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SOCIAL SECURITY EARNINGS LIMIT PROVISION OF THE CONTRACT WITH AMERICA

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

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CONTENTS

	Page
Press release of December 27, 1994, announcing the hearing	2

WITNESSES

Social Security Administration, Hon. Shirley Sears Chater, Commissioner of Social Security	6

American Association of Retired Persons, Eugene I. Lehrmann	39
CATO Institute, Stephen Moore	88
Dorcas R. Hardy & Associates, Dorcas Hardy	94
Drawbridge Estate, Jim Willman	38
Entin, Stephen J., Institute for Research on the Economics of Taxation	63
Flemming, Arthur S., Save Our Security Coalition	102
Gashel, James, National Federation of the Blind	109
Goodman, John C., National Center for Policy Analysis	51
Grove, David C., Reutzahn's Furniture & Appliances and National Retail Federation	30
Hansen, Jake, Seniors Coalition	106
Hardy, Dorcas, Dorcas R. Hardy & Associates	94
Hastert, Hon. J. Dennis, a Representative in Congress from the State of Illinois	20
Heritage Foundation, Daniel J. Mitchell	73
Institute for Research on the Economics of Taxation, Stephen J. Entin	63
J.C. Penney Company, Inc., Mary A. Rostad	31
Kentucky Department for the Blind, Priscilla Rogers	119
Lehrmann, Eugene I., American Association of Retired Persons	39
McCauley, Jean, TeleSec Temporary Services and National Association of Temporary and Staffing Services	26
McSteen, Martha A., National Committee to Preserve Social Security and Medicare	121
Mitchell, Daniel J., Heritage Foundation	73
Moore, Stephen, CATO Institute	88
Myers, Robert J., Social Security Administration	58
National Association of Temporary and Staffing Services, Jean McCauley	26
National Center for Policy Analysis, John C. Goodman	51
National Committee to Preserve Social Security and Medicare, Martha A. McSteen	121
National Council of State Agencies for the Blind, Priscilla Rogers	119
National Federation of the Blind, James Gashel	109
National Federation of the Blind of Kentucky, Betty Niceley	109
National Restaurant Association, Jim Willman	38
National Retail Federation:	
David C. Grove	30
Mary A. Rostad	31
Niceley, Betty, National Federation of the Blind of Kentucky	109
Rogers, Priscilla, Kentucky Department for the Blind and National Council of State Agencies for the Blind	119
Rostad, Mary A., J.C. Penney Company, Inc., and National Retail Federation	31
Reutzahn's Furniture & Appliances, David C. Grove	30
Save Our Security Coalition, Arthur S. Flemming	102
Seniors Coalition, Jake Hansen	106
Social Security Administration, Robert J. Myers	58

Page

Steuerle, C. Eugene, Urban Institute 81
TeleSec Temporary Services, Jean McCauley 26
Willman, Jim, Drawbridge Estate and National Restaurant Association 38

SUBMISSIONS FOR THE RECORD

Air Force Sergeants Association, Chief M.Sgt. James D. Staton, USAF (Ret.), statement 127
American Bar Association, Robert D. Evans, letter 129
American Council of the Blind, Glenn M. Plunkett, statement 131
American Federation for the Blind, Scott Marshall, statement and attachment 132
American Hotel & Motel Association, Thomas F. Youngblood, letter 134
Consortium for Citizens With Disabilities, Tony Young, statement and attachment 135
National Association of Convenience Stores, statement 141
National Farmers Union, Leland Swenson, statement 142
National Industries for the Blind, Patricia M. Beattie, statement 143
Retired Officers Association, Col. Christopher J. Giaimo, USAF (Ret.), letter .. 145
Shays, Hon. Christopher, a Representative in Congress from the State of Connecticut, statement 150
The 60/Plus Association, James L. Martin, letter 151
United Seniors Association, Inc., Hon. Beau Boulter, statement 154
U.S. Chamber of Commerce, R. Bruce Josten, letter 156

SOCIAL SECURITY EARNINGS LIMIT PROVISION OF THE CONTRACT WITH AMERICA

MONDAY, JANUARY 9, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, D.C.

The subcommittee met, pursuant to call, at 1:45 p.m., in room B-318, Rayburn House Office Building, Hon. Jim Bunning (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
December 27, 1994
No. 1

PRESS CONTACT: Ari Fleischer or Amy Tucci
(202) 225-8933
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BUNNING ANNOUNCES *CONTRACT WITH AMERICA* HEARING ON SOCIAL SECURITY EARNINGS LIMIT

Congressman Jim Bunning, (R-KY), Chairman Designate of the Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the provision in the Senior Citizens' Equity Act -- one of the 10 bills contained in the *Contract with America* -- which would raise the **Social Security earnings limit** to $30,000. **The hearing will take place on Monday, January 9, 1995, in room B-318 of the Rayburn House Office Building, beginning at 2:00 p.m.**

BACKGROUND:

Under current law, individuals who work after filing for Social Security benefits may lose part or all of their benefits if they earn over the Social Security earnings limit. In 1995, the annual earnings limit for those aged 65-69 is $11,280. Individuals who earn more than this amount lose $1 in benefits for every $3 earned.

The current earnings limit has been shown to act as a disincentive to skilled older workers, who would otherwise choose to remain productively employed. The current earnings limit has also been shown to punish senior citizens who must work out of economic necessity, by penalizing them with a loss of benefits if they have earnings above the limit. Loss of Social Security benefits because of earnings above the current earnings limit, coupled with the tax on Social Security benefits imposed on individuals with incomes above $25,000, or couples with incomes above $32,000, can result in older workers paying taxes at a much higher rate than younger workers with incomes at the same level.

The Senior Citizens' Equity Act of the *Contract With America* would increase the annual earnings limit for those 65-69 to $30,000 by the year 2000.

FOCUS OF THE HEARING:

The hearing will focus on the merits of the provision in the Senior Citizens' Equity Act of the *Contract With America* which would increase the annual earnings limit for those 65-69 to $30,000 by the year 2000.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Diane Kirkland or Traci Altman at (202) 225-1721 no later than the close of business, Tuesday, January 3, 1995. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Social Security will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-9263.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Social Security office, room B-316 Rayburn House Office Building, no later than noon, Friday, January 6, 1995.** Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Monday, January 23, 1995, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Social Security office, room B-316 Rayburn House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

*****

Chairman BUNNING. I have an opening statement I would like to start with.

Good afternoon, ladies and gentlemen. First, let me welcome our witnesses, guests, and the new members of the Social Security Subcommittee. It is the first hearing for the 104th Congress.

Today marks the beginning of my chairmanship of the Social Security Subcommittee—and I would like to say a few words about the direction that I would like to take.

Four years ago I chose to become a member of the Social Security Subcommittee because I thought that I had something to contribute. Social Security is the finest and most important social program this country has ever created. Over 42 million Americans rely on it every month, and I am proud to be associated with it.

Now, as I assume the chairmanship of this subcommittee, I would ask my colleagues on both sides of the aisle to work with me to do what the American public wants us to do—to protect and strengthen the Social Security system—for today's seniors and for the generations to come.

This day marks the beginning, but I also hope it marks a continuation, a continuation of the outstanding working relationship I have shared with my colleague, Andy Jacobs. When Andy Jacobs sat in this chair, he extended every courtesy to me and worked with me and the entire subcommittee in a bipartisan fashion.

I intend to continue in that bipartisan manner. I want to work with each and every one of you to achieve our common goal—the betterment of the Social Security system. Our stewardship of this system will be particularly critical as the Social Security Administration becomes an independent agency on March 31 of this year.

Since Mr. Jacobs and I are the only returning members of the subcommittee, I would like to introduce our new members at this time.

First, the majority members: Sam Johnson of Texas, Mac Collins of Georgia, Rob Portman of Ohio, Phil English of Pennsylvania, Jon Christensen of Nebraska, and Mel Hancock of Missouri.

And the minority members: To my left, Andy Jacobs of Indianapolis, the ranking minority member, or vice chairman, as he called me, whom I am glad to say is returning to the subcommittee. You have done an outstanding job, Andy, for 8 years as chairman of this subcommittee, and I thank you.

Barbara Kennelly of Connecticut, L.F. Payne of Virginia, and not present but a member of the subcommittee, Richard Neal from Massachusetts.

Welcome to the subcommittee. I look forward to working with each and every one of you.

Before we get down to the business at hand, I want to briefly review the subcommittee's hearing rules. In general, I will follow the rules of the full committee. Without objection, we will dispense with opening statements except for the chairman and ranking member. Any Member is welcome to submit statements for the record.

Witnesses will be strictly limited to 5 minutes for their oral testimony. Of course, all witnesses are welcome to submit full written statements for the record. I emphasize that remarks must be brief

because we have tried to accommodate as many witnesses as possible.

Now to the business at hand.

The Social Security Subcommittee has held hearings on raising the earnings limit in the past. But this hearing is being held for a different reason than earlier ones. The American people—in particular, working class seniors—told us that the earnings limit penalizes them for working and discourages experienced older workers from remaining productive.

To those working seniors—several of whom are here today to speak to us—I want to say that this Congress has heard you. In response, we have made our Contract With America.

We are the first Ways and Means subcommittee to begin fulfilling our contract by focusing on the disincentives caused by the Social Security earnings limit.

As has already been demonstrated by votes in 1989 and 1992, there is broad support for raising the earnings limit in the Congress. In fact, ever since he took a seat on Ways and Means, Chairman Archer has made raising the earnings limit one of his top priorities.

But more importantly, the earnings limit must be raised because lower and middle income seniors, who often have little or no pension or investment income, have told us that they must work to survive.

Last week, on the opening day of the 104th Congress, Congressman Hastert, Congresswomen Kelly and Thurman, and I introduced the Senior Citizens' Equity Act aimed at removing the tax burdens and work penalties imposed on our seniors.

Over 1 million Americans have their benefits reduced or withheld as a result of the Social Security earnings limit. It is unfair and it is time we changed it. I am committed to doing just that.

Before hearing from our first witness, Mr. Jacobs, do you have any comments that you would like to make?

Mr. JACOBS. Yes, Mr. Chairman. You may recall that Mr. Rostenkowski and I sponsored a bill in the previous Congress which would have been about $8,000 or $9,000 off the ultimate exempted amount in your bill. I think it is close enough that, as I told you earlier, I for one will probably find myself in support of your bill.

There is going to be some controversy, I take it, about what the price tag will be. Social Security actuaries say around $6 or $7 billion over the 7 years, I think. And perhaps others will testify otherwise. But I have always opposed repealing the earnings test altogether because of the obvious result that the $500,000-a-year person between age 65 and 70 didn't have any disincentive to work if he happens to be a surgeon or she happens to be an attorney or maybe even a baseball player in excellent condition at that age.

But that is not in your bill and I applaud that. Therefore, I think I can find my way clear, and that would almost make it, speaking of athletics, four for four with us, I believe.

Chairman BUNNING. It would.

Mr. JACOBS. In any case, for the record of the hearing, I incorporate my remarks that I made in the detailed reorganization.

Chairman BUNNING. Thank you, Andy.

[The opening statement of Mr. English follows:]

OPENING STATEMENT OF HON. PHIL ENGLISH

Mr. Chairman and distinguished members of the subcommittee, it is indeed an honor to be present today for this very important hearing on a provision contained in the Senior Citizens' Equity Act. This provision would raise the Social Security earnings limit to $30,000 from the current $11.3 thousand.

Raising the earnings limit is certainly not a new idea. The House has passed legislation to raise the earnings limit twice. Unfortunately, those bills went no further than the House and never became law. This subcommittee has a historic opportunity to finally allow our Nation's working seniors to continue to be productive members of society without being penalized.

The current limit discourages seniors who want to participate in the economy by reducing their benefits by $1 for every $3 earned. In addition to the loss of benefits, the tax on benefits received and earned income add an extra disincentive. In my district, I am familiar with real-life situations where seniors are taking months of work off at a time to avoid these penalties. These citizens want to work, and as their governing officials, we have a responsibility to allow them this basic right; and we should encourage, not discourage, the employment of our citizens.

On the face of it, I find it absurd that working seniors face higher real tax rates than millionaires. We need to roll back the earnings limit to allow skilled, active, and productive seniors to continue contributing to our national economy.

I appreciate the opportunity to make my opening remarks, and I pledge a continued effort toward eliminating employment penalties on senior citizens.

We will start with the Commissioner.

STATEMENT OF HON. SHIRLEY SEARS CHATER, COMMISSIONER OF SOCIAL SECURITY, SOCIAL SECURITY ADMINISTRATION, ACCOMPANIED BY HARRY BALLANTYNE, CHIEF ACTUARY

Ms. CHATER. Thank you very much, Mr. Chairman.

I would like very much to have our chief actuary, Harry Ballantyne, sit at the table with me, if you have no objection. He might be able to answer some of your questions about cost on this subject.

I want to say, first of all, that I appreciate very much this opportunity to join you today to discuss the Social Security retirement earnings test, and I commend you for holding this hearing. The Administration shares the concerns expressed by you and many of your colleagues about the impact of the retirement test on our beneficiaries.

I am hopeful that today's hearing can move us closer to consensus on modifications in the earnings test that are equitable and preserve the financial well-being of Social Security.

With your permission, Mr. Chairman, I would like to submit my full written testimony for the record, and I would like to spend a few moments discussing the objectives that must be satisfied in reaching a consensus on this topic. Then I would like to touch briefly on both the Administration's view on this issue, as well as the retirement earnings test provisions that are in the Contract With America.

The retirement earnings test is certainly not immune to change. Under the original law, retirement was all or nothing. Anyone who received Social Security benefits could have no other earned income. By the time benefits were first paid in 1940, the earnings test was changed to allow beneficiaries to earn up to $14.99 a month and still receive their benefits.

The test has been liberalized several times since then, the most recent revision in 1990, giving us the test that we have today, in which benefits are reduced by $1 for every $3 earned over the annual exempt amount for beneficiaries between the ages of 65 and 69. That annual exempt amount is currently $11,280.

For beneficiaries under age 65, the amount is $8,160, and beneficiaries lose $1 for every $2 earned over that limit.

Future changes in the earnings test need to balance several compelling and competing interests. One such interest is the desire to allow beneficiaries to supplement their Social Security benefits with a limited amount of earnings. This is especially important for many older Americans who are lower income workers, as well as for women and others whose work experience has been uneven. It is also consistent with the basic philosophy that Social Security is not intended to be an individual's sole source of retirement income.

The second interest is that of preserving for older Americans the incentive and the opportunity to work. We share your concerns that the earnings test discourages some beneficiaries from working, that it imposes a high cost on those who would like to remain active in the labor force.

Then a third but competing interest is the desire to offer benefits that are as adequate as possible to those who need them most.

Finally, we need to keep in mind our fiscal obligations to future beneficiaries who have entrusted us to protect Social Security's financial well-being. We believe that any modification to the retirement earnings test that imposes a short-range cost on the Social Security trust funds must be offset by other changes that will leave the trust fund balance unaffected.

The Administration believes that it is possible to enact a moderate increase in the retirement earnings test exempt amount for beneficiaries who have reached age 65 and still satisfy each of the competing interests that I mentioned earlier. The proposal in the Contract With America calls for the annual exempt amount to be increased in stages for beneficiaries reaching normal retirement age until they turn age 70.

The exempt amount would reach $30,000 in the year 2000 and be increased thereafter. SSA's analysis shows that by the year 2000, approximately 600,000 families would receive additional benefits under the proposal.

The net cost to the Social Security and Medicare trust funds would be just under $7 billion over the first 5 fiscal years.

It is important to note here today, Mr. Chairman, on this issue we share the same broad goals, and we want to work with you and look forward to doing so in making this moderate and modest change.

Thank you. I am pleased to answer your questions.

[The prepared statement and attachment follow:]

TESTIMONY OF SHIRLEY S. CHATER
COMMISSIONER OF SOCIAL SECURITY

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to be here today to discuss the Social Security retirement earnings test. The earnings test is an issue which affects many Social Security beneficiaries and has been the subject of much debate and discussion.

The Administration shares the concerns expressed by you, Mr. Chairman, and other Members of this Committee, about the impact of the retirement test on our beneficiaries. I think that this hearing can be helpful in focusing the debate on this issue and I commend you for holding it.

To facilitate our discussion today, I will begin by briefly reviewing the philosophy behind the earnings test, and how that philosophy--and the test itself--have evolved over time. Finally, I will discuss the Administration's views on the "Contract with America" proposed modification to the retirement earnings test that calls for an increase in the annual exempt amount from $11,280 today to $30,000 in 2000 for those workers who have reached the normal retirement age.

History of the Earnings Test

Social Security was designed as a social insurance program under which workers and their dependents are insured against the loss of earnings as a result of the retirement, disability, or death of the worker. Benefits are intended to partially replace the earnings that are actually lost due to these risks. In that context, the retirement earnings test was designed as an objective measure of the extent to which earnings are lost due to retirement.

The Social Security program has always had an earnings test to measure earnings loss, although the way in which the test has been applied has changed over the years. Under the original Social Security Act of 1935, no benefits were payable for any month in which a beneficiary had any covered earnings whatsoever --no benefits were payable unless the person were fully retired from covered employment. However, even before the first benefits were paid in 1940, this strict "all-or-nothing" test of retirement was modified so that a beneficiary could earn up to $14.99 in covered earnings before losing benefits for that month.

Over the years since 1940, the retirement earnings test has been modified many times. The Social Security Amendments of 1950, for example, exempted people age 75 and over from the earnings test. In 1954, the retirement test was broadened to include non-covered wages, and the age at which the test no longer applied was lowered from 75 to 72. The concept of reducing benefits by $1 for each $2 of earnings above the exempt amount was introduced in the Social Security Amendments of 1960, and the 1972 Amendments provided for the earnings test exempt amount to be increased automatically with increases in average wage levels.

The Social Security Amendments of 1977 further increased the exempt amount for beneficiaries age 65 and over. Effective in 1983, the age at which the test no longer applies was lowered from 72 to 70.

The last major change in the test took effect in 1990, when the withholding rate of $1 of benefits for each $2 of earnings was changed to $1 for $3 for beneficiaries aged 65 to 69.

