of this bill constitute a minimum standard for such a program. Even with the annuities as scheduled, the full subsidiary benefits of the program will not accrue for almost a generation. Most individual companies have not even considered in beginning annuity or pension plans the payment of benefits at so low a scale.

The question may be raised as to why the level of benefits in this proposed scheme should be materially lower than the benefits under the railroad retirement system created by the last Congress. While that system and the insurance scheme now under consideration have certain factors in common, there is a fundamental difference. The main purpose of the Railroad Retirement Act is to promote efficiency and safety in the national transportation system. The major premise in the creation of the railroad retirement system was that generally the employment of persons over 65 in the railroad industry tended to lessen the efficiency of the system and was a standing menace to the safety of the traveling public. Hence it is provided that retirement, from the industry is to be compulsory at the age of 65, with certain provision for temporary continuation in service by mutual agreement, but within a few years in no event will any employee of a railroad from the president down be permitted to continue after attaining the age of 70. No such factor is involved in the bill now under consideration. If it were, obviously the situation would be materially different. It is also obvious that where a legislative body by its own fiat decrees that persons having a certain characteristic, as age, are prohibited from following their customary occupation, that decree must necessarily be accompanied by a payment for life of an annuity which should be distinctly higher than an annuity which accompanies voluntary retirement.

Voluntary retirement is permitted under the Railroad Retirement Act at ages under 65 but the annuities are reduced materially in such cases. Precisely what the relation of the annuities under the two circumstances should be is a matter for the exercise of judgment. I submit that the ultimate level of annuities as now set forth in the bill are at least not unreasonable as compared with the annuities provided under the Railroad Retirement Act. Another factor which ought not be overlooked in this connection is that superannuation in the railroad industry is heavier, relative to total volume of employment, than in any other comparable industry. The measures adopted in such situation have been and ought to have been related therefore to this specific problem.

But, to return to the old-age insurance system proposed in the economic security bill. There are sound economic reasons why the initial earnings and pay-roll taxes called for in the economic security bill should be low. Others have sufficiently stressed the fact that a high tax levied against the pay roll of employees would be a barrier to future recovery. I wish to emphasize the equal undesirability of high contributions from employees initially. Such a tax would probably result in some decline in purchases of retail goods and an increase in the supply of funds for long-term investment at a time when industry has little demand for such funds. Under the circumstances? funds could not be invested to advantage, and the net result would be the creation of further unemployment. In assessing taxes against wage earners' incomes, the very heavy burdens under which they now labor, not only because of greatly reduced incomes, but because of the heavy burden of the support of millions of parents, should not be overlooked. Further to burden the wage-earning class at this time might offset to a considerable degree the advantages to be derived from this security measure itself.

The benefits as proposed in the act to be paid initially cannot possibly be paid for by contributions of the persons who will receive them. For example, the payment, of an annuity of 15 percent beginning at 65 would require a person fully

employed to set aside about 12½ percent of his pay, with an equal amount from the employer. No such contribution either on the part of the employee or his employer is conceivably possible. If reasonable annuities are to be paid for, therefore, initially, some deficit will be incurred which must later be met. A fundamental question concerns the method of meeting the deficit.

To saddle the cost on the employees of the future seems illogical. We are now trying, for obvious reasons, to get away from the system under which children must support their parents in old age. In a system of this sort to assess future employees, later on, we would merely defer the support of the aged from children to grandchildren and charge interest on the period of deferment. Such a result would be exceedingly hard to justify. Nor does the case for assessing the costs against the employers seem much better. One need not fear unduly the economic consequences of a tax on employers to enable them to retire old workers, because by so doing they achieve economies. But there is little tangible economy to an employer in 1960 from a retirement some other employer made in 1945, particularly if interest on the payments in the interim be added to the initial cost.