The Current Retirement Test

For beneficiaries ages 65 through 69, the earnings test reduces benefits by $1 for each $3 of earnings above the annual exempt amount, which is adjusted each year to reflect increased wage levels. The 1995 annual exempt amount for these beneficiaries is $11,280. Beneficiaries under age 65 lose $1 for

each $2 of earnings over an exempt amount of $8,160. Unearned income--such as interest income, dividend payments, private pensions and the like--is not counted for purposes of the retirement test.

In addition, workers are exempt from the test when they reach age 70. The test does not apply to disability beneficiaries, who are subject instead to a substantial gainful activity test. It does apply to dependents of disability beneficiaries.

A worker's earnings above the exempt amount affect not only his or her own benefits, but also the benefits of family members receiving benefits on the worker's earnings record. The earnings of a dependent or survivor beneficiary can affect only that beneficiary's payments.

Delayed retirement credits (DRCs) are provided to compensate workers whose benefits are withheld under the retirement earnings test. The DRC increases the worker's retirement benefit for each month that benefits are fully withheld. The DRC is currently 4 1/2 percent per year for workers reaching age 65 in 1995. The DRC percentage will increase by 1/2 percentage point every 2 years until it reaches 8 percent per year for workers reaching age 65 in 2008 and later. When the DRC is 8 percent per year, benefits lost due to the retirement earnings test and/or delayed retirement generally will be offset by the increase in benefits resulting from DRCs for beneficiaries who reach average life expectancy.

About 925,000 beneficiaries lose some or all of their benefits as a result of the test that applies at age 65. Of this group, about 880,000 are retired-worker beneficiaries aged 65 to 69 or their dependents (any age) who receive benefits on the retired worker's record. About 45,000 are dependent or survivor beneficiaries age 65 to 69 who are affected by the test due to their own earnings.

Competing Objectives

As I have discussed, despite the original principle that benefits should be paid only to those who are fully retired, the earnings test has been modified over the years so that it is no longer such a strict test of retirement. These changes have come about from the desire to support several competing interests.

One such interest has been to allow beneficiaries to supplement their Social Security benefits with a limited amount of earnings. This option is especially important for many lower-income workers, as well as for others, especially women, whose work experience has been uneven, and is consistent with the concept that Social Security was meant to function as "one leg of a three-legged stool" that is also supported by private pensions, and individual savings and investments. Modifying the strict retirement test originally in the law has allowed retirees to supplement benefits with earnings up to a specified level, without any loss of benefits.

The second competing interest is that of preserving the incentive and opportunity among the aged to work. Given the demographics of our nation, this goal is likely to take on added importance with the aging of the baby-boom generation and the anticipated slowing in the growth of the labor force. The earnings test discourages some beneficiaries from working because the cost of working--taking into account the test itself, Social Security taxes, and Federal, State, and local income taxes, and work-related expenses--can be substantial for working beneficiaries aged 65 to 69.

The third competing interest is the desire to offer benefits that are as adequate as possible to those who need them most while maintaining the solvency of the Trust Funds. It is important that we consider who receives the benefits from any change in the earnings test and who would pay for them. In addition, although the trust funds are currently running a surplus, it is well known that this is not permanent and that we must carefully guard the use of all Trust Fund dollars.

Thus, in the way it has developed over the years, the retirement test represents a balancing of several inherently competing interests:

- to assure payment of benefits only to those who have truly retired;
- to allow beneficiaries to supplement their benefits with limited earnings;
- to reduce work disincentives; and
- to offer benefits that are as adequate as possible to those who most need them.

Considering the natural tension between these competing interests, it is no wonder that the retirement test is often the subject of debate.

Contract with America Proposal

The Contract with America includes a proposal to liberalize the Social Security retirement earnings test. Under this proposal, the annual exempt amount for beneficiaries attaining the normal retirement age (presently age 65) and through age 69 would be increased in stages beginning in 1996 to $30,000 in the year 2000. The exempt amount would be increased automatically thereafter based on the increase in average wages.

The short-range cost of the Contract proposal is estimated to be approximately $7 billion to the Social Security and Medicare Trust Funds over the first 5 fiscal years. The cost for the first 10 years would be approximately $15 billion.

SSA analysis shows that, by the year 2000, approximately 600,000 families would receive additional benefits under the Contract proposal. However, low-income families would receive little benefit from this modification to the retirement earnings test. This is because their earnings are already below the current law exempt amount or their earnings are so little above the exempt amount that they receive very limited gains from raising the exempt amount.

By the year 2000, families with incomes in 1996 dollars of less than $22,800 would receive only 2.2 percent of the total additional benefits, after taxes. In contrast, more than 47 percent of the total additional benefits would go to families with incomes of $55,800 or more. In fact, the upper 50 percent of earner families would receive 75 percent of the increase in benefits, after taxes. (See attachment for additional information on the distributional effects of the Contract proposal.)

Administration Views

The Administration recognizes that the earnings test can constrain the choices of employment and affect the standard of living for older beneficiaries who do not have other sources of income. Consequently, the Administration would support, in principle, a moderate increase in the retirement earnings test exempt amount for beneficiaries who have reached age 65. We believe that raising the exempt amount would be a sensible and practical approach to refining the balance among the competing program goals I mentioned earlier.

A moderate increase in the exempt amount would keep the short-range costs within reasonable limits, while helping to ensure that those beneficiaries who most need to do so have the opportunity to supplement their Social Security benefits with earnings. Further, a moderate increase in the exempt amount would direct more of the additional benefits toward low and middle earners, and not unduly advantage high earners.

Still, as I have indicated, Mr. Chairman, modifying the retirement test would have a short-range cost to the program. Although the Social Security Trust Funds have a surplus right now, program financing must be strengthened for the long range. Moreover, because Trust Fund surpluses are invested in Treasury securities, any reduction in the short-range surplus will increase the amount that the Treasury must borrow from the public. Therefore, we believe that any change in the retirement earnings test must be accompanied with offsetting changes which leave the financial balance unaffected.

Conclusion

In closing, Mr. Chairman, I would like to thank you again for the opportunity to discuss the Administration's views on the Social Security retirement test. We look forward to working with you and the other Members of Congress to determine how best to modify the retirement test, while also ensuring the financial well-being of the Social Security program.

ATTACHMENT

EFFECTS OF MODIFYING THE RETIREMENT EARNINGS TEST AS PROPOSED IN THE CONTRACT WITH AMERICA

The table below presents a simulation to raise the annual exempt amount (AEA) to $30,000 in 2000 for beneficiaries ages 65-69.

The table below shows the distribution in 2000 of aggregate net benefit increases 1/ by family income for earner families 2/ (column A) and percent paid to families with incomes above the upper limit of decile interval (column B).

	(A)	(B)
By Decile of Number of Families	**Distribution**	**Total Above Upper Limit**
Income (1996 dollars)		
2:$16,138-$22,828	2.2	97.6
4:$28,030-$33,541	3.9	84.1
6:$39,060-$46,575	10.1	65.2
8:$55,833-$70,154	12.1	35.1
10:$100,130 or more	11.1	

1/ Aggregate net benefit increase is the total increase in Social Security benefits paid minus the aggregate increase in Federal personal income taxes that the beneficiary must pay as a result of the additional benefit payments.

2/ Earner families are families with at least one earner aged 65-69.

Source of Information: Social Security Administration, Office of Research and Statistics

Chairman BUNNING. Thank you.

As I was reading your written testimony, I was struck that it contained no reference to the commitment to raise the earnings limit that the President made in Putting People First, and I would like to quote from page 141 of that.

"Lifting the Social Security limitations so that older Americans are able to help rebuild our economy and create a better future for all."

You have said that your statement represents the Administration's views, but it is somewhat a negative tone—it doesn't seem to reflect the President's position. Maybe you can explain. Has it changed or is it just not as enthusiastic as it was during the campaign?

Ms. CHATER. I don't think it has changed, Mr. Bunning. I believe that the President's words are to lift—and I am interpreting that as to raise, to increase.

Chairman BUNNING. We have tried both ways—we tried to lift it and eliminate it. Now we are going to try a 5-year program. We think that is the best way to do it, and the least costly way to do it.

Ms. CHATER. I think the important point here is that whatever figure we agree upon, we need to be able to finance it, and try to see what the various amounts might be that would lead us to make those decisions based on the capability of financing the change.

Chairman BUNNING. Let me ask you a followup question, and this is the only question I am going to ask you. What does the Administration consider to be a moderate increase? Moderate can mean, you know, many things to many people. What does it mean to you as the Commissioner of Social Security?

Ms. CHATER. Well, last year when I testified, I used as an example $1,000 as one figure to think about, to talk about, and to calculate how much the cost would be on that. And I have done that. If we were to increase the amount of the retirement earnings test by $1,000, we would have before us a cost of $0.9 billion, for example.

Chairman BUNNING. Total cost for the 5 years, or total cost for 1 year?

Ms. CHATER. Over 5 years.

Chairman BUNNING. In other words, you are going to increase it from $11,250 to $12,250, then to $13,250 in $1,000 increments over a 5-year period? Is that what you consider moderate?

Ms. CHATER. No, it would be increased by $1,000 in the first year and the new higher exempt amount would be gradually rolled up for the 5 years so it would end up in 5 years to be $14,880 based on our current assumptions.

Chairman BUNNING. Well, I am glad that I know what moderate means now.

Mr. Jacobs will inquire.

Mr. JACOBS. I have no questions except to welcome Dr. Chater to the subcommittee. We are always happy to see her.

Chairman BUNNING. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

I would just like to ask, if you are confirmed as Commissioner, as a policy official, what would your view be toward creating incen-

tives for older Americans to continue working, especially if they need income to supplement Social Security?

Ms. CHATER. I would favor, very much favor, a moderate increase in the retirement earnings test, and what I would like to do is figure out how much it would cost if we were to raise that $1,000, $3,000, whatever, to see how much of these various increases we could afford, because obviously we need to pay for it.

Mr. JOHNSON. I understand. And let me ask you just one more, if I may. If you are confirmed, who is going to make Social Security policy, you or OMB?

Ms. CHATER. I am sorry, who is going to make Social Security——

Mr. JOHNSON. Policy, you or the OMB?

Ms. CHATER. Well, the Social Security Administration is going to become an independent agency, and we are working very hard now to define our role as an independent agency, and we are working very hard to put into place a team-like approach in which we would work with Congress and the Administration on policy development.

Mr. JOHNSON. But you are going to be the head guru, right?

Ms. CHATER. I certainly hope so.

Mr. JOHNSON. Thank you.

Chairman BUNNING. Ms. Kennelly will inquire.

Mrs. KENNELLY. Thank you, Chairman Bunning.

Doctor, when you are looking at this, as you said, you testified on it last year, in your perception of where we would pay for it and how we would pay for it, do you see the money coming from the Social Security fund itself or from the general fund?

Ms. CHATER. The trust fund. If we are going to pay increased benefits, those benefits should be paid from the trust fund account. My concern is that we not take from the trust fund so much money that we destroy or tamper with the financial solvency of the trust fund over the long term. We need to keep it solvent.

Mrs. KENNELLY. Have you done any studies on which income levels would be most helped by this change?

And a followup on that: Have you looked at, since obviously we have all heard from our constituents that this is a limitation on work, have you done any work on how many people might come back into the work force if in fact this made it more attractive to work?

Ms. CHATER. It is very difficult to estimate how many people might come back into the work force if there were no limit on earnings. It is difficult because according to the research that we have reviewed, we note that most of the decisions that are made by retired workers to return to work are done so not necessarily because of the exempt amount or an increase in that limit. There may be personal kinds of decisions, whether they are physically able to work, whether they want to work, whether they value leisure or not. So it is very difficult to make an estimate of how many people would come back.

Mrs. KENNELLY. Are you saying we are doing this for other reasons than the fact that people don't stay in the work force because it is frustrating to work and have $1 taken away for every $3 earned?

Ms. CHATER. No, not at all. We believe there will be people who will want to work. We know that from the number of clients that we serve now. All I am saying is it is very difficult to make an accurate estimate of how many people would actually choose to come back even if the limit were raised.

Mrs. KENNELLY. What about income limits, income groupings? Have you seen who does come back—excuse me, who does work beyond the age of 65? You must have done some work on that, or the agency.

Ms. CHATER. If you are interested in looking at the distribution of income brackets of people affected, I refer you to the last page of my written testimony. You will see there that the categories of people that would probably come back to work would, of course, be those who are now earning the $11,280. If that cap were raised, then that would give the opportunity for those people at the low end of the salary scale to return to the work force.

The chart, however, shows that if we were to raise the retirement earnings test to $30,000, only 2.2 percent of the added benefits would go to the low income workers, those earning $16,000 to $22,000, as opposed to a higher percent of benefits given to some of the——

Mrs. KENNELLY. The $70,000 to $100,000 get 24 percent?

Ms. CHATER. Yes.

Mrs. KENNELLY. Thank you, Doctor.

Chairman BUNNING. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Dr. Chater, there seems to be a lot of ifs in this whole deal, if we do this or we don't do that, or this is going to happen if we do this. My daddy used to say if a frog had wings, they would have a whole lot softer landing. He said it in a little different fashion.

But you are talking about—you are telling me that if they don't work, you are at the age of 65, you stop working completely, we are going to pay out X number of dollars to you monthly in Social Security benefits if you should file for them. Is that not true?

Ms. CHATER. Would you say that again, please?

Mr. COLLINS. When a person reaches 65, they will get Social Security. If you file for it, we will pay you X number of dollars per month, period. If you don't work, we are going to pay you these number of dollars—if you don't earn above the earnings test. Is that not true?

Ms. CHATER. Yes. That is true.

Mr. COLLINS. Well, if a person works, then we penalize. So it is not actually costing the government as such. It is costing those who have paid into the Social Security system all those years prior to then. Is that not true?

Ms. CHATER. Yes, that is true.

Mr. COLLINS. Thank you.

That is all, Mr. Chairman.

Chairman BUNNING. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman.

Dr. Chater, thank you for your testimony. I am new to the subcommittee and really new to this issue. My question will probably reveal more about what I don't know than what we need to do in order to address this problem.

It seems to me we have a consensus. We want to raise the earnings limit. We have talked about different numbers. I think vice chairman Jacobs indicated his support this morning for something along the lines of what is in the contract so that it comes down to how do we pay for it. Perhaps Mr. Ballantyne can help us with this as well.

I am a little confused about how we come up with the $6.8 or $7 billion figure. Is it true that the long-term costs are that great, given the fact that, as I understand it, the amount of benefits an individual collects over a lifetime would also be altered?

In other words, all you do with raising the limit is you change the payout rate. Again, perhaps Mr. Ballantyne can address this from an actuarial perspective. But what are the real costs to the system of raising the limit over the long term?

Mr. BALLANTYNE. OK. Well, Mr. Portman, there is a short-range cost which you mentioned, $6.8 billion, as close to the estimate. Then there would be some offsetting savings in the longer range because today there is a delayed retirement credit. For people who are 65 this year, the credit is 4.5 percent for each year that retirement is delayed. That is not quite an actuarial credit, but it is scheduled to increase to 8 percent for people who would reach 65 in the year 2008, at which point it would be actuarial.

In the long range, the cost of this proposal as a percentage of taxable payroll, which is how we usually make the long-range cost, is what we would call negligible, because it is less than 0.005 percent of taxable payroll. So this is a short-range cost, primarily.

There would be some cost beyond the first 5 years as well. But yes, in the long range, it has very little cost.

Mr. PORTMAN. The increase in the delay of the time credit of 8 percent would contribute even more to it being what you term a negligible cost in the long run.

Mr. BALLANTYNE. Because it does go to 8 percent, right.

Mr. PORTMAN. Can you give the subcommittee a description, long versus short range, in terms of numbers of years?

Mr. BALLANTYNE. In the shorter range we usually think of the next 5 years. The long range is an estimate for the next 75 years.

Mr. PORTMAN. I appreciate that very much. Some expert panels coming on later may address that same issue. But I think that is an important one for us to try to grasp.

I know the chairman shares the feeling that this provision does need to be paid for. I think we need to figure out what the actual long-term costs are.

Thank you, Mr. Chairman.

Chairman BUNNING. Mr. English.

Mr. ENGLISH. Thank you.

Dr. Chater, welcome. In your testimony, you state that if the limit is raised to $30,000, 47 percent of the additional benefits will go to senior families with incomes over $56,000.

You don't mention the positive side, which is that obviously the 53 percent of the benefits will go to senior families with incomes between $16,000 and $56,000, which certainly isn't my notion of upper income.

Is this an argument you are making that we should not be helping middle income seniors remain productive and make financial ends meet because some higher income seniors might also benefit?

Ms. CHATER. No, not at all. That is not the intent. The intent here is only to show what the distribution of the new benefits to be paid out would look like in relation to various income groups. That is all.

Mr. ENGLISH. Thank you very much.

Chairman BUNNING. Mr. Christensen.

Mr. CHRISTENSEN. Thank you, Mr. Chairman.

First, I guess I would like to—I heard your definition of a moderate income over 5 years, which I find that quite low for my definition. But would you concede that the annual exempt amount, currently $11,280, is too low? Just a simple yes or no.

Ms. CHATER. Yes.

Mr. CHRISTENSEN. Do you know how many seniors would enter the labor market if we were to go ahead and raise the earnings limit and how much output that increase in the labor force would generate, as well as new tax revenue to the system?

Ms. CHATER. I believe it is 600,000.

Mr. BALLANTYNE. That includes people who are now working as well.

Ms. CHATER. We know, for example, about 600,000 of our beneficiary families would receive more under the $30,000 increase. We do not know with accuracy how many people would actually work, how many of those people would return to work now that the option was there for them to do so.

Mr. CHRISTENSEN. When you projected your figures out, did you do it from a dynamic or a static model? Did you look at the impact of the increased labor force on the system and the new revenue that would be generated from seniors?

Ms. CHATER. I didn't utilize what you call dynamic budgeting. I was looking strictly at the moderate amounts to see what the total cost would be and worked it out based on, as I said, $1,000. We looked at how much it would be if moderate were defined as $3,000, which comes to a cost over 5 years of $2.9 billion.

I would just reemphasize that we very much support the notion of raising the limit. I just want to be sure that we find a way to pay for it. So my reason for selecting what appears to be a modest, moderate amount is simply to see what the total cost would be in terms of affordability.

Mr. JOHNSON. Will the gentleman yield?

I would like to follow up on your answer that you don't know how many of the people that are currently under Social Security would go to work, that the benefits would just be increased. I was under the impression that when you computed the amount of loss, that it included any deductions estimated that would occur toward further Social Security based on work force.

If you don't know how many are going to work, how can you come up with an estimate of $7 billion?

Ms. CHATER. Allow me to ask Mr. Ballantyne to respond to that, please.

Mr. BALLANTYNE. Yes, Mr. Johnson, we do have an estimate of some offset to the cost for people who would either go back to work

or would increase their earnings levels. It is a relatively small offset of about two-tenths of 1 billion over the 5-year period. The $6.8 billion total does not reflect that offset. We feel that is a reasonably good estimate for that.

Mr. JOHNSON. But it is an estimate and it is kind of out of the air because you have no firm estimate.

Mr. BALLANTYNE. There is no very reliable way to measure——

Mr. JOHNSON. There is no empirical data to base it on.

Mr. BALLANTYNE. There are some data and many studies have looked at it. Research in the area shows that most economic scholars agree that it would be a relatively small effect.

Mr. JOHNSON. Thank you, Mr. Christensen.

Chairman BUNNING. Do you have any more?

Mr. CHRISTENSEN. No.

Chairman BUNNING. I would like to inquire, how many people now drawing Social Security are affected by the earnings limit?

Ms. CHATER. A total of 1.4 million of our beneficiaries at all ages.

Chairman BUNNING. A total of 1.4 million.

Mr. BALLANTYNE. For persons aged 65 to 69, it is 1 million and 40,000; 1.040 million.

Chairman BUNNING. Anyone else——

Mr. CHRISTENSEN. Mr. Chairman, could I ask?

Chairman BUNNING. Mr. Christensen.

Mr. CHRISTENSEN. Is it not good public policy to permit those senior citizens who wish to work to allow them to work rather than being penalized by this ceiling? I mean, aren't we sending the wrong message to some of our most productive citizens in this country and saying you ought to be relying on government rather than the private sector? Aren't we sending a wrong message here, Doctor?

Ms. CHATER. It goes back to the points I made earlier about the sort of competing interests, one of which is that the retirement earnings test was truly that, and indication of whether or not someone had indeed retired, and that if someone had not reached retirement as we know it, then they wouldn't receive Social Security benefits. So that is one end of the continuum.

The other, of course, is that we want to provide opportunities for older Americans and others to work if they wish to do so. So it is sort of—there are these competing interests on the table that need to be reconciled.

Yes, personally I think it is good public policy to encourage people to stay active in the work force, and hence the Administration's view on a moderate increase.

Mr. CHRISTENSEN. Do you know the average length of time between a retirement and when one passes away? I am just asking this question——

Ms. CHATER. The length of time between retirement and the time one has passed away? Let me answer that from an "over-a-hundred-years-of-age" perspective.

I prepared that for a speech I gave recently. We pay benefits to 36,000 people who are over the age of 100, most of whom I will tell you are women. So it is a large number.

[The following was subsequently received:]

The average amount of time that retired worker beneficiaries receive benefits is approximately equal to their life expectancy at the age at which they begin receiving benefits. For a male reaching age 65 in 1995 (born in 1930), his life expectancy, i.e., expected remaining years of life, after age 65 would be 15.6 years. For a female reaching age 65 in 1995, her life expectancy would be 19.8 years. The "unisex" life expectancy for males and females combined reaching age 65 in 1995 would be 17.8 years. These estimates are based on the estimated future mortality rates for the intermediate assumptions of the 1994 trustees report.

Mr. CHRISTENSEN. Thank you, Doctor.

Chairman BUNNING. Mr. Collins.

Mr. COLLINS. Ms. Chater, we established earlier or you agreed with me that the cost is actually not to the Social Security trust fund but the cost is actually to those who choose to work and be penalized for their work and earnings above the earnings limit. We agreed to that a while ago.

So should we not say this is actually not a cost to the government but a loss of penalties or loss of assessments on those who do work and who earn above the earnings limit? Would that not be a fair statement?

Ms. CHATER. I only go back to these various competing interests and the contract that we have made through policy—that people who work have an earnings limit to determine the extent to which they are retired and how much money they can earn.

Mr. COLLINS. But the thing about it is if no one were to draw the benefits, it would actually cost X number of dollars. But being that they do work and earn above the earnings test, then they are penalized or assessed fees for a certain amount of money, $1 out of $3, for earnings above that earnings limit.

So in essence it is not an additional cost to the Social Security trust fund. It is a loss of penalty or an assessment of those who do work and earn above the earnings limit. Is that not true?

Ms. CHATER. I understand what you are saying.

Mr. COLLINS. Is that not true?

Ms. CHATER. That could be true.

Mr. COLLINS. Thank you.

Mrs. KENNELLY. Just a followup on that.

Chairman BUNNING. Go right ahead.

Mrs. KENNELLY. What it does do, though, it affects the trust fund, doesn't it?

Ms. CHATER. If we pay out increased benefits, of course it affects the trust fund.

Mrs. KENNELLY. So that might be the difference in how you are looking at it.

When you are talking about static and dynamic, I think part of the problem is you have a trust fund, and if you take it out, it does decrease the trust fund, even though what you are saying, sir, is absolutely right: The person is penalized for working. But when we get into the arithmetic of the situation, as we see it now, it would decrease the trust fund.

Mr. COLLINS. The cost is not from paying out benefits. The cost is a loss of penalties or assessments for those who work.

Mrs. KENNELLY. However, if you pay out those benefits, you decrease from the trust fund.

Mr. JACOBS. Mr. Chairman, I think to sharpen the point, you overlook the people who are already working despite the penalty.

And if you raise the earnings limit, you don't induce them to go to work; you pay them greater benefits even though they had already decided to go to work and were not collecting the benefits.

I think that is the difference between the penalty. I can't quantitate that for you, but there is a certain group of workers who fall into that category, I presume.

Ms. CHATER. Yes.

Chairman BUNNING. Any other questions for the Commissioner?

Thank you very much for your testimony.

Ms. CHATER. Thank you, Mr. Bunning.

Chairman BUNNING. The next witness will be Congressman Dennis Hastert.

By way of introduction, I want everyone here to know that Congressman Hastert sponsored H.R. 300 in the 103d Congress, legislation to remove the earnings limit. The bill had 225 cosponsors. He headed up a task force which wrote the provisions in the Contract With America for the Senior Citizens' Equity Act, to raise the earnings limit over 5 years to $30,000.

We welcome your testimony, Denny.

STATEMENT OF HON. J. DENNIS HASTERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. HASTERT. Thank you, Mr. Chairman. It is certainly a pleasure to be here and have you in the chair today. Let me first congratulate you on your rise to the Chair of this subcommittee and thank you for the opportunity to testify here today.

I am here this afternoon to speak on behalf of H.R. 8, the Senior Citizen Equity Act of 1995. This legislation was included within the Contract With America to enable seniors to remain independent and self-sufficient.

For far too long we have penalized our working seniors unfairly, forcing them to pay taxes at rates higher than those assessed on millionaires. As a matter of fact, the marginal rate is twice the rate we tax millionaire seniors. It is 56 percent after they go over the top of their earnings limit.

Also, 2 years ago this body voted to force thousands of seniors to pay increased taxes on their Social Security benefits to help pay for the increases in Federal spending approved by this body in 1993. We have left seniors without incentives to pay for long-term care insurance, and seniors and public housing officials are uncertain about what constitutes a senior housing community. It is time that we change this.

Each of these provisions is critically important, but for the remainder of my time, I would like to focus on lifting the Social Security earnings test, an effort I have undertaken every year since coming to Congress.

Specifically, title I of the Senior Equity Act gradually increases the amount of income seniors can earn before the government reduces their Social Security benefits.

As you well know, Mr. Chairman, as the lead sponsor of the measure before us, the idea that we severely penalize hard-working seniors who make less than $1,000 a month is to me unconscionable.

Seniors of retirement age would be able to earn approximately $4,000 more each year for the next 5 years, raising the earnings cap to $30,000 by the year 2000. Compare that for just 1 minute with the increase that occurred under the law.

In 1994, a 65-year-old working senior could earn $11,160 before being penalized. In 1995, 1 year later, this same senior can now earn $11,280, a whopping difference of $120 extra.

Seniors need relief and they need it now. This proposal is helping those who need it most.

Seniors who are independently wealthy or have stashed away money in rents or properties and get interest—those folks have been able to put money away for their retirement years and maybe have had a more lucrative lifestyle. Those people are able to receive that income and also receive their Social Security benefits. But those people who have had to work by the sweat of their brow, people who have had to go out and punch a clock to earn a living day after day, month after month, year after year, and haven't had the luxury of accumulating big pensions or big amounts of money to draw interest from, or properties they can receive rents from, those people who haven't had that benefit today must continue to work and are severely penalized for doing so. We are in effect punishing them for not being rich.

We are also punishing society as we strip the most experienced and knowledgeable sector of the work force from full-time service. As we work to prepare our economy to meet the challenges of the new global marketplace, we need the years of experience and expertise that our senior citizens have accumulated. I have been told numerous times by businesses that some of their most valuable employees quit halfway through the year because they have reached the earnings limit. I am sure you will hear more testimony to this effect later this afternoon.

I am hopeful that the new majority in the House, and on this subcommittee, will move to raise the earnings limit as soon as possible.

As recently as last November, H.R. 300, the Older Americans Freedom to Work Act, a bill that completely repealed the Social Security earnings limit, had 225 cosponsors. As a matter of fact, in the 102d Congress, a bill similar to this bill passed the House with 394 votes. Under the previous leadership, though, those bills were never able to pass through this subcommittee, pass through the full committee, and get to the floor. I am glad to see that this is no longer the case.

Mr. Chairman, I commend this legislation to the attention of my colleagues on this subcommittee and urge its speedy adoption. Government should work on behalf of the people, not unfairly force people to work on behalf of the government.

Thank you, Mr. Chairman.

Chairman BUNNING. Denny, I thank you for your testimony. I know you have been a champion of this cause for many years. In facts and circumstances it was a pet project of the 100th class. How did you become interested in taking action to help working seniors keep more of what they earn?

Mr. HASTERT. I think part of it was just being in my district and listening to the stories and doing town meetings and office hours

and having folks come in. I can recall off of the top of my head an elderly women who was 66 years of age, her husband was disabled, and she had to drive a school bus. She wanted to drive a school bus and was productive in doing this.

Once she reached so many hours she had to stop working because not only were her benefits reduced under Social Security, but her husband's benefits were reduced as well. So they took a double hit. So here was somebody who had to work—had to work to buy medicine for her husband who was forced not to do that because of the earnings limit.

I think this is really an appendage that was probably put on for good reason back in the thirties, because when we put Social Security in the thirties, we had the Depression and there was good reason. We wanted older people to retire and young people who had families to be able to come in and take up work, to make a living, and make jobs.

But this is an old idea. It is an antiquated idea. It has been carried on since the thirties. Today that is not the case.

In the year 2000, I think the number, and again, please forgive me because I am pulling the number off the top of my head, but I think it is close to 1.2 million jobs are being lost in the work force because we don't have people entering the work force. We have people going out of the work force. So as the baby boomers retire, there are those types of jobs that folks can—seniors especially, can work at, can be productive at, and can help society.

I mean, it is an amazing thing. To further answer your question, I remember a little old lady—I say an old lady, not so old anymore as we reach that 65-year level, who had to quit her job at a flower shop (and she loved her work) because she either had to be offered and was offered to do something that was illegal, and that is to take her wages under the table and virtually break the law (which some people are forced to do today and do to survive) or quit her job which she loved, because, she would be making less money if she worked than if she was unproductive.

I just thought that was wrong. That was really the genesis of this legislation.

It is not a new piece of legislation. Bill Archer carried this for years and years and years, and others have too. It is the right thing to do.

Chairman BUNNING. Mr. Jacobs.

Mr. JACOBS. I commend our colleague for bringing his original proposal more in line with practical considerations, within striking distance, as I said earlier, of the bill I myself have sponsored in the past. I think that when we talk partisan politics, we talk about which party wins, but when we talk negotiated agreement among all parties, all parties win.

So I commend the gentleman for changing his bill for this Congress to bring it within striking distance of previous proposals, as I said before, as long as we can bring the accounts into balance and figure out how we pay for it. I was very encouraged by the actuary's statement, too, that if you view the proposed increase in the earnings test over a longer period of time, it tends to shape itself into something closer to what we all want for this trust fund. I think that is very good news for the whole committee.

Thank you.

Chairman BUNNING. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

I, too, agree with what Mr. Jacobs said. I commend you for bringing this to us. I just hope we can get some accurate estimates. From what I heard before, the estimates of the—you know, what it is going to cost us, don't seem to be too accurate at this point.

Mr. HASTERT. You know, it is tough. You almost have to do dynamic scoring to guess how many people are going to get off or continue to work or increase working. I mean, to try to get a solid estimate, even the Commissioner has had to do that.

When we lifted the earnings test—and I appreciate Mr. Jacobs' comment about that also—we also said that that ($30,000) number is in play. We are always willing to negotiate that, and Mr. Jacobs and I have had discussions on this for many, many years. I appreciate his ability to work with us and look forward to trying to find some change. But when you look at this, we always said if you lifted the earnings test, you would have 700,000 people that would continue to work, that now quit because of the earnings test—or would start back to work again because of the elimination of the earnings test. If those 700,000 people went to work, we would accrue money if you looked at it from a dynamic model.

I know we are constrained. We can't do dynamic models. If you look at the commonsense dynamic portion, those people would have economic activity that would create over $15 billion of economic activity out there and a net accrual to the Federal Government of $3.2 billion. That is according to a study that was done in 1989. So it is not up to date. Some things may have changed.

But $3.2 billion is a lot of money. It is a lot of income. It is a lot of people suddenly becoming independent and being able to take care of themselves instead of depending on the government to take care of them.

Mr. JOHNSON. That is providing the unemployed pool for some of these companies that can't find employees that are qualified.

Mr. HASTERT. Yes.

Mr. JOHNSON. Thank you.

Chairman BUNNING. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Congressman, for your testimony.

Obviously, we are all for the concept, and I salute you for being so involved in it, and nobody wants anybody penalized for hard work. And yet when you answer about how—our former Speaker, about how it can be paid for, you talk about dynamics and 13 billion resulting from that kind of work. Is there any concern on your part that if we don't do dynamic scoring that it will take away from the trust fund?

Mr. HASTERT. Well, first of all, it is kind of a sleight of hand type of thing because it is money that would be paid out ordinarily but because people work, it is not. It would be paid out under this bill because it wouldn't be part of the penalty. But we think that their—the government—estimates, both independent estimates and estimates based on CBO scoring, over a 5-year period, put the cost between $6.8 and $7.6 billion.

However, because there is a 4-percent (and there will be an 8-percent) add-on for anybody who elects the delayed retirement

credit and works over the age of 65, in the long term the cost is negligible. Otherwise you get beyond those 5 years and we are constrained by the 5-year test. You get beyond those 5 years and it is basically negligible because the money is paid back to those folks in a premium when they do retire.

When you try to look at the hard numbers, the hard numbers aren't there. We have been unable to use them because the Commissioner has not been able to figure out exactly how many people would be affected by this in a dynamic way—because they would have to look at it in a dynamic way. So it is—in the long term in about a 10-year period—it is a wash.

So you have to say what do we really want to do? What do we really want people to achieve? The trust fund is really not affected that much. Plus, we can't—because again, of the dynamic aspect of it—look at how much more people will be paying to the Federal Government through taxes and being productive. There will be new money flowing in that wasn't flowing in before. But, of course, we can't put a real hard number on that.

Mrs. KENNELLY. Thank you, Congressman.

Chairman BUNNING. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

I just want to take a moment to thank Mr. Hastert for his efforts on behalf of this piece of legislation and hopefully we will be successful in pushing it all the way through to the President's desk.

Mr. HASTERT. Thank you.

Chairman BUNNING. Mr. Gibbons, would you like to inquire?

Mr. GIBBONS. Go ahead.

Chairman BUNNING. Mr. English.

Mr. ENGLISH. I would simply like to welcome our distinguished colleague and express my appreciation for his efforts on this issue.

I yield the balance of my time.

Chairman BUNNING. Mr. Christensen.

Mr. CHRISTENSEN. Yes. Thank you, Mr. Chairman.

Congressman, I heard a little bit ago the Administration's definition of a moderate increase of $1,000 over a 5-year period of time. I find that rather low. I was wondering what would be your optimum and what would be your definition of a moderate increase?

Mr. HASTERT. Well, I just think that there is a practical—a commonsense application. If you are a senior in my district and—or Phoenix, Ariz., or Omaha, Nebr., or Louisville, Ky., it doesn't make any difference. It is pretty uniform. But if you are a senior and if you are making $6,000 or $7,000 or $8,000 on Social Security, depending on what your earnings have been over the years, and you are on the bottom end of the earnings rung, your Social Security will probably be a little lower than the average. If you are earning $6,000 or $7,000, and you make the $11,000 plus a little bit, that puts you in an $18,000 or $19,000 income range.

If you keep your own home, like most seniors would like to do, and you pay the property taxes on that house and if you like to go out on a Saturday evening and go to a show, and if you like to buy food and heat your home and maybe buy a new car some time, and you start to compute what those costs are, those people are being constrained by the earnings test and are being denied the average American life. So if you say that we are going to give them a

$1,000 increase over the next 5 years, and if you take that and compare it to what their property taxes, for example, might be increased over the next 5 years, they would hardly be able to keep pace, I would guess.

One of the arguments against this years ago was that if you take the cap off the earnings test, you are giving people who are millionaires and all those rich people the money to pay their greens fees. That is just not the case. The honest situation here is if you put it at $30,000, that is where the real working folks are. These are the people who need this break. These are the people who are getting this break in this legislation.

Mr. CHRISTENSEN. Thank you.

Chairman BUNNING. Mr. Hancock.

Mr. HANCOCK. I would just like to express my appreciation to the Congressman for the work he has done on this and point out that I have been—I have been up here for 6 years now. He was supposed to have gotten this done by September 14, 1993, which is when I turned 65. I just wanted to express my appreciation that he is going to get it done, but it is going to take just a little bit longer than we had planned.

Thank you very much for all the work you have done on this and let's keep working on it.

Mr. HASTERT. Thank you.

Chairman BUNNING. Mr. Payne.

Mr. PAYNE. I don't have any inquiry. I just wanted to say I am sorry I missed your testimony, Dennis. I was in an organizational meeting of the Trade Subcommittee. But thank you also for the good work, and I look forward to working on this.