The question remains as to whether general State taxation can be defended as a means for meeting the deficit. Judgment on this point requires consideration of the alternatives. High contributions on the part of the employees will tend to reduce standards of living, particularly among persons receiving relatively low pay. Contributions by employers may be passed on either in the form of higher prices for their products or low wages or greater unemployment. The accumulation of funds may tend to direct to an undesirable degree streams of purchasing power from consumers-goods industries into capital-goods industries. Assuming the funds, which the Government would contribute to be raised by socially-desirable forms of progressive taxation, these undesirable consequences of levies on employers and employees would be mitigated provided no great reserves would be built up. Progressive taxation has tended to grow in disfavor in recent years on the ground that it is an unreliable yielder of revenue in periods of depression. Such an objection has no great weight in connection with old-age-insurance funds if adequate contingency reserves are maintained since temporary decreases in current income will not seriously endanger the operation of the fund. Given adequate experience on which calculations could be based, projections of expenditures can be made so far in advance that a firm basis of planning for the future can at all times be maintained with a higher degree of accuracy than in almost any other field.

But there are still further considerations which would justify a Government subsidy. The introduction of a system of old-age insurance will, as has already been pointed out, for a considerable period of years result in great savings as compared to a straight system of old-age pensions. On the basis of figures as to costs which have been submitted in connection with the old-age provision of title IV of S. 1130 and in connection with what the expenditures would be under title I without the old-age insurance, I have calculated that if the savings up to the year 1970 were set aside in a fund and accumulated at 3 percent interest, the total accumulation would be in excess of 10 billions of dollars. A similar saving would be made by the States. These savings deserve to be recognized in any consideration of the contributions of the Government to the old-age-insurance scheme.

I submit that it is the experience of the great majority of foreign countries that the Government must support in part the old-age-insurance system, and this experience ought to be given considerable weight. The standard contained in the draft convention formulated by the International Labor Office, to which this Government has recently adhered, provides that "the public authority shall contribute to the financial resources of the benefits of insurance schemes covering employed persons in general and manual workers." This standard was adopted after a most exhaustive study by the International Labor Office and after a long period of discussion by representatives of governments, employers, and workers.

Again, it is generally conceded that a major factor in insecurity is the maldistribution of wealth and income. Social insurance may not only contribute directly toward the provision of security, but indirectly by assisting toward the elimination of these inequities. Finally, if it is true that the existence of a sound social-insurance scheme is essential to the maintenance of social peace, then the State, whose chief mission is to maintain peace within the Nation, should obviously contribute largely to the support of insurance.

Final judgment on the whole question of the division of costs among the three possible parties—that is, employers, employees, and the State—ought to take into account the form of earnings and pay-roll taxes.

The economic security bill proposes uniform rates of earnings and pay-roll taxes at a give time on all persons and employees covered. No allowance is made for cost differentials as between individual. Costs will differ for different individuals depending mainly, interest on mortality being assumed equal, on two factors, age and rate of wage change by age. Without going into detail three classes of employees will pay relatively high contributions relative to their ultimate benefits: (1) Those employees who reach their maximum pay early in life and suffer a decline in earnings, more or less severe, after middle age or even before. This group embraces probably the majority of wage earners if we leave out of account changes in the general level of wages which affect all groups horizontally; (2) those who become unemployed totally or almost so after middle age. The number included in this group seems to be increasing; (3) those who are promoted out of the insurance group or who leave voluntarily, by marriage, for example, before reaching 65. This group probably constitutes no particular problem.

In general, the uniform rates of contributions and taxes treats most unfavorably those whose status is most precarious. This situation has generally been recognized in the formulation of systems of old-age insurance. Several devices have been used to offset it:

- (1) Give credit for some periods of unemployment in computing the amount of annuity.
- (2) Apply larger percentage rates of benefit to low pay than to high pay, as has been done in the Railroad Retirement Act.
- (3) Assess employees for less than half of the cost of all benefits, as has also been done in the Railroad Retirement Act.
- (4) Provide a Government subsidy raised from progressive taxation.

The first method has probably the least effects in the direction of equalizing since it benefits the man promoted out of the insured class as well as the person already out of a job. The staff of the committee on economic security recommended the second method and hoped, as did the old-age security subcommittee of the Technical Board, that the deficit arising from payment of unearned annuities initially would ultimately be provided by Government funds raised from progressive taxation. Without such Government payment the other three methods will not completely offset the inequities of the uniform method of tax assessment.