Mr. HASTERT. Thank you.

Chairman BUNNING. Is there anybody, any other questions?

I want to thank you, Denny, on behalf of many, many older Americans around this country who can't be here today. I want to thank you for leading the fight today and in the past 8 years for getting this unfair penalty removed on working seniors. Thank you for taking time to appear before the subcommittee today and supporting something that is important to both of us. Thank you.

Mr. HASTERT. Thank you. I appreciate your partnership on this issue over those years. Thank you, Mr. Chairman.

Chairman BUNNING. Thank you, Denny.

Panel 1, would you please approach the table.

It gives me a great deal of pleasure to welcome our next panel, working seniors and employers who will speak from personal experience about the disincentive imposed by the earnings limit. I would like to extend a special welcome to Jim Willman of Fort Mitchell, Ky., my own district. Several of you have traveled quite far to be here, and I particularly appreciate that. I would like to recognize Sam Johnson for an introduction.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mary Rostad, who is the divisional vice president and assistant director of personnel, the J.C. Penney Company, which happens to be in our district, is one of your attendees today and I guess you could call them the Dallas Cowboys of the retail world.

Chairman BUNNING. All right.

Jean McCauley of Germantown, Md.; David Grove of Frederick, Md. Both Ms. McCauley and Mr. Grove are working seniors.

I have already welcomed Jim Willman, vice president of operations of the Drawbridge Estate, or what we call the Drawbridge Inn, Fort Mitchell, Ky. Both Jim and Ms. Rostad employ older workers. Eugene Lehrmann, president of the AARP, and a working senior himself.

Welcome to all of you.

Ms. McCauley, would you please begin.

STATEMENT OF JEAN McCAULEY, GERMANTOWN, MD., EMPLOYEE, TELESEC TEMPORARY SERVICES; MEMBER, NATIONAL ASSOCIATION OF TEMPORARY AND STAFFING SERVICES

Ms. McCAULEY. Mr. Chairman and members of the subcommittee, my name is Jean McCauley and I live in Germantown, Md. I turned 69 just last Saturday, and I continue to work on a full-time basis because my husband and I need the income.

I am today representing myself, my employer, which is TeleSec Temporary Services and the National Association of Temporary and Staffing Services. My purpose here is to urge you to pass the Senior Citizen Equity Act as one of your first priorities during this session of Congress. I am also here representing more than 150,000 workers who are over the age of 65 and who work for temporary and staffing service firms.

Raising the social service—Social Security earnings limit is something that is certainly critically important to all of us. I have worked on a full-time basis for 47 years, and during the early part of my career, I was employed as a chemist for the petroleum industry.

In 1960, working for General Electric, I became involved with the new and growing field of information systems and services and I have been in that area ever since. Because my husband is a United Methodist minister, we have moved around a lot in these years, and during these years, I have been with only one company, been there long enough to be vested in their pension plan. Therefore, the result is that my pension fund is very small.

My husband is 4 years older than I, and he continues to work to this day. When he started drawing his Social Security benefits at age 65, we were confronted with the fact that after his income exceeded the earnings limit, he started losing his benefits. It just didn't seem fair to us, especially when people we knew who were retired and drawing very large pensions received every penny of their benefits without any penalty.

His experience with Social Security agitated me and I made up my mind that I wasn't going to stop working until I was 70 so I wouldn't have to be penalized. However, in February of 1994, my employer lost a key Federal contract and several of their employees had to be let go and I happened to be one of them. It is not easy finding a new job at age 68, so I was forced to apply for unemployment, then eventually Social Security.

Last September, I applied for work with the TeleSec Temporary Services and have been on assignment through them ever since. This is a good job. I am happy to have it. But it pays about half

of what I was making after 10 years with my former employer. Therefore, I am very dependent on the income I receive from Social Security.

At my current rate of pay, I will reach the Social Security earnings cap in June, and I, frankly, don't know what I will do then. I want to keep working but I can't afford to lose my benefits and I can't meet my expenses. Therefore, I am considering moving in with one of our daughters and that way I could reduce my expenses. But you know, this just doesn't seem right. After being a care-giving and independent person during all my working years, I now find myself personally embarrassed to be in this situation.

I will turn 70 before the earnings limit will be raised under this bill. It will not benefit me in any way. However, you can help the millions of people like me who are not greedy but are good, honest men and women who have worked hard all their lives and they are—all they want and all they need is to continue to work but not as second-class citizens. They don't want—need to be penalized like any other group in the United States. It just isn't fair.

We are part of the great middle class that everybody in Washington says they want to help. I am asking you today to help us.

Although it would be nice to have enough money to be able to retire, that just isn't an option at this time for me and for others with the same type of circumstances. Therefore, the Social Security earnings seems clearly designed to force older workers out of the work force, and this is not only a shameful social policy but a definite waste of human resources and talent and expertise.

I commend all of you who have sponsored this bill and encourage the rest of you to start this new session of Congress by passing a nonpartisan Contract With America, a contract that encourages work, not welfare, and that gives nonwealthy older workers a chance to live a comfortable and fulfilling life, a life that keeps pace with the economic upward spiral and does not take away the benefits that we have used a lifetime to earn.

I thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF JEAN McCAULEY
NATIONAL ASSOCIATION OF TEMPORARY AND STAFFING SERVICES

Mr. Chairman and Members of the Committee, my name is Mrs. Jean McCauley and I live in Germantown, Maryland. I turned 69 on Saturday, and I continue to work because my husband and I need the income. I start work at 8:00 a.m. each morning and work 40 hours per week.

I am here today representing myself, my employer - TeleSec Temporary Services - and the National Association of Temporary and Staffing Services to urge you to pass the Senior Citizens Equity Act as one of your first priorities during this session of Congress.

I am also here representing the more than 150,000 workers over the age of 65 who work for temporary and staffing services firms each year. Raising the Social Security Earnings limit is something that is critically important to all of us. Passing this legislation would show us that this new Congress stands for fairness and change. It would also show us that this Congress values the contributions of older workers.

I was married in 1948 and, with the exception of 6 or 7 years when my daughters were little, I have worked on a full-time basis for the past 47 years. During the early part of my career I was employed as a chemist in the petroleum industry. In 1964, working for General Electric, I got involved in the new and growing field of information systems administration and have been working in that area ever since.

Because my husband is a Methodist minister, we moved around a lot over the years and I only worked for one company long enough to vest in its pension plan. The amount in that pension fund is very small. My husband is 4 years older than me, and also continues to work to this day. When he started drawing his Social Security benefits at age 65, we got a big surprise from the government. After his income exceeded the earnings limit, he started losing his benefits. It just didn't seem fair to us, especially when people we knew who were retired and drawing very large pensions received every penny of their benefits without any penalty. It was also a real burden trying to keep track of the federal rules so that we didn't end up owing money to the government.

His experience with Social Security scared me, and so I never applied to receive my benefits until just last year. My goal was to wait until I turned 70, so that I wouldn't be penalized. However, in February of 1994, the company I worked for lost a key federal contract and had to lay off several employees, and I was one of them.

As you might imagine, it is not easy finding a new job at age 68, and so I was forced to apply for unemployment insurance and Social Security. For six months I sent out resumes and answered employment ads, but no one hired me. Last September, I applied for work with TeleSec Temporary Services and have been on assignment through them with the FCC ever since. This is a good job and I am very happy to have it but it pays about half of what I was making after ten years with my former employer, and therefore I am very dependent on the income I receive from Social Security.

At my current rate of pay, I will reach the Social Security earnings cap in June, and I frankly don't know what I will do then. I want to keep working but I can't afford to lose my benefits. I am considering moving in with my daughter to reduce my expenses. This just isn't right. This just isn't fair.

Because I will turn 70 before the earnings limit would be raised under this bill, it will not benefit me personally. I only wish this bill would have passed several years ago. But you can help the millions of people like me who are not greedy older workers, but good honest men and women who have worked hard all of their lives and who want and need to continue to work, but not as second class citizens who are penalized like no other group in the United States.

We are your mothers and fathers, your aunts and uncles, your teachers and ministers. We are part of that great middle class that everyone in Washington says they want to help. I am asking you today to help us.

I have read that some people oppose this bill because they say it will cost the federal government millions of dollars. I am no economist but I know that when I earn money, I pay taxes. I am sure the government will actually make money by passing this bill as a result of increased income tax revenues and social security taxes.

Although it would be nice to have enough money to be able to retire, that just isn't an option at this time. I am proud that I can continue to work for a living, and not be dependent on government handouts. I feel blessed that I continue to enjoy good health. And I know that the people who work with me view me as a valued colleague and real contributor to the productivity of the office.

The Social Security earnings test seems clearly designed to force older workers out of the work force. This is not only shameful social policy but a real waste of human resources, and of the skills, knowledge and expertise that this nation desperately needs.

I commend all of you who have sponsored this bill, and encourage the rest of you to start this new session of Congress by passing a non-partisan Contract with America that encourages work not welfare, and gives non-wealthy older workers a chance to live a comfortable and fulfilling life without taking away benefits that they have worked a lifetime for and are entitled to receive.

The National Association of Temporary and Staffing Services (NATSS) represents over 1,400 member temporary help and staffing services firms who operate some 8,500 offices throughout the U.S. An estimated 2 million Americans work as temporary and staffing services employees each day. Temporary work has for over 50 years been a way for individuals with special employment needs to find meaningful and profitable work. For many, this work is often a bridge to regular, full-time employment. Temporary and staffing services companies help American businesses achieve the flexibility and productivity essential in today's global economy.

Chairman BUNNING. Mr. Grove.

STATEMENT OF DAVID C. GROVE, EMPLOYEE, ROUTZAHN'S FURNITURE & APPLIANCES, FREDERICK, MD.; MEMBER, NATIONAL RETAIL FEDERATION

Mr. GROVE. Mr. Chairman, members of the subcommittee, my name is David Grove. I live in Frederick, Md. I am an employee of Routzahn's, Western Maryland's largest independent retailer and a member of the National Retail Federation.

It is an honor and a privilege to appear before you today to talk about the Social Security earnings limitation. I am a lifelong resident of Frederick County, Md. I guess I am one of those people who lives "beyond the beltway" who doesn't regularly speak out on big policy issues. Nevertheless, I consider myself an expert on the earnings limitation test. I confront it every day and it directly affects me. I hope you will change the law now. Let me explain.

After high school, I worked in the laundry and dry cleaning business until 1956. I then worked for Potomac Edison Company in sales. In 1972, I started my own appliance business and spent 15 years as a small businessman. I made a living for myself, my wife, and my two children. During the course of these careers, I regularly paid into the Social Security system, both for myself and for my employees.

In 1987, I closed down my business and went to work for Routzahn's where I continued to sell furniture and appliances to the people of Frederick, and whoever wants to buy, I might add. In 1993, when I became eligible to draw Social Security, I went part time with the company, working 10 to 15 hours a week on a commission-only basis.

I want to keep working, Mr. Chairman, simply put, I am not ready to quit. I think I have something to give back to my community and to the retail industry that has nurtured me for over two decades. My wife and I are comfortable but not wealthy. The extra income doesn't keep us from starvation's doorstep but it does allow us to buy a new car, fix up our house, stay out of debt, and not be a burden on our children.

Why did I go part time? One big reason was the unfair limitation which takes $1 out of my Social Security check for every $3 over $11,280 this year. That is an extra 33 percent, plus I also pay $7.65 per $100 continuously when I work. So that is a total of 41 percent.

It is just not fair. Why should I pay 41 percent? It is unreasonable. That is what it is, 33 percent and 7.65 is 41 percent. I mean, that is just too much. I am a good salesman, Mr. Chairman. Frankly, I work as hard as anyone. I could earn a lot more for myself and for my friend and boss, Daryl Routzahn, in his business if I were allowed to do so freely. I am not free to do so because of the earnings limitation.

I am probably as patriotic as any American, Mr. Chairman. I pay taxes, too. I want to keep working—more than I do now—but not at the cost of an extra 41 percent. So what do I do? I work less. I spread my hours over the year so I can stay busy year-round instead of having a few busy months and then doing nothing.

I don't want to do this, Mr. Chairman. I would rather work more, earning more, and help build Routzahn's business. The earnings test is the reason I cannot. It is time to change the test to make it easier for me and people like me to keep working and contributing to this society.

I don't understand the policy, Mr. Chairman. Moreover, with everyone talking about U.S. workers getting older and the need to raise the retirement age, you would think that the government would try to encourage people to work longer in life. It is not all about money, either. I like the work. I think it keeps me healthy. I know it keeps me happy.

Also, I think I can teach some things to the younger people if they will pay any attention to me at work, and I certainly do try. I can give them some on-the-job training.

I am here today because in October of last year, many of you proposed a Contract With America. You pledged if we changed "horses," more or less, in Congress and elected new Members, you would keep your promises, one of which was to stop penalizing senior citizens for working. This is one senior citizen who heard you last October, believed you meant what you said and now wants to see you keep that promise. It will directly benefit my life and the lives of millions of more like me.

Thank you for hearing me out.

Chairman BUNNING. Thank you. You beat the five minutes.

Mr. GROVE. Great. I was concerned about that, believe me.

Chairman BUNNING. Mr. Jacobs used to give a coin to those who beat the 5-minute mark. I think I should continue his practice.

Mr. GROVE. I would kind of like that.

Chairman BUNNING. Ms. Rostad.

STATEMENT OF MARY A. ROSTAD, DIVISIONAL VICE PRESIDENT AND ASSISTANT DIRECTOR OF PERSONNEL, J.C. PENNEY COMPANY, INC., PLANO, TEX.; MEMBER, NATIONAL RETAIL FEDERATION

Ms. ROSTAD. Mr. Chairman, members of the subcommittee, I am Mary Rostad, divisional vice president and assistant director of personnel for the J.C. Penney Company, Inc., based in Plano, Tex. I am testifying today on behalf of the National Retail Federation. Our industry strongly supports efforts to increase the Social Security earnings limitation. I submit my full statement for the record.

The National Retail Federation is the world's largest retail association, representing an industry that encompasses over 1.4 million U.S. retail establishments employing nearly 20 million people, 1 in 5 American workers.

J.C. Penney employs over 193,000 associates, and I am proud to say that we have stores in all 50 States. Over one-third of U.S. families say they have shopped the J.C. Penney catalog, making it the No. 1 catalog merchandiser in the country. The National Retail Federation and, specifically my company, J.C. Penney, urges the members of this subcommittee and the members of the full Ways and Means Committee to provide the relief to our senior citizens on the earnings test as outlined in the Contract With America.

The relief for our seniors that this reform would produce is another way for Congress to say to the American people: "welcome to

mainstream America." We compliment you, Mr. Chairman, and other Members who support this reform for focusing on what people really want and need, for focusing on what is good for Americans and our economy.

I want to speak on behalf of the many senior citizens who work for the retail industry and also for the many seniors whom we value as customers in our stores. We believe that they are fearful of doing anything to jeopardize their Social Security benefits.

They are afraid to disturb their Social Security income because, first, they need every dollar of that income, and second, a lot of folks find the workings of Social Security mysterious. It is mysterious to them because we all spend most of our lives without contact with Social Security, and then suddenly, as age dictates, we are hit with its technicalities and hit with something called the earnings test.

Many of our seniors want or need to work but they also want to receive the benefits they have earned. They do not understand why Congress penalizes them based on earnings. Unearned income from savings and investments often provides a supplement to Social Security. However, unearned income never affects a right to benefits. This means that the earnings limit is a tax on working.

The Social Security earnings limitation discourages senior citizens from working, and, at the same time, it tells the seniors, "If you do work, keep your earnings below this threshold or you will be penalized for working." Both the employers and these valued employees are hurt. Our stores want to benefit from the good example that our seniors set in the workplace. Our young associates need our seniors as mentors who have the experience and competence to demonstrate good work habits in the retail business.

In 1992, there were 350,000 seniors between the ages of 65 and 69 working in the retail industry. We, at J.C. Penney, had in 1994 approximately 3,700 senior citizens in our work force. We believe the retail industry would have the benefit of many more seniors reentering the work force and many more seniors working more hours during the year if they were not penalized with a lifetime loss in Social Security benefits.

Surveys we have seen indicate that most of the Nation's seniors do not have the pensions to supplement Social Security. For them, additional earnings are a must. Some of them have seen their life's savings wiped out by extraordinary medical expenses of a family member.

There are many seniors who want to work because they enjoy working. Work enables these seniors to feel like productive members of society. There is probably a correlation found in many instances between work and good health for many of our senior citizens. But instead of a national policy to encourage the continuing employment of this pool of talent and energy, Congress is discouraging it through the earnings limitation.

Many retail stores, including J.C. Penney, rely on seniors to service our customers. Unfortunately, every year we have capable, well-qualified seniors who do not enter our work force, thus depriving our industry and my company of their skills. Even more unfortunately, we have associates who must quit because they have hit the earnings wall. This is especially detrimental at the yearend holiday

season when we need them more than ever, thus depriving my company of their skills.

Since the inception of the Social Security program in 1935, there has always been an earnings test included in the law. The world has changed over the last 60 years, and therefore laws must change accordingly. Americans are living longer and the financial needs of all citizens are greater than they were six decades ago. Mr. Chairman, freedom to work without financial penalties for doing so is very much a part of the American tradition.

The earnings test is based on faulty logic. The retail industry and J.C. Penney urge you, Mr. Chairman, and your subcommittee to end this punitive tax on the senior citizens.

Thank you.

Chairman BUNNING. Thank you. Thank you very much.

[The prepared statement and attachments follow:]

TESTIMONY OF MARY A. ROSTAD, DIVISIONAL VICE PRESIDENT & ASSISTANT DIRECTOR OF PERSONNEL FOR THE J.C. PENNEY COMPANY, INC., ON BEHALF OF THE NATIONAL RETAIL FEDERATION

Mr. Chairman, Members of the Subcommittee, I am Mary Rostad, Divisional Vice President and Assistant Director of Personnel for the J. C. Penney Company, Inc., based in Plano, Texas. I am testifying today on behalf of the National Retail Federation (NRF). Our industry strongly supports efforts to increase the social security earnings limitation.

By way of background, the National Retail Federation is the world's largest retail trade association with membership that includes the leading department, specialty, discount, mass merchandise, and independent stores, as well as 31 national and 50 state retail associations. NRF members represent an industry that encompasses over 1.4 million U. S. retail establishments, employs nearly 20 million people -- 1 in 5 American workers -- and registered 1993 sales in excess of $2 trillion.

JCPenney employs over 193,000 associates, and I am proud to say we have stores in all 50 states. Over one-third of U. S. families say they have shopped the JCPenney Catalog, making it the number one catalog merchandiser in the country.

The National Retail Federation and, specifically my Company, JCPenney, urge the members of this Subcommittee and the members of the full Ways & Means Committee to provide the relief to our Senior Citizens on the earnings test as outlined in the "Contract With America." That relief would, over a five year period, increase the limitation from the current level of $11,280 to $30,000 by January 1, 2000.

The relief for our Seniors that this reform would produce is another way for Congress to say to the American people: "Welcome to Mainstream America." We compliment you, Mr. Chairman, and other members who support this reform, for focusing on what people really want and need, for focusing on what is good for Americans and our economy.

I want to speak on behalf of the many Senior Citizens who work for the retail industry, and also, for the many Seniors whom we value as customers in our stores. We believe that they are fearful of doing anything to jeopardize their Social Security benefits. They are afraid to disturb their Social Security income because firstly, they need every dollar of that income; and secondly, a lot of folks find the workings of Social Security mysterious. It is mysterious to them because we all spend most of our lives without contact with Social Security, and then suddenly, as age dictates, we are hit with its technicalities and hit with something called the "earnings test."

Many of our Seniors want or need to work, but they also want to receive the benefits they have earned. They do not understand why Congress penalizes them based on earnings. Unearned income from savings and investments often provide a supplement to Social Security; however, unearned income never affects a right to benefits. This means that the earnings limit is a tax on working.

The Social Security earnings limitation discourages Senior Citizens from working, and, at the same time, it tells the Seniors, "if you do work, keep your earnings below this threshold or you will be penalized for working." Both the employers and these valued employees are hurt. Our stores want to benefit from the good example that our Seniors set in the workplace. Our young associates need our Seniors as mentors who have the experience and competence to demonstrate good work habits in the retail business.

In 1992, there were 350,000 Seniors between the ages of 65 and 69 working in the retail industry. We, at JCPenney, had in 1994 approximately 3700 Senior Citizens in our work force. We believe the retail industry would have the benefit of many more Seniors reentering the work force and many more Seniors working more hours during the year if they were not penalized with a lifetime loss in Social Security benefits. Even though they continue to pay Social Security payroll taxes, the delayed retirement credits they earn when they lose benefits are insufficient to make up for the loss.

Surveys we have seen indicate that most of the nation's Seniors do not have pensions to supplement Social Security. For them, additional earnings are a must. Some of them have seen their life savings wiped out by extraordinary medical expenses of a family member. Statistics compiled by the Social Security Administration show that Seniors who work have almost twice the median total money income of Seniors who do not, and are one-fifth less likely to be poor. (Charts attached)

There are many Seniors who want to work because they enjoy working. Work enables these Seniors to feel like productive members of society. There is probably a correlation found in many instances between work and good health for many of our Senior Citizens. But, instead of a national policy to encourage the continuing employment of this pool of talent and energy, Congress is discouraging it through the earnings limitation.

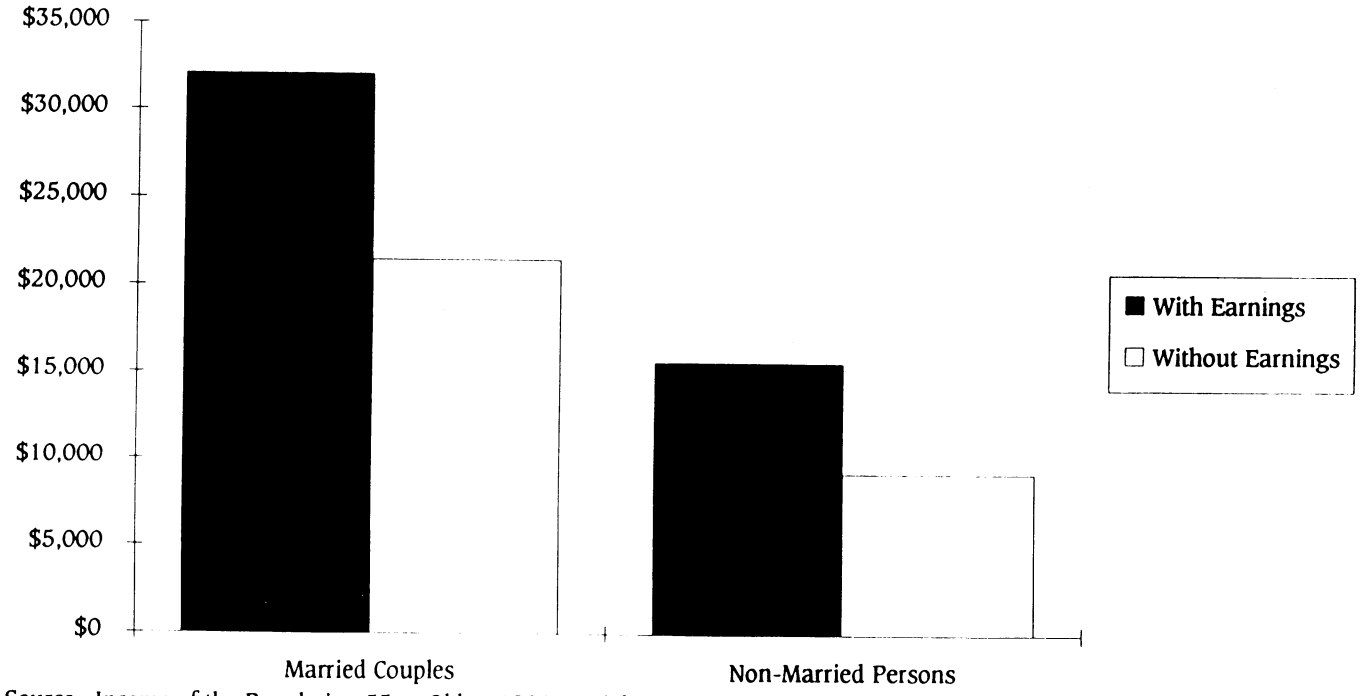
This is not a theoretical problem for the retail industry, Mr. Chairman. Many retail stores, including JCPenney, rely on Seniors to service our customers. Unfortunately, every year, we have capable, well-qualified Seniors who do not enter our work force, thus depriving our industry and my Company of their skills. Even more unfortunately, we have associates who must quit because they have hit the earnings wall. This is especially detrimental at the year-end holiday season when they are needed more than ever, thus depriving our industry and my Company of their skills.

Since the inception of the social security program in 1935, there has always been an earnings test included in the law. The world has changed over the last sixty years, and therefore laws must change accordingly. Americans are living longer, and the financial needs of all citizens are greater than they were six decades ago. Mr. Chairman, freedom to work without financial penalties for doing so is very much a part of the American tradition.

The earnings test is based on faulty logic. The retail industry and JCPenney urge you, Mr. Chairman, and your Subcommittee to end this punitive tax on our Senior Citizens.

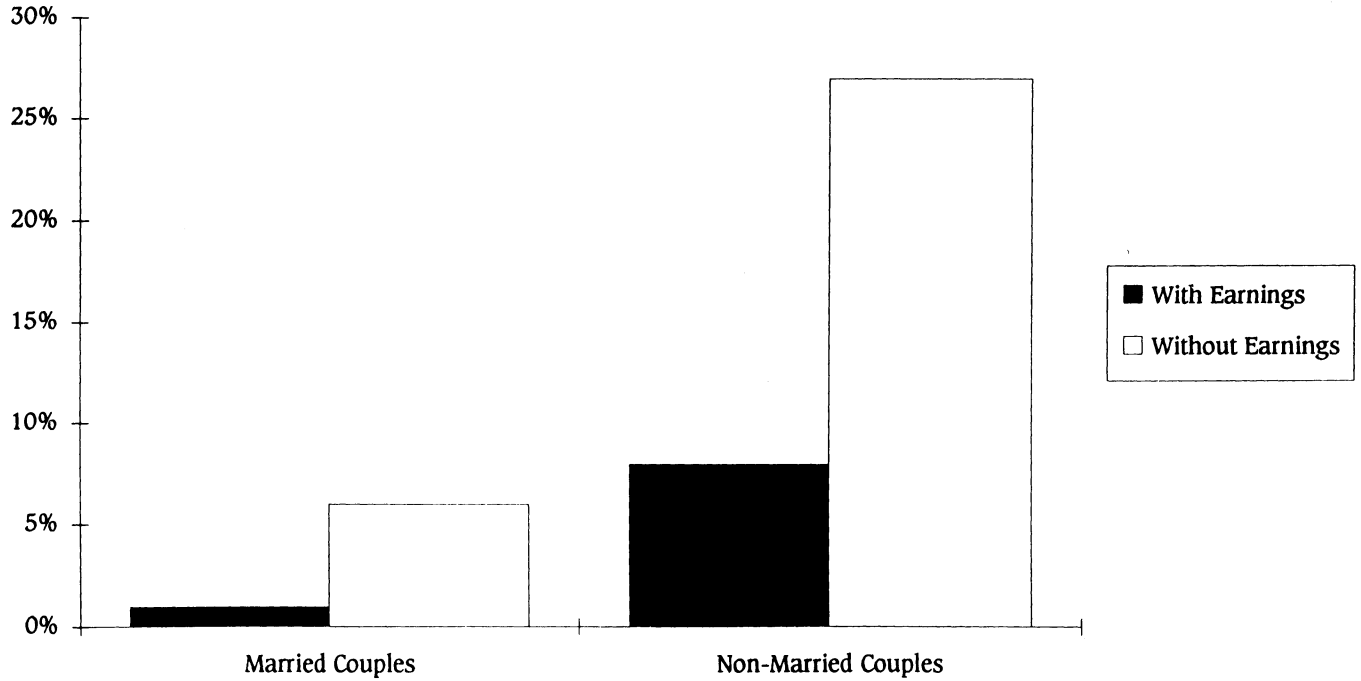
Thank you.

Chart 1. Median Annual Income, Age 65-74, 1990



Source: Income of the Population 55 or Older, 1990, Social Security Administration, April 1992

Chart 2: Percent of Units Age 65-74 Below Poverty Line, 1990



Source: Income of the Population 55 or Older, 1990, Social Security Administration, April 1992

Chairman BUNNING. Mr. Willman, please.

STATEMENT OF JIM WILLMAN, VICE PRESIDENT, OPERATIONS, DRAWBRIDGE ESTATE, FORT MITCHELL, KY.; MEMBER, NATIONAL RESTAURANT ASSOCIATION

Mr. WILLMAN. Thank you, Mr. Chairman, members of the subcommittee. Thank you for inviting me to be here today.

My name is Jim Willman. I am vice president of operations at the Drawbridge Estate, an independently owned and operated hotel in Fort Mitchell, Ky., with 500 rooms, 43,000 square feet of meeting space, 5 restaurants, 6 lounges—and we even have our own microbrewery. We are located in northern Kentucky, 4 miles outside of the city of Cincinnati. We employ nearly 500 people now and 600 people during our peak season.

I have sort of a double identity today. I am also a small businessowner and operator. About 2 years ago, I started a family business called Heavenly Ham, of which we sell spiral sliced honey-glazed hams. We employ six at the Heavenly Ham company.

I am testifying today on behalf of the National Restaurant Association, the leading trade association for the U.S. food service industry. With $290 billion in sales, 739,000 units across the country, the food service industry is the Nation's No. 1 retail employer.

We currently employ 9 million Americans, and by the year 2005, we will increase that to 12.5 million. As you can see, we are a huge employer—and we have room for a lot more in the next decade. That is the reason I am here today.

Both at the hotel and at Heavenly Ham, I see firsthand how the Social Security earnings test changes the choices people make. We have a number of employers at the Drawbridge Estate who would like to keep working beyond 65. Let me give you a few real-life examples of what happens when we start cutting the Social Security benefits once a person reaches the minimum or the maximum of $11,280.

We have a switchboard operator named Wilma, who would love to continue to work, but because of the earnings test, takes off 2 months every year to keep her earning below $11,200. Our executive courier does the same thing. One of our most skilled wallpaper hangers at the hotel, also 65, has to cut his work to 9 months so he does not lose his Social Security benefits. Even my dad who is retiring this spring and coming to work for Heavenly Ham will limit his salary to $11,200 even though he could be earning a lot more, so he won't have to lose any of his benefits.

At the Drawbridge Estate we face the same situation with retiring executives. You know as well as I do the exorbitant marginal tax rate that results in the earnings test discourages even those who are most determined to keep working.

The impact of the earnings test is real—and I think I am seeing just the tip of the iceberg. I think also of the people who we could hire. Right now, we have a 4-percent unemployment rate in northern Kentucky. Our operations, as well as many others, are ready, able, and extremely willing to hire qualified job applicants. We recruit aggressively and widely. We would love to hire more people over 65, but because of the Social Security earnings test, we don't even have that option.

I realize there are some hesitations about easing the earnings test. I know some critics say, for example, that raising the limit would disproportionately benefit the well-off. That is not the case with the people that I know. These people are working because they need the money. Their income comes from work, not dividends, stocks, and other investments.

I also know that some in Congress worry that liberalization of the earnings test carries a price tag. Of course, I will leave that for you to calculate, but please don't forget the higher payroll taxes, income taxes that come from more work, not to mention the benefits that can't be calculated, the feelings of well-being, productivity, involvement that comes from seniors who continue to work beyond what is called normal retirement age.

When you look at the food service industries' total work force, Americans near retirement age account for almost 3 percent of our total employees, according to a National Restaurant Association study. This is a relatively small percentage, but it continues to grow.

This leads me to my final point that I have to underscore rather emphatically: Employers in our industry want to hire senior citizens. At the Drawbridge Estate, we place a premium on the skills the older employees bring to the job—dependability, experience, a certain knowledge of the world, a service ethic, and an ability to deal with many types of customers. These employees are among the best we have.

Food service employers have jobs available for skilled and unskilled, for management and hourly employees, for full service or part time—or full-time and part-time employees or those with or without experience. Older Americans who want to work for whatever reason, should be encouraged to do so.

The Social Security earnings test is a major disincentive to work and should be liberalized. I applaud your effort to increase the limit to $30,000 over to the next 5 years. The skill experience and skills of older Americans should contribute to economic growth as our population ages in the years ahead.

Thank you.

Chairman BUNNING. Thank you, Mr. Willman.

Mr. Lehrmann.

STATEMENT OF EUGENE I. LEHRMANN, PRESIDENT, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. LEHRMANN. Good afternoon, Mr. Chairman. I am Eugene Lehrmann, president of the American Association of Retired Persons. Congratulations on becoming chairman. You have shown a strong commitment to Social Security and its beneficiaries.

AARP welcomes the opportunity to testify on the provision in the Contract With America to raise the Social Security earnings limit. The Association has supported an increase in the limit and has worked with Members on both sides of the aisle to increase the limit.

Let me add a personal note; the theme of my presidency at AARP is: "Work, The Vital Link." Also, I have had firsthand experience with the earning limit upon retirement. I taught part time 3 years

and then decided that the net earnings were too low for me to continue as a worker.

AARP believes increasing the earnings limit would enable many older workers to work more and to enjoy the rewards associated with their efforts. The increased longevity and improved health of many older people, as well as a changing definition of retirement, leads us to conclude that the earnings limit is good common sense.

The prospects of an aging society and slow-growing work force suggests we should make better use of the skills and experience of older persons. AARP is pleased with the proposed increase in the earnings limit to $30,000 by the year 2000. Working beneficiaries age 65 through 69 ought to be able to earn more without losing any Social Security.

We believe the increase would improve the lives of many older persons who work, not simply by choice but out of necessity. Furthermore, liberalization represents good labor, good social and good economic policy.

We think a higher earnings limit would encourage more older workers to increase their time in the labor force. Since the Federal Government bans age discrimination in the private work force, it should not at the same time penalize beneficiaries for working. Let me give you an example of how discouraging the earnings limit can be.

In 1995, a 65- to 69-year-old working beneficiary will lose $1 in benefits for every $3 earned above the $11,280 limit. A beneficiary with the average monthly benefit of $698 in 1995 and $12,000 in earnings will lose over $200 in benefits as a result of the current earnings test. With the income just above $20,000, a beneficiary living in an area with high cost of living or who has high medical or other expenses could have financial problems. Any benefit loss can be significant to someone on a fixed income.

On the other hand, a nonworking beneficiary with $20,000 in pension and/or investment income in addition to Social Security loses no benefits. Is it fair to penalize a working beneficiary who tries to improve him or herself economically?

In addition, raising the limit would mean less frustration and inconvenience for beneficiaries and SSA. The agency estimates that 60 percent of all overpayments and 45 percent of all underpayments are caused by the earnings limit.

Despite the fact that many older persons of moderate means need extra income and are willing to work, some oppose any increase in the amount beneficiaries can earn without losing any Social Security. They contend that changing the limit would benefit some higher income individuals. While this is true, liberalization targets proportionately more relief to middle income beneficiaries who have no pension income and modest assets. How else can many middle income older people meet current expenses or set aside money to meet future needs? If they are willing to work, they ought to earn more than the current law allows.

Opponents argue that the change would be costly to Social Security trust funds. While there are some short-term costs, the Social Security actuaries estimate the long-term cost of the trust funds are negligible. Offsets can and should be used to reduce the cost

of raising the limit and this is consistent with the rules adopted in the Budget Enforcement Act.

AARP strongly believes that raising the limit is a fair and intelligent policy, and we are encouraged by the strong commitment to raising the earnings limit. We stand ready to work with this subcommittee and other interested Members of Congress to craft a reasonable and responsible proposal.

Chairman BUNNING. Thank you, Mr. Lehrmann.

[The prepared statement follows:]

TESTIMONY OF GENE LEHRMANN
AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP) appreciates this opportunity to present its views on the provision in the Contract with America to raise the Social Security earnings limit (retirement test). The Association has long supported raising (liberalizing) the earnings limit and has worked with Members of Congress to adopt legislation that allows beneficiaries to earn more without losing any Social Security. The Association was particularly pleased to work with Representative Hastert in 1992 when this issue was last before the House. We believe this change will be of particular importance to older Americans who work in order to supplement their Social Security. Their earnings help them and their families to be more financially secure now and in the future.