Four conclusions seem to follow from this discussion:

- (1) The initial annuities provided in S. 1130 are a minimum. Any substantial reduction in such amounts would seriously endanger the success of the plan.
- (2) A 1-percent rate of contribution divided equally between employer and employee is preferable to an initial contribution of double that rate, and the increase of 5-year intervals is more desirable than an increase at 3-year intervals.
- (3) Total contributions in excess of 5 percent cannot be justified on the ground of economy.
- (4) Final success of the scheme will probably involve a government subsidy which ought to be raised from progressive taxation.

A word as to the main reasons why it seems to me essential that the old-age system be on a national basis is perhaps in order. Administrative and economic considerations both point to the necessity for national administration. First of all, except on a purely pay-as-you-go basis, rather large sums will necessarily be accumulated even though the reserves will be far from those which would be maintained if the system were operated on the reserve standards which private insurance companies must necessarily maintain.

It is unlikely that most of the States could build up effective agencies for investing considerable funds. Any such investments would, of course, have a vital effect on the fiscal policies of the Federal Government; and as a matter of protection, both from fiscal and currency and banking policies, the Federal Government must retain control over investments. Second, population shifts in this country are still considerable. From the point of view of a system of old-age insurance, the whole working life of the typical worker must be taken into account. Shifts from one State to another will have very decided effects upon reserves and it would be wholly erroneous to assume that the shifts would cancel each other out within individual States. Moreover, the shifts themselves would effect changes in the value of benefits themselves and consequently would be extremely difficult to deal with on any actuarial basis. Even if legislation in 48 States were absolutely uniform, the value of an annuity of a given amount to an individual, payable some years in the future, would vary widely from State to State.

Third, under a system of compulsory contributory old-age insurance, in which benefits are considerably more liberal than under existing old-age pension laws, distinct effects on both the demand and the supply side of the labor market may be expected. The boundaries of the labor markets, of course, do not follow State lines; and in some industries, at least, the market is essentially national. Any assumption that the laws of the 48 States would be uniform is probably absurd and would tend still further to produce disparate results in different geographical sections of the labor market. Old-age insurance is on the whole the most costly form of social insurance. Difference in the provisions of the systems in the several States would, on the whole, tend to be a more disrupting influence in competitive situations than would differences in probably any other form of social insurance. Finally, to rely on State action would mean precisely what has been the case in most other forms of social legislation—that action would be inadequate and long delayed.

It seems to me clear that all these considerations lead to the conclusion that the old-age insurance system not only is necessary but ought to be initiated at the earliest possible moment. This line of reasoning also leads to the view that while the benefit rates should start at a relatively high point, large initial contributions from either employers or employees would be undesirable: First, as impeding the progress of recovery; second, as building up excessive funds, creating new investment problems and disrupting existing channels of investment; and third, as transferring purchasing power from one set of industries to another in an undesirable manner.

The system as set up in S. 1130 will be self-supporting for a generation at least. It does not seem to me a serious obstacle to the adoption of a sound system of social insurance that the exact manner of financing the scheme 40 years hence cannot be determined accurately at the present time.

I wish to point out that until a system of this sort is started, all calculations as to costs and expenditures, and hence all the fundamental data on which a sound decision can be made, are based on assumptions which are open to a large margin of error. It may be of some value to enumerate briefly the type of assumptions which have been necessary to arrive at the actuarial estimates which have been submitted to this committee. These estimates have been made by competent actuaries and have been subject to the scrutiny of the Advisory Board whose professional competence is beyond question. Other actuaries would perhaps arrive at somewhat different results. It is only fair to these actuaries to say that they realize the calculations contain assumptions which may prove wide of the mark, and that they are of a fundamentally different kind from those which actuaries are called upon to make in connection with fixing premium rates and making valuations for private insurance companies.