AARP is pleased that the Contract With America includes a proposal to raise the current earnings limit for working beneficiaries ages 65 through 69 to $30,000 by the year 2000. The increase is long overdue. The Association commends this committee and its chairman for holding today's hearing in such a timely manner.

The earnings limit discourages older people from remaining in the work force and sharing their experience, knowledge, and skills with younger workers. Given the increased longevity and generally improved health of many retirees, the prospect of an aging society, and a slower-growing work force, it is important that we find ways to better tap one of our most valuable and underutilized economic resources: older workers. It is equally important that we enable beneficiaries to supplement their Social Security with earnings, just as others do with dividends and interest.

THE EARNINGS LIMIT IN PRACTICE

The earnings limit reduces the Social Security benefits of working beneficiaries up to age 70 who exceed an annually adjusted earnings threshold. The retirement test is different for beneficiaries under 65 than for those aged 65 through 69. In 1995, beneficiaries aged 62 through 64 lose $1 in benefits for every $2 in earnings above $8,160. Those aged 65 through 69 lose $1 in benefits for every $3 in excess earnings above the 1995 limit ($11,280). The earnings limit not only restricts the amount a beneficiary can earn from employment without losing some or all of his/her Social Security, but it also can affect the benefits a spouse and other dependents receive if their earnings exceed the annual threshold.

HISTORY OF THE EARNINGS LIMIT

Although Social Security has always had a retirement test, the test has been modified numerous times to narrow the category of affected persons. For example, the age at which it no longer applies has been reduced to 75, then 72, and is currently 70. The test was changed from a monthly basis to one that measured both monthly and yearly earnings. In 1960, the penalty for excess earnings above a threshold was altered from a total loss of monthly benefits to a reduction in benefits. Since 1972, the law has provided for an automatic, annual updating of the threshold in accordance with changes in annual wages. The 1983 Social Security Amendments further eased the penalty for excess earnings by changing the benefit reduction, beginning in 1990, to $1 for every $3 of excess earnings for beneficiaries aged 65 through 69.

The history of these modifications provides ample precedent for reevaluating the retirement test to better reflect the changes in our population, our work force, our retirement patterns, and our economy. Unfortunately, over the last several years proposals to liberalize the limit have been adopted by one house of Congress or the other but subsequently dropped in conference. Continued failure to enact any change has been disappointing to the Association and to affected beneficiaries.

REASONS FOR CHANGE

A. Effect on Beneficiaries

Most Social Security beneficiaries are not in the paid labor force and will not be affected by any change in the earnings limit. Social Security Administration (SSA) statistics indicate that 73 percent of retired workers aged 65 and over did not report any income from earnings.

Nonetheless, a considerable number of persons 65 and over would benefit from a change in the limit. According to the 1994 "Green Book" published by the Committee on Ways and Means, in 1992 10 percent of all beneficiaries had earnings above the earnings limit. In addition, 17 percent of all beneficiaries had earnings below the limit, many of whom would work more if the limit was raised since they now hold their earnings consistently just below the limit. The Social Security Administration estimates that about 925,000 beneficiaries currently lose some or all of their benefits because of the test that applies at age 65. Of this group 880,000 are retired worker beneficiaries age 65 to 69 or their dependents receiving benefits on the same record. About 45,000 dependent or survivor beneficiaries age 65 to 69 also lose benefits as a result of their own earnings. Still others elect not to apply for benefits because of the test. (SSA believes about 100,000 workers age 65 and over would file for benefits if the retirement test were eliminated.)

Many of those who avoid the test by holding their earnings to the limit and many whose earnings are slightly above the threshold are middle income older persons who rely upon Social Security as a significant retirement income source. Many, particularly women, lack adequate savings and have little or no pension income. For those who are capable and have the desire to earn more than the current earnings limit, the additional income from raising the limit will make a considerable difference. Continued or increased employment may be the only option these working beneficiaries have to meet current expenses, repay debts, or set aside some income for a time when they will no longer be able to work.

Many affected older workers are particularly perplexed by a penalty on earnings while nonworking beneficiaries with the same or even larger incomes -- generated from pensions, savings and investments -- do not have to forego any benefits. They feel punished for their initiative. The argument that Social Security is intended as a partial replacement for income lost due to retirement, and that the earnings limit is designed to measure retirement, does not put lost dollars back in their pockets -- dollars that they may need today.

B. Administrative Problems

The retirement test creates administrative problems for the Social Security Administration. SSA spends over $200 million a year to monitor and annually update earnings levels. Despite this the agency estimates that 60 percent of all overpayment and 45 percent of all underpayments result from the earnings limit. Raising the limit would ease administrative burdens.

A substantially higher earnings limit also would mean less frustration and inconvenience for working beneficiaries. Misunderstandings about the earnings limit create financial and emotional hardships when overpayments are recouped, especially if the beneficiary relies exclusively on Social Security benefits coupled with earnings. Beneficiaries who overestimate earnings will be underpaid temporarily and may have to forego some needed items in order to live on this smaller-than-expected income. The lost benefits will be restored, but a temporary reduction in benefits can pose immediate economic problems. Also, some beneficiaries lose a month of benefits for failing to file a report of estimated earnings in a timely manner. Some may have been unaware of the annual filing requirements, especially if they return to the labor force after having first filed for benefits. (Generally, information about estimating future earnings is given to workers/retirees when they first file for their Social Security.)

C. Effect on the Economy

While Social Security is intended as a partial replacement of income lost due to retirement, disability, or death of the worker, the definition of retirement has evolved to accommodate changing work patterns and increased longevity. Some older individuals choose to gradually ease out of the work force rather than drop out entirely, and many continue working full-time or part-time because they need additional income. Yet, as our society continues to age and the pool of k knowledgeable and willing workers lags behind demand, older workers will be needed in the work force more than ever.

If older Americans can earn more without penalty, there will be less of a disincentive to work, and working beneficiaries will have additional money to pump into the economy and into the federal treasury. The government may also save some money because of decreased Medicare costs. If an older worker is covered under his/her employer's medical plan, Medicare becomes the secondary payor, which means that fewer Medicare dollars will be spent. Moreover, employed older people tend to remain healthier, which suggests they may not use Medicare as frequently.

CONCERNS ABOUT CHANGING THE EARNINGS LIMIT

A. The Cost Concern

Some oppose changing current law because it could be costly to the Social Security trust funds over the short term. While this is true, SSA actuaries estimate that the long-term costs to the trust funds are negligible because the value of the total benefits paid to an individual does not change over a lifetime. This is the case because an individual whose post-65 earnings cause a benefit loss will receive a delayed retirement credit (DRC) to partially compensate for the lost Social Security. With a liberalization, the beneficiary will receive benefits now instead of a subsequent DRC. (The DRC is being increased, to the actuarially fair level of 8 percent by the year 2008, on a phased-in basis). In effect, the trust funds pay the individual roughly the same amount of total benefits; it is simply that the payout schedule differs.

Congressional Budget Office (CBO) estimates of the cost associated with raising the limit may be overstated because the added revenue generated by additional work is disregarded completely. (SSA estimates the additional revenue would offset between 10 and 15 percent of the cost of repeal.) While the revenue gained from increased workforce participation by some beneficiaries may be difficult to project because of uncertainties about the number of retirees who will increase their work effort and the amount they will earn, it is clear that some additional federal revenues will be collected. The primary sources are the income tax, the payroll tax and revenue from increased taxation of Social Security benefits.

B. Benefit Distribution Concern

Raising the earnings limit will have little impact on low-income older Americans, many of whom do not work, and on those 65 and over who work full time at the minimum wage. However, an hourly wage of $6 would push a full-time worker aged 65 to 69 above the 1995 limit and trigger a loss of over $200 annually in benefits. Since the average benefit for a retired worker in 1995 is $698 ($8,376 annually), the beneficiary's total income from both earnings and Social Security would be $20,376 (without the benefit loss). With just over $20,000 in income, a beneficiary in a high-cost-of-living area or with unanticipated financial or medical expenses could easily run into financial difficulty. A beneficiary at that income level could become understandably frustrated about losing even a modest amount of Social Security.

AARP believes the reluctance to provide larger benefits to some higher income beneficiaries -- who will pay higher taxes on their benefits and their earnings-- should not stand in the way of raising the limit to a more reasonable level. Middle income working beneficiaries, whose productivity contributes to society, should be allowed to earn more without losing their benefits. For these older workers an earnings limit increase will have an immediate and beneficial effect.

Moreover, all beneficiaries regardless of income are entitled to receive full benefits once they turn age 70.

The working beneficiaries' perspective needs to be acknowledged. Moderate and middle income working beneficiaries are trying to cope with a smaller income, modest assets, and the prospect of increased longevity. They are not as fortunate as those who need not work and who have unearned income from pensions, interest, and dividends that does not reduce their Social Security benefits. What other options do these working beneficiaries have to increase their income and prepare for a time when ill health and/or advanced age force them out of the work force?

B. Marginal Tax Rates

The high marginal tax rate working beneficiaries face has been used to argue for a change in current law. Working beneficiaries age 65-69 who exceed the limit resent having to return 33 1/3 cents of their benefits to the government for each dollar earned (the equivalent of a marginal tax rate of 33 percent). When the returned benefits are combined with payroll taxes, federal income taxes, state taxes, and a possible tax on up to 85 percent of benefits, marginal tax rates are extraordinarily higher, and the disincentive to work can be enormous.

In fact, the combined effect of the earnings limit in the various taxes and can result in an equivalent marginal tax rate in excess of 100 percent in some cases. While those aged 65 through 69 who lose some of their benefits receive a delayed retirement credit that partially compensates for lost benefits, they are not made whole because the DRC is not actuarially equivalent to the lost income.

THE SENIOR CITIZENS EQUITY ACT

The Senior Citizens Equity Act would phase-in an increase in the earnings limit to $30,000 by the year 2000. This change would provide welcome relief to middle income working beneficiaries now and in the future.

The Budget Enforcement Act of 1990 provides for specific points of order against Social Security proposals that would reduce the size of the trust funds. Unless the points of order are waived, the cost of increasing the earnings limit must be "offset" by a change within the Social Security program.

The Association supports raising the limit with some offsetting savings to help maintain the integrity of the Social Security trust funds. Over the last few years, we have worked with interested members of Congress to increase the earnings limit responsibly and to minimize trust fund loses. In the past, some of the offsets in earnings limit increases we endorsed were "hijacked" for non-earnings limit purposes. Thus, we are reticent to point to Social Security offsets at this time. But, we would be pleased to work with the Commission at the appropriate time to do so. It is time to reverse this trend.

The Association is encouraged by the strong commitment shown to raising the earnings limit. AARP stands ready to work with this committee and other interested Members of Congress to craft a reasonable proposal. We urge Congress to move ahead on this issue.

Chairman BUNNING. Mr. Jacobs, do you want to inquire?

Mr. JACOBS. I have no questions.

I want to tell my friend from Texas she did very well. We discussed that earlier and you have fulfilled your promise.

Chairman BUNNING. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

For you, Mary, you stated in your last paragraph that the earnings test was based on faulty logic. What do you mean by faulty logic?

Ms. ROSTAD. Well, Mr. Johnson, the earnings test is based on the concept that there is a one-for-one tradeoff between entrance into and departures from the work force. Also, it is based on the premise that every job held by a senior is one less job for a younger person. We have seen no evidence that this is really true.

Mr. JOHNSON. Thank you. That kind of goes along with the idea of faulty assumptions when we make the deficit arrangements. Do you have any examples of senior citizens who watch the hours they work because of the earnings test?

Ms. ROSTAD. Yes, Mr. Johnson, I do. I have two examples out of many examples. Let me tell you about one associate who works in our Plano, Tex., store. She is 69 years old, unmarried, started with J.C. Penney in 1978. She retired in January 1993, was rehired in April of 1993, and has continued to work in our seams audit department.

She is a valuable associate because of her experience level and the stability that she brings to her department. She has trained many associates in the office function over the years, and currently she has been training our home office new position auditors in her store. She monitors her earnings very closely due to her concern over the loss of Social Security benefits. Turns out that by the end of the year, she is forced to stop working in order to comply with the earnings wall, and this in turn restricts the efficiency of the store's full operation.

We also have another example in Ashland, Ky. This senior citizen works in our service corridor. She is concerned about losing her Social Security benefits because of the earnings limitation, so she limits the hours that she works a year.

She asks our store manager's help in monitoring how the store schedules her each week so she doesn't have to stop working before the peak season of Christmas. The store manager does consider her a key associate, especially during the holidays, and she is a merchandise assistant in our children's department, as well.

Myself, I was trained 22 years ago by a 69-year-old senior citizen, and I was a merchandise assistant in the children's department. As I started my management trainee position, she guided me through those steps.

Thank you.

Mr. JOHNSON. Thank you very much.

I yield back the balance of my time.

Chairman BUNNING. Mrs. Kennelly.

Mrs. KENNELLY. Yes, Ms. Rostad, could you tell me roughly what is the average hourly wage for an individual working that we are talking about today over age 65?

Ms. ROSTAD. For our seniors, the average hourly rate is $6.75 an hour.

Mrs. KENNELLY. $6.75 an hour?

Ms. ROSTAD. Yes.

Mrs. KENNELLY. Thank you very much.

Chairman BUNNING. Mr. Collins.

Mr. COLLINS. No questions.

Chairman BUNNING. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman.

I want to commend all of the witnesses. I think you made a very good and very compelling case. I know you understand, as Mr. Lehrmann concluded his testimony, we have a responsibility, in addition to ensuring that all the Social Security beneficiaries receive a fair amount in terms of what is afforded to them and in terms of what they certainly have contributed. But we also have a responsibility in terms of the Social Security trust fund and to make sure that it is actuarially sound as we go forward.

I think, as Mr. Lehrmann also concluded, that recognizing that responsibility, that we do in fact need to ensure that the trust fund is viable as we look into the future.

Mr. Willman had mentioned that there were some dynamics here that as more people would be working longer hours, there would be more taxes paid, more money would flow into the Treasury and into the trust fund. As I understand it, if you assume all those dynamics, there is still roughly a $7 billion shortfall over 5 years in terms of how this would impact the Social Security trust fund.

I suppose I would be interested if any of the witnesses had any input or ideas for us as to how is it that we can ensure that we do fulfill our responsibility in terms of maintaining the integrity of the trust fund.

Mr. GROVE. Well, if people don't work after they get the amount that they are allowed, you are not losing anything, I don't think. Because they are not paying taxes. They are not paying the $1 on the $3, evidently. I am not. So if I work, at least I will be paying close to 8 percent on the Social Security and my employer pays another 8 percent. I am not forgoing now the extra $1 for $3.

Mr. PAYNE. I think it is true, if your decision had been you would not work as a result of it. There are people who work that receive benefits.

Mr. GROVE. Those people are sacrificing, yes.

Mr. PAYNE. According again to the Social Security actuaries, it seems that there is a shortfall that will result as a result of doing what we all want to do, which you have certainly suggested that we do today. So again, my question is, are there things within the Social Security system that you can see or that you have come across in your experience that we might be able to do to maintain the integrity of the trust fund?

Mr. LEHRMANN. Mr. Payne, AARP has indeed in the past worked with the committees in finding out and identifying offsets. We are analyzing that right now in terms of how it would impact older people. We in turn will be responsive to your interests and concerns as the subcommittee works through this process. We are committed to trying to find offsets so that we don't have that shortfall.

We know in the long run, the effects are negligible. We have to deal with the 5-year shortfall that you are talking about.

Chairman BUNNING. Mr. Payne, will you yield?

Mr. PAYNE. Certainly, I will yield.

Chairman BUNNING. The Commissioner's actuary said that over the long run, it is a wash to the trust fund. Actually, that it was negligible, which means in our terms, under $500,000. At least that is what negligible means when you are trying to do a member's bill and trying to find income to offset. So over the long haul, it becomes negligible. It is just the immediate we have to worry about and we think we will find, pleasantly, that the actuaries for the Social Security system have overestimated the cost.

Mr. PAYNE. So what that means is over the long range there will be as much money in the trust fund.

Chairman BUNNING. That is correct.

Mr. PAYNE. After this decision that would have been——

Chairman BUNNING. Prior to the change in the earnings limit.

Mr. PAYNE. Thank you very much.

Again, thank all of you. I think you made a very compelling case. Thank you.

Chairman BUNNING. Mr. English.

Mr. ENGLISH. Thank you.

Mr. Lehrmann, in your comments and in your testimony, you touched on something that I think is very important to consider here, and that is the administrative problems associated with the earnings limitation. Specifically, you indicated that 60 percent of the overpayments and 45 percent of the underpayments are typically the result of specifically this provision in the law. Obviously, there is very substantial hardship where someone experiences a temporary reduction in benefits due to misunderstandings that are perfectly natural under the circumstances. I was wondering if you could comment on that a little further and amplify on your comments.

Mr. LEHRMANN. We did try to find out, Mr. English, what that problem was, because we certainly hear from our members on a very regular basis, that someone has identified a problem of being—usually we hear about those who have been underpaid. But there are individuals, obviously, who are overpaid, as well.

In the final analysis, eventually the person gets the money, in most cases, or has some money withheld. Whatever the case might be, it takes a lot of Social Security time and it puts a lot of pressure on lower income people who are trying to meet budgets and then find out they have a shortfall in their income.

Mr. ENGLISH. It can lead to a temporary disruption in their income.

Mr. LEHRMANN. Certainly in their lifestyle, in terms of meeting their commitments. Obviously, that is why they write to us and tell us that we ought to do something about it. Any time you create these kinds of situations, there obviously are opportunities there for mistakes to happen and they do happen and it is a problem for the Social Security Administration and for individuals that we represent, as well.

Mr. ENGLISH. Thank you.

Finally for Ms. McCauley and Mr. Grove, you were here when Dr. Chater testified and indicated support for a moderate increase, which she sketched as perhaps a $1,000 a year increase in the earnings limit for 5 years. What effect would that kind of increase have on your situation? Would it be adequate?

Mr. GROVE. Well, I don't think that is near enough, really. Just $1,000 a year, I think the increase is $120 a year now, and $1,000 doesn't sound like a whole lot of money to me. From $11,280 to $12,280 doesn't sound like a whole lot of money to me. I think increments of $5,000 a year would be much better. That is my opinion.

Mr. ENGLISH. Do you agree with that?