First of all, these estimates involve a projection of the total future population. This projection was taken largely from the studies of population experts such as Drs. Thompson and Whelpton, of the Scripps Foundation for Population Research, and Dr. O. E. Baker, of the Department of Agriculture. It has been assumed that the population will rise gradually to 150 million in 1975. On the basis of this first assumption age distributions have been projected on the basis of the 1930 census, with the assumption that the mortality among white males in the population in the period 1920-29 will apply to the whole population in the future. This makes some slight allowance for improved mortality. It has been assumed that initially the insured population would be about 33 million and would rise by 1980 to approximately 48 millions of persons. It has been further assumed that in the early years of operation of the system, 33 percent of the population 65 and over would qualify for annuities under it, and that this proportion would rise gradually to 60 percent. It has been assumed that the changes in salaries and wages by age would be such that the cost calculations could be based on the assumption that salaries remained constant.

It has been further assumed that the net immigration would be 100,000 per year, distributed as to age according to immigration in recent years, and that survivorship of these immigrants could be determined on the basis of the same mortality table as was used in the other calculations. And, finally, it has been assumed that interest would be earned at the rate of 3 percent per annum on any accumulated funds. All allowance for shifts in and out of insured occupations is implicit in these foregoing assumptions.

The calculations which have been presented could not have been made at all without some assumption, implicit or otherwise, on all these points; and there will be no serious disagreement as to their reasonableness. In the absence of a system of old-age insurance which would yield data permitting specific measurements of

each of the factors involved, no better estimate could be made 5 years from now. But until the system of old-age insurance yields its own data there can be no competent final determination of the financial foundations for this or any other scheme of old-age insurance. We can proceed as soundly today on measures of this sort as we can 1 year, or 5 years, or 10 years in the future.

The **CHAIRMAN**. Miss Helen Hall.

STATEMENT OF HELEN HALL, NEW YORK CITY, PRESIDENT NATIONAL FEDERATION OF SETTLEMENTS, DIRECTOR, HENRY STREET SETTLEMENT, MEMBER, ADVISORY COUNCIL TO THE COMMITTEE ON ECONOMIC SECURITY

MISS HALL. In time of war, when it is a matter of risking life for one's country, we do not leave it for each State to decide whether, or how, the risk be taken. As an American, not as a Virginian or New Yorker, the soldier risks his life. No other hazard, not war itself, so menaces family life and casts a shadow over the lives of children as economic insecurity, and when it comes to this greatest risk of life and happiness, we should not leave the terms of protection solely to the States. I urge that in the provisions of the Wagner-Lewis bill, the unemployed man be given fuller protection by his national Government.

This is not an emergency act but one which tries to deal with a permanent disability. Not only have the hard times made us conscious of that need, but they have shown us how our failure to meet it in normal times has compounded misery in bad. Neighborhood workers live close to working people in all their vicissitudes. Ever since 1928 the Settlements have made Nation-wide studies of the results of unemployment on families in the United States and have also studied the effects of the English unemployment insurance system on British workers and their families.

On April 1, 1930, I was asked to bring the results of an inquiry into unemployment in good times, made by the National Federation of Settlements in 1928-29, to hearings before a Senate subcommittee of the Committee on Commerce, which was then considering the Wagner bills of that day on public works, precise information on unemployment, and the establishment of a national employment service system. Senator Wagner has been a pioneer in this field, and we have been deeply appreciative of his leadership throughout the years when it was hard to get a hearing for our unemployed neighbors:

Last year we testified in favor of the Wagner-Lewis unemployment insurance bill, strongly urging its enactment. Today we recognize the Wagner-Lewis economic security bill as a great advance over the past in many of its provisions, but we feel that the section dealing with unemployment is a step backward.

I should like to incorporate at this point a resolution passed by the board of directors of the National Federation of Settlements, with members present from Chicago! Boston, Philadelphia, Columbus, Detroit, Wilkes-Barre, Orange, Pittsburgh, Cleveland, and New York.

Be it resolved, That we endorse the security program of the Roosevelt administration, embodied in the new Wagner-Lewis bill for unemployment insurance.

with the backing of the administration, provided for a 5-percent pay-roll tax and for national standards below which the States should not fall. It is a step backward at both points, It Provides for a 3-percent tax, and carries