Ms. MCCAULEY. I would agree with that. I would call it a low, not a moderate increase. I would also say that a working salary today that we consider maybe just at the poverty level would be more than the $11,000 that we are talking about. So we ought to be fair about this and realize that there is a certain figure that you can hang a hat on just from that poverty level.

Mr. ENGLISH. Thank you very much.

Thank you, Mr. Chairman.

Chairman BUNNING. Mr. Gibbons, would you inquire?

Mr. GIBBONS. Well, I understand that there is no real long-range cost in this over, say, 75 years, because we have already spent that money. Congress generously gave the money away after the year 2008 anyway. But there is a short-term impact of all this of about $15 billion. Under the current law, we have to either reduce somebody else's benefits or increase taxes. How do you all expect us to make up that $15 billion?

Mr. JACOBS. Sam, will you yield?

Mr. GIBBONS. Yes.

Mr. JACOBS. I believe that the testimony is that the shortfall in the short term is closer to $6.8 billion. But this isn't a complete repeal. This is a 30,000——

Mr. GIBBONS. Yes. I understand that. Well, make up $6 billion.

Ms. MCCAULEY. May I speak to that?

Mr. GIBBONS. Sure.

Ms. MCCAULEY. I think that perhaps the association that I am representing, the National Association for Temporary and Staffing Services, could very well come up with some numbers for you, because they are on the front line of people who stop working after they get their $11,000. This would give you a figure of people who may be intent on working if they could. I know if I were working and able to work that rate, I would be able to pay Social Security and also pay the taxes that the government requires. I would probably know that I could work full time, I would go out of the temporary area and try to find another full-time job where I would be getting even more money than what the particular cap would be, because that would be possible for me to live with. I think people would look at it that way.

Mr. GIBBONS. I have no further questions, except to observe, Mr. Chairman, it is only $6 billion or $7 billion that we have to make up. I am sure we can find that somewhere. But we have to find it in the Social Security system.

Chairman BUNNING. That is correct.

Mr. GIBBONS. Or we have to change the law.

Mr. LEHRMANN. We understand that.

Chairman BUNNING. I think we are asking questions of people who are not prepared to answer those type of questions.

Mr. GIBBONS. I understand that. I won't pursue it any further.

Chairman BUNNING. Obviously, it is going to be up to us to find the money if we are going to do it.

Let's see if Mr. Christensen can get it focused back on to what we are talking about.

Mr. CHRISTENSEN. Very gladly, Mr. Chairman.

I think the next panel will have the specific numbers we can address. I want to thank the panel for coming today.

Mr. Chairman, I find it quite disappointing that our senior citizens are taxed like millionaires today. I was listening to Mr. Grove's testimony. The highest income earners in the country today are taxed at 39.6 percent, but yet Mr. Grove pays 41 percent. A lot of our working seniors are in that category.

My colleague from Pennsylvania started the questioning on helping the Social Security administrator with her definition of moderate. I guess this might be the only time in my life that I am looking for more of a liberal approach. Would the panel have any idea between moderate being a $1,000 increase over 5 years and whether we want to take it to $30,000? Is there a happy medium or do you think we need to go even higher?

Chairman BUNNING. Anybody care to try that one?

Go right ahead, behind.

Mr. GROVE. I am sure some will ask for more if they can get it. I think $30,000 sounds reasonable enough.

Chairman BUNNING. Mr. Lehrmann.

Mr. LEHRMANN. AARP has been looking at this and we thought liberalization was a good approach, and the target that was established in your legislation at $30,000 was what we felt would be a moderate increase.

Chairman BUNNING. We also think that is the case, and the reason we took that approach is because of the cost estimates over a period of 5 years. We think we can afford to do that. We think it is a moderate increase.

Mr. CHRISTENSEN. Thank you, Mr. Chairman.

Chairman BUNNING. Mr. Hancock.

Mr. HANCOCK. No questions.

Chairman BUNNING. Mr. Portman.

Mr. PORTMAN. No questions.

Chairman BUNNING. No questions.

Anybody else?

First of all, I would like to thank the panel for coming. They came some long distances and some short distances. We appreciate all your testimony.

Thank you very much.

If the second panel would make their way to the table.

And we proceed to the second panel, John Goodman, president of the National Center for Policy Analysis, and a constituent of Mr. Johnson's.

Mr. JOHNSON. Dr. Goodman has been in Dallas a long time and we welcome you to the meeting today. I know the National Center

for Policy Analysis has been out front on some of these issues and we thank you for being here.

Chairman BUNNING. Dr. Robert Myers, Stephen Entin, and Daniel Mitchell.

Dr. Goodman, if you would begin.

STATEMENT OF JOHN C. GOODMAN, PH.D., PRESIDENT, NATIONAL CENTER FOR POLICY ANALYSIS

Mr. GOODMAN. Thank you, Mr. Chairman. My name is John Goodman. I am president of the National Center for Policy Analysis.

America's most underutilized resource is the productive capacity of our elderly population. The 42 million-plus elderly men and women represent a vast store of human capital, rich in talent and ability. They have more than 1 billion years of cumulative experience in business, accounting, engineering, finance, and virtually every other productive endeavor. Yet, this valuable resource is increasingly wasted.

At the time Social Security was started, more than one out of every two men 65 years of age and older were in the labor force. Today, we are down to one out of seven. One of the reasons for that is the Social Security earnings penalty which takes $1 away from every $2 earned for people aged 62 to 64, for a 50-percent tax rate and $1 out of every $3 for persons aged 65 to 69, for a 33-percent tax rate.

Professor Entin will testify in just a few moments that when you add that tax rate to the Social Security benefits tax and the personal income tax and the FICA payroll tax, some elderly workers can face marginal tax rates of 80 and 90 percent, which means that when they earn $1, they take home 10 cents or less.

Now, these marginal tax rates have an effect. We all know elderly people who have changed their work behavior because of this earnings penalty. I submit that if you just eyeball the chart that I have attached to my testimony, you can see simply by looking at the chart that this is having an effect on behavior.

Several years ago we asked Gary and Aldona Robbins to do a formal forecast to tell us what difference it would make if we raised the earnings limit or abolished it altogether. We know if we raise the earnings limit, more elderly people will work and therefore they will pay more taxes.

How do more taxes compare to the more benefits that we have to pay? The Robbinses estimated that if we eliminated the earnings test altogether, we would about break even. They estimate that if we raise the earnings limit up to $30,000, that the government actually would make a profit of about $3 billion per year.

This estimate was based on conservative assumptions. It assumes the labor supply for the elderly is about as sensitive as it is for the population as a whole, whereas other studies suggest that in reality labor elasticity for the elderly is about two or three times what it is for the nonelderly population.

Now, Mr. Chairman, our institute is known, I suppose, as a supply side institute. We have given a lot of supply side forecasts. We don't think that every tax cut pays for themselves—as a matter of fact, most don't—but this is one that I think will.

This is a very punitive kind of tax. It causes great economic harm relative to any income that is gained for the government. It would be worth our while from an economic point of view to get rid of it altogether. It would certainly raise the earnings limit, would be good for the elderly, good for the economy, good for all of us.

Thank you very much.

[The prepared statement and attachments follow:]

TESTIMONY BY JOHN C. GOODMAN, PRESIDENT, NATIONAL CENTER FOR POLICY ANALYSIS, BEFORE THE U. S. HOUSE WAYS AND MEANS COMMITTEE SUBCOMMITTEE ON SOCIAL SECURITY

MONDAY, JANUARY 9, 1995

America's most underutilized resource is the productive capacity of our elderly population. The 42 million-plus men and women age 60 and over represent a vast store of human capital, rich in talent and ability. They have more than one billion years of cumulative experience in business, accounting, engineering, finance and virtually every other productive endeavor. Yet this valuable resource is increasingly wasted.

- In 1930, before Social Security, 54 percent of men age 65 and over were in the labor force.[1]

- Today the labor force participation rate of men age 65 and over is about 16 percent.[2]

If elderly workers today want to improve their standard of living, or want to continue using the work experience and skills they have developed, they find that government takes the bulk of their additional wages through special taxes that apply only to them. The most onerous and counter-productive of these is the Social Security retirement earnings test. The retirement earnings test reduces Social Security benefits for those ages 62 to 64 by $1 for every $2 earned above $8,160, and for those ages 65 to 69 by $1 for every $3 earned above $11,280. Faced with this penalty, many elderly workers simply drop out of the system.

There has been a reluctance in Washington to change the Social Security earnings penalty because of a fear that it would cost the Treasury billions in lost federal revenues. In 1989, an econometric analysis by the National Center for Policy Analysis showed that fear to be unfounded. In what we believe is the only study of its kind, the NCPA examined the effects of raising or abolishing the limit on the amount of money retirees ages 65 through 69 can earn without having their Social Security benefits reduced or eliminated. The findings of that 1989 analysis, which are equally applicable today, were:

- First, if the penalty were eliminated, at least 700,000 elderly retirees would enter the labor market.

- Second, this would result in increasing the nation's annual output of goods and services by at least $15.4 billion.

- Third, government revenue would increase by $4.9 billion, more than offsetting the additional Social Security benefits that would be paid.

Our analysis also found that the federal government would receive considerably more in new work-related tax revenues than it would lose in increased Social Security benefit payments if the earnings limit were doubled, tripled or quadrupled instead of being completely abolished.

About 26 percent of retired workers between the ages of 65 and 69 who are eligible for Social Security benefits report some earnings.[3] Of those working, 65 percent earn less than the retirement earnings limit.

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[1]Aldona Robbins, *The ABC's of Social Security* (Washington, DC: Institute for Research on the Economics of Taxation, 1988), p. 4.

[2]U.S. Bureau of the Census, *Statistical Abstract of the United States*: 1994 (114th edition) Washington, DC, 1989, p 395.

[3]Based upon Social Security Administration data from the 1983 Continuous Work History Survey (CWHS) of Social Security beneficiaries.

Figure I shows the earnings distribution in 1990 for the 1.9 million retired workers between the ages of 65 and 69 eligible for Social Security benefits who had earnings.[4] You will note from this figure that an extraordinarily large number earned up to (or near) the earnings limit and then quit working. Specifically,

- About 400,000 elderly workers earned annual wages within 10 percent of the earnings limit.

- These workers were apparently attempting to earn all they could without being subject to the retirement earnings penalty.

There were undoubtedly many others who passed up the opportunity for full-time or part-time work because of the earnings penalty. There were also undoubtedly still others who worked in the underground economy, receiving unreported cash payments or payment in some other form.

In 1990, the maximum Social Security benefit for a worker retiring at age 65 was $11,712.[5] This individual had to earn $43,041 before all Social Security benefits were withheld.[6] Beyond that point, the earnings limit had no effect since there were no Social Security benefits left to tax. For a retiree receiving the average Social Security benefit of about $8,000, Social Security benefits were completely withheld at an income level of $33,360.[7] You will note from Figure I that within the range of $31,908 to $43,041 the number of wage earners began to rise -- reflecting the fact that the retirement earnings penalty at this point no longer influenced the decision about how much to earn.

If the earnings limit were eliminated, our analysis showed that there would not be a sharp drop in the number of retired workers earning between $9,360 and $43,041. Rather, the market would exhibit a smoother decline (as illustrated in Figure II) with more elderly workers earning higher annual earnings.[8] Specifically, in 1990:

- Without a Social Security earnings limit, the number of elderly workers with some wage income would have risen from 1.9 million to 2.6 million — an increase of 38 percent.

- The additional work effort would have increased the wage income of all elderly workers by $10.3 billion.[9]

Eliminating the earnings limit for retired workers between the ages of 65 and 69 would increase labor and capital income, thereby increasing federal tax revenues. It would also increase the amount of Social Security benefits paid, thereby increasing federal spending.

Our study also examined what would have happened with the 750,000 elderly workers whose Social Security benefits were partially withheld because their wage income exceeded the 1990 earnings limit of $9,360. If each of them had been allowed to earn an additional $1,000 without penalty, the Social Security Administration would have had to

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[4]Figures are derived from the 1983 CWHS by adjusting the class intervals for the growth in average wages. Number of retired workers are from projections made by the Social Security Administration, Office of the Actuary.

[5]Board of Trustees of the Federal Old-Age Survivors Insurance and Disability Insurance Trust Funds, *1989 Annual Report of the Board of Trustees of the Federal Old-Age Survivors Insurance and Disability Insurance Trust Funds*, Washington, DC, April 24, 1989, Table F6, p. 138.

[6]Calculated as ($11,712 X 3) + $9,360.

[7]Calculated as ($8,000 x 3) + $9,360.

[8]We estimated a logarithmic function based upon the change in earnings between $1,771 and every other earnings class.

[9]Aftertax earnings would increase by 122 percent. This would imply a labor supply elasticity of 0.31 (0.38/1.22) for workers between the ages of 65 to 69, which is quite plausible. Labor supply elasticities for the U.S. labor force as a whole range from 0.1 to 0.45, and it is generally believed that the labor supply elasticity for elderly workers is much higher than for younger workers. It is important to note that income from capital would also increase. Historically, for every $1 increase in labor income, capital income goes up by 50 cents.

increase Social Security benefit payments by about $37 million.[10] But according to our best estimate:

- The federal government would have received an additional $563 million in taxes on increased earnings and another $134 million in taxes because of an increase in capital income.[11]

- On balance, the total increase in new revenue ($697 million) would have exceeded the total increase in new Social Security spending ($37 million) by $660 million.

Raising the earnings limit by $1,000, then, would have resulted in a *net increase* in federal revenues and a *reduction* in the federal deficit.

Similarly, our analysis showed that the federal government would still receive more in new tax revenues than it would pay out in increased Social Security benefits, no matter how much the earnings limit was increased. If the limit had been abolished altogether, according to our best estimate.

- The federal government would have been obligated to pay an additional $4.8 billion in Social Security benefits.[12]

- The government would have collected $4.1 billion in additional taxes on a $10.3 billion increase in income from wages and $800 million in additional taxes on capital income.

- The result would have been a $140 million net increase in federal revenue.

Eliminating the earnings limit for retired workers between ages 65 and 69 makes good economic sense. The substantial reduction in marginal tax rates on wages will lead to an increase in labor effort that yields additional income and payroll tax revenues to offset the increase in Social Security benefit payments. Short of abolishing the earnings test, virtually any increase in the earnings limit would lead to an increase in federal revenue that would more than offset the increase in Social Security benefit payments.

Although our analysis did not consider the effect of eliminating the earnings limit for workers ages 62 through 64, we believe the result would be much the same: an increase in tax revenue that would more than offset the increase in Social Security benefit payments.

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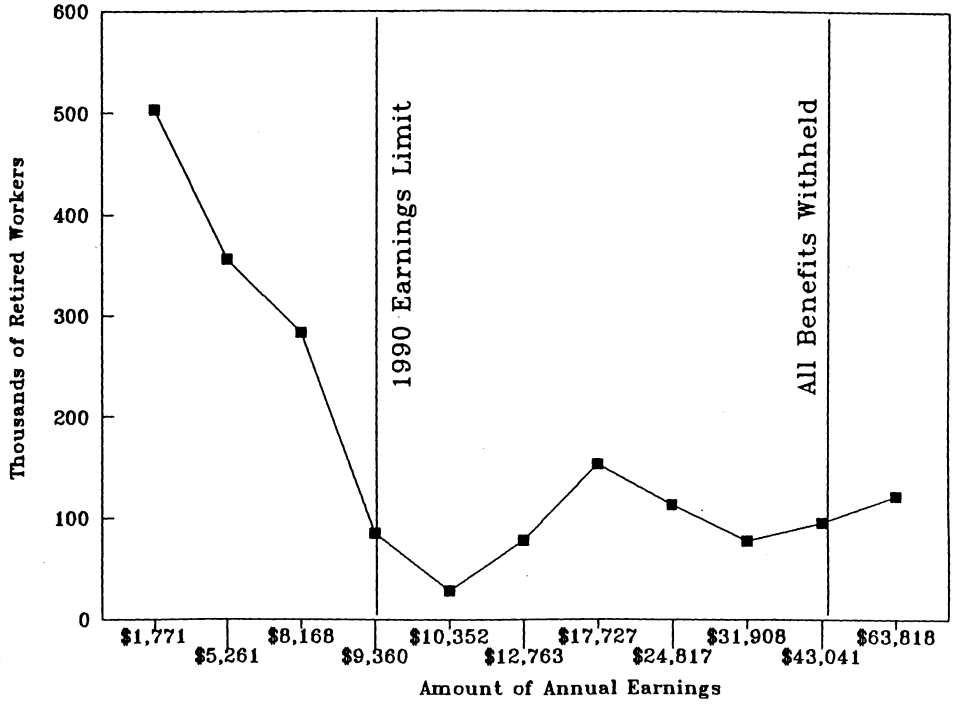
[10]At this point 640,000 would still have benefits partially or wholly withheld.

[11]In general, we cannot experience an increase in income from labor without also experiencing an increase in income from capital. For example, if new elderly workers begin working in a previously empty office building, the building owners will receive a new rental income. If the workers use computers, there will be new income to the owners of computers. For the economy as a whole, about 50 cents in capital income is associated with each $1 of labor income. The average marginal tax rate on corporate capital is 47 percent (including dividend taxes) and the average marginal rate on noncorporate capital is 25 percent. Corporate capital constitutes roughly two-thirds of the U.S. capital stock. We have assumed a 15 percent marginal tax rate on capital, however, because tax depreciation offsets about 62 cents out of every dollar of gross capital income.

[12]The Office of the Actuary estimated that eliminating the earnings limit would have increased OASDI benefit payments by $3.5 billion in fiscal year 1990 and by $5.3 billion in fiscal year 1991. This translates into $4.8 billion on a calendar-year basis. Included are 80,000 new claimants that the Office estimates would file for benefits solely as a result of eliminating the earnings test.

Graph 1

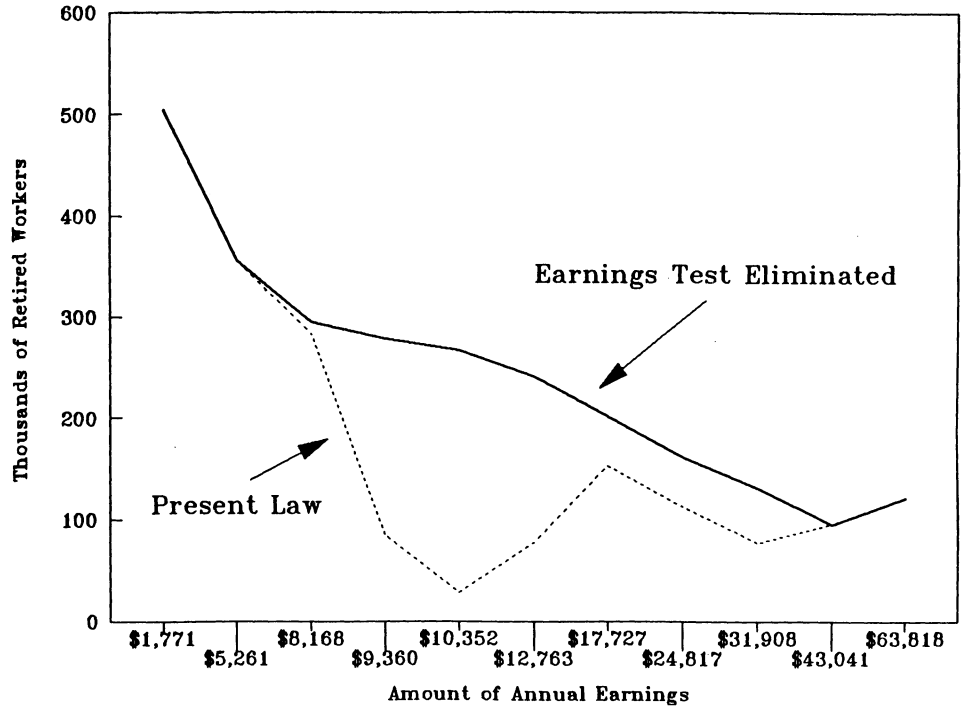
DISTRIBUTION OF RETIRED WORKERS AGES 65 TO 69 WITH EARNINGS *



* About 26% of retired workers have earnings

Graph 2

EARNINGS DISTRIBUTION FOR RETIRED WORKERS AGES 65 TO 69
UNDER PRESENT LAW AND IF EARNINGS TEST WERE ELIMINATED



Chairman BUNNING. Thank you.
Dr. Myers, please.

STATEMENT OF ROBERT J. MYERS, FORMER CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. MYERS. I have had the pleasure and privilege of working for and on the Social Security program for some 61 years now.

First, let me say that I very strongly support the proposal that the subcommittee is now considering. I think that it is a great step forward in solving problems in this particular area.

Before getting into the pros and cons of the retirement tax and what ought to be done about it, I would like to mention one very serious problem in the legislative process area that prevents desirable changes like this, and wrongly does so. It is the rule that, within the next 5 years, the budget people say that for any proposal made to increase benefits, there must be matching reductions in benefits or increases in income to the system.

I say that this is completely wrong to do in a social insurance program that should just be subject to a long-range viewpoint. For example, it could stop a proposal that would cost a little bit in the next five years, but would save a lot of money in the future. That just doesn't make sense.

It is penny wise and pound foolish. That rule ought to be changed. If so, there would be no problem about getting worthwhile proposals like this enacted because they are sound for a long-range social insurance program.

The second problem is that many people in high places believe that the Social Security system and its operations affect the budget deficit. This is just not the case, and something should be done about it. Of course the 5-year rule came about because of this.

For example, if Social Security benefits are reduced by $10 billion, say, by freezing or lowering the COLA, this does not lower the budget deficit one penny. It doesn't affect the size of the national debt. It merely means that the trust fund is $10 billion higher, and that the trust fund owns $10 billion more of the national debt and the general public owns $10 billion less.

In the same way, too, if benefits are increased and the trust fund is, say, $5 billion smaller, this does not mean that the budget deficit is $5 billion more. The budget deficit really is unaffected. The national debt still has the same size. The trust fund just owns $5 billion less of the national debt, and the public must buy $5 billion more.

What are the problems with the test? The greatest problem is what everybody has brought out: the work disincentives. It certainly discourages people from work, particularly when they look at the figures where the marginal tax rate seems to be 70 or 80 percent, although some people have it as low as 40 percent. Also, some people believe that they purchased an annuity at age 65 and that they ought to get it then. That is not what was done.

In theory, the retirement test is desirable because retirement pensions should not be paid to people who are not retired. No employer who has a pension plan keeps people on the payroll and pays them a pension too.

However, in practice, the way that the retirement test operates, it is a definite work disincentive. So for that reason, I favor approaches such as that under consideration today.

One thing which people do not realize, when they talk about losing benefits, that this is only currently. They do not appreciate the fact that later they will get larger benefits because they have had benefits withheld. For people between ages 62 and 65, although they may lose benefits when they are working, when they reach age 65, their benefits are recomputed, and for the rest of their life they will get larger benefits. From an actuarial standpoint, this is an exact balance. So, there is no unfairness about that.

After age 65, people do not realize that when they have benefits withheld, they will later get larger benefits because of the so-called delayed retirement credits. These, however, do not completely offset the benefit loss, but in the year 2009 and afterwards, these retirement credits will be of a size to do that.

I think that many people should not take benefits early even though they can receive them, in whole or in part. It is better to have larger benefits when they do actually retire. But still, I would give them the choice and do something like what is in the bill.

I think that, in order to do something about this provision, the effort should be made to make this 5-year budget rule just not applicable to the Social Security system. It just is not proper from an actuarial standpoint to look at just the next 5 years. Instead, one should look at the duration of the system. As the chief actuary of the Social Security Administration said previously, over the long run, the costs of the proposed change are negligible, and it could be enacted right away.

In fact, if the proposal were to do nothing with the retirement test until 5 years from now and then raise it to $30,000 per year, that would meet these budget legislative rules, and yet what is the real difference?

So in closing, Mr. Chairman, I want to reiterate my very strong support for this proposal in the Senior Citizens' Equity Act.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT BY ROBERT J. MYERS PRESENTED TO THE SUBCOMMITTEE ON SOCIAL SECURITY OF THE COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, JANUARY 9, 1995, WITH REGARD TO THE SOCIAL SECURITY EARNINGS LIMIT

Mr. Chairman and Members of the Subcommittee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934-70, being Chief Actuary for the last 23 of those years. In 1981-82, I was Deputy Commissioner of Social Security, and in 1982-83, I was Executive Director of the National Commission on Social Security Reform. In 1994, I was a member of the Commission on the Social Security "Notch" Issue.

Purpose and History of Retirement Earnings Test

The retirement earnings test under the Old-Age, Survivors, and Disability Insurance program has, over the years, attempted to draw a line between a person being retired and being employed. In the original Act, this provision was on an "all or none" basis; benefits were to be withheld if the person engaged in "regular employment" (not defined in the law). This concept was changed in the 1939 Act (before monthly benefits first became payable) so as to establish covered wages of $15 per month as the point at which the person would not be considered retired, and therefore no benefits would be payable.

Over the years, the earnings test has been changed so as to phase in more smoothly and equitably for persons who have moderate earnings. At present, there is an annual exempt amount -- currently, $11,280 for persons aged 65-69 and $8,160 for younger persons -- such that persons with earnings equal to or less than this receive full benefits, whereas those with higher earnings who are under age 65 have their benefits reduced by $1 for every $2 of excess earnings, on a $1-for-$3 basis. While for those aged 65-69, the reduction is on a $1-for-$3 basis.

Originally, the earnings tests applied at all ages. The 1950 Act provided that it should not be applicable after attainment of age 75. Such limiting age was reduced to 72, effective for 1955, and then to 70, effective for 1983. In all logic, there is no reason to have a limiting age beyond which the test does not apply. This basis of a limiting age was adopted solely because of political pressures arising from individuals who argued that, otherwise, they would never get any return on their contributions because they would work all their lifetime.

Individuals who have benefits withheld because of excess earnings are compensated therefor, as to OASDI benefits, through two means. First, the additional earnings result in a recomputation that may increase subsequent benefit amounts -- but this will not always occur, depending upon the current level of earnings as contrasted with that in previous years. Second, future benefits are increased by the Delayed-Retirement Credit (DRC), which is at the rate of 3% per year for those who attain age 65 in 1982-89 (1% for those attaining age 65 earlier), but increases gradually for persons reaching age 65 later. Thus, for persons who attain age 65 in 1994-95, the DRC is at the rate of 4-1/2%; for 1996-97 attainments, it is 5%. In the long run, the DRC will be at the rate of 8% per year -- for those attaining the Normal Retirement Age in 2009 (when it will be age 66) and thereafter.

It is important to note that, when the DRC is 8%, it will then be approximately the actuarial equivalent. By this is meant that, insofar as the OASDI program is concerned, the long-range cost effect of persons delaying retirement and then receiving larger benefits due to the DRCs will be approximately the same as though benefits were payable automatically at the Normal Retirement Age, regardless of subsequent earnings. It may also be noted that this actuarial equivalency is present for those who now retire before the Normal Retirement AGe (currently, age 65). Specifically, at present, if an individual retires at age 62, the benefit is 80% of that available at age 65. Thus, if retirement were deferred for 3 years, the benefit would be 25% higher relatively, or about 8% per year of delay.

Over the years, the earnings test has been perhaps the most controversial feature of the OASDI program insofar as the general public was concerned. Many people view it as being unfair because they believe it to be a significant deterrent to continued employment -- which, as I will discuss later, is frequently actually the case. Still other persons believe the earnings test to be unfair because they believe that "they have bought and paid for the benefits to be payable at age 65" -- but this is not a correct conclusion, because the "insurance" provided was against retirement, not against attainment of age 65.

In defense of the earnings test, the basic argument is that it is not appropriate to pay retirement benefits to people who are not retired, because they are still in the paid labor market. Employers having private pension plans do not continue individuals in employment beyond the normal retirement age and pay them both salary and pension. Especially, it is argued that program costs should not be incurred in paying benefits to persons beyond the Normal Retirement Age who are earning high salaries -- often as much or more than they ever did in the past.

Effect of Legislative Restrictions on Benefit Liberalizations

Before discussing how the retirement earnings test should be liberalized, I would like to describe certain current legislative restrictions that artificially and illogically hinder such action. There is the requirement that any increases in outgo in the next five years resulting therefrom must be offset by reductions in other outgo under the program and/or by increases in program income. Two faults occur in connection with this requirement.

First, in a long-range social insurance program that is self-financing -- as Social Security has been for over half a century -- the only important matter is the long-run effect of the proposed change. If the increased cost of a proposal is negligible when measured over the 75-year valuation period, the short-run, 5-year cost is irrelevant, and it should not be considered in relation to the general-budget deficit. In fact, the operations of the self-supporting Social Security system should not be considered at all with regard to our horrendous general-budget deficit, which it did not cause at all at any time. Either reducing or increasing Social Security's outgo has no effect whatsoever on the National Debt, but rather on the proportion owned by the general public as against the proportion owned by the trust funds.

Second, the 5-year restriction would prevent a desirable proposal that would significantly strengthen the long-range financial status of the Social Security program, but would have small excesses of outgo over income in the next five years. This seems to be a matter of being pound-wise, but penny-foolish!

My Views as to Desirable Changes in Retirement Earnings Test

I believe strongly, in theory, in the principle of the retirement test. However, up to this time, despite great effort to have the test operate so as to phase in equitably for persons between full employment and full retirement, it produces significant disincentives for employment for a large number of persons.

Quite obviously, persons with relatively low earnings -- below the annual exempt amount -- have no work disincentives on account of the test. However, those with higher earnings -- up to perhaps $40,000, or about twice the nationwide average earnings -- have very considerable disincentives. Additional work by them beyond the annual exempt amount results not only in a loss of some benefits, but also the payment of higher federal and state income taxes -- and Social Security and Medicare taxes as well. As a result, the net gain from additional work will be relatively small. For more specific details on the subject, may I refer to my paper, "Income of Social Security Beneficiaries as Affected by Earnings Test and Income Taxes on Benefits" in The Journal of Risk and Insurance, June 1985.

As a partial offset to the small incentive to work under such circumstances, there is the favorable financial effect over the long run that larger benefits will eventually be payable when retirement occurs (or at age 70, if earlier). However, although this is a very real offsetting feature, many people so affected do not understand its effect, but rather they only look at current net income and not also -- as should properly be done -- at the present value of the additional future benefits.

I am convinced that the best solution to the problems caused by the earnings test is to eliminate it for all persons at or above the Normal Retirement Age and, at the same time, to raise the DRC to 8% for all future non-payment of benefits for persons at or above the Normal Retirement Age. Further, the DRC should be made applicable at ages 70 and over, for those who wish to defer benefit receipt until they cease employment. I might point out that I made this recommendation in a hearing before this subcommittee on May 23, 1990.

Simultaneously, a continuing educational campaign should be mounted to inform individuals about the advantages of deferring claim for benefits until they actually retire after the Normal Retirement Age, so that they receive the substantial increases from the DRCs. Such procedure results in much better benefit design -- namely, having only earnings while working, and then having a larger benefit while retired, versus a very high income while working (earnings,

plus "normal" benefits), but sharply reduced income while retired ("normal" benefits only). Furthermore, such levelling of income over the years after Normal Retirement Age might produce lower income taxes over all.

These changes would increase the cost of the program somewhat. Such increased cost due to the larger DRCs will ultimately be present anyhow under present law. If we can afford it then, we can afford it now! Actually, increasing the DRCs at once would reduce costs somewhat in the short run because individuals would be more likely to defer retirement, and thus receipt of benefits.

Change in Retirement Earnings Test in the Senior Citizens' Equity Act

The Republican Contract with America contains the Senior Citizens' Equity Act. One portion of this bill would raise the annual exempt amount of earnings under the retirement earnings test for persons at and above the Normal Retirement Age (currently, age 65) and below age 70 to $15,000 for 1996, $19,000 for 1997, $23,000 for 1998, $27,000 for 1999, and $30,000 for 2000, with automatic adjustment thereafter based on increases in nationwide average wages. The $30,000 figure for 2000 compares with an estimated figure of $13,680 that would result under the automatic-adjustment provisions in present law (based on the intermediate-cost estimate).

This change would go a long way toward solving the problem of work disincentives for lower-earning and middle-earning workers, as discussed previously. At the same time, high-earning workers would not be able to receive benefits currently, although they would instead have the partially compensating effect of the Delayed-Retirement Credits. And, in fact, after about 15 years from now, the effect of such credits would, from an actuarial viewpoint, approximately compensate for the loss of benefits due to substantial employment.

Some relatively small additional cost to the Social Security program would result if this change were made, but such cost would almost entirely be restricted to the next 15 years. Much of the higher cost in the next 5 years would be offset later, because the additional benefits paid immediately would mean that fewer Delayed-Retirement Credits would be earned, and so lower benefits would be payable over the long run as compared with present law. Thus, as I have indicated previously, it is illogical to apply the 5-year restriction on increased outgo, rather than looking solely at the long-range effect.

Some persons have proposed that part of the cost of liberalizing the earnings test should be met by eliminating recomputations of benefits to take into account earnings received after initial entitlement to retirement benefits. I strongly oppose such a change. First, I believe that potential OASDI benefit rights should be available on all earnings credits for which contributions have been paid. Second, it is unfair to place persons in the position that they must decide when it is most (or least) advantageous to file claim (and the District Offices of SSA cannot, and will not, advise them on such matters). Instead, the long-standing principle should be continued that individuals are never adversely affected by early claims filing.

In summary, I strongly support the proposal in the Senior Citizens' Equity Act that would significantly increase the annual earnings limit in the retirement earnings test for persons above the Normal Retirement Age and under ago 70. This would most certainly create a much more equitable situation as to work incentives and receipt of Social Security benefits for low-earning and middle-earning workers aged 65 and over. The increased cost involved is relatively small when measured over the long run, taking into account all factors, such as the effect of the Delayed-Retirement Credits.

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Chairman BUNNING. Thank you.
Mr. Entin.

STATEMENT OF STEPHEN J. ENTIN, RESIDENT SCHOLAR, INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

Mr. ENTIN. Thank you, Mr. Chairman. It is a pleasure to be here to present my views on the Social Security earnings test. I look forward to hearing your views on the system, sir, 1 month from now at our Social Security symposium.

The provision in the Senior Citizens' Equity Act that would raise the earnings limit to $30,000 by the year 2000 for beneficiaries ages 65 through 69 is a step in the right direction, but bolder action is needed.

At the very least, the proposed increase in the limit should be extended to apply to beneficiaries aged 62 through 64 over the same timeframe, and the limit should be further increased and removed entirely as soon as possible. Persons aged 62 through 64 face an even higher tax penalty from the earnings test than persons age 65 through 69, and are driven from the work force by the test by an even greater degree.

Furthermore, these relatively younger beneficiaries are better able to continue in or to reenter the work force if the earnings test is eased. Consequently, extending relief from the earnings test to the younger age group would result in great economic benefits to them and to the Nation as a whole.

The earnings test imposes outrageous marginal tax rates on added earnings of the elderly. At incomes of only $15,000 to $25,000, marginal tax rates can be pushed to between 65 and 85 percent by the earnings test. At incomes of $25,000 to $60,000, where the taxpayer is also subject to income taxation of benefits, marginal tax rates can reach 85 percent to 115 percent, which is blatantly confiscatory. You can see that in tables that I have presented in the main testimony.

Consequently, taxation of benefits should also be revised, and I commend the full committee for taking up this question on January 19.

By the way, the interaction of these two provisions is a good example of the damage that can be done when provisions are adopted piecemeal without considering their impact, or by focusing too narrowly on one part of the program without considering the economic consequences.

Repealing or easing the earnings test would add the equivalent of several hundred thousand full-time workers to the labor force and billions of dollars to GDP. The added payroll and income taxes paid on wages, Social Security benefits, and profits would offset most of the cost of repealing the earnings test.

The apparent budget cost of repealing or easing the earnings test is the artifical creation of the static revenue estimation methods used by the Congress and the administration, methods which ignore the GDP effects of the policy change. There is no real-world budget reason for not going forward.

Using a repeal of the earnings test would also lower Medicare outlays as more of the elderly were covered by employers' medical insurance.

Even if one took the static estimate seriously, the cost of repealing the earnings test will decline to zero by the year 2008 as the delayed retirement credit is increased under current law. By then, one could delay filing for benefits until age 70, work several extra years without being hit by the earnings test, and still collect the same lifetime benefits.

I would certainly recommend you do nothing to tamper with the scheduled increases in the delayed retirement credit. If anything, you should accelerate them.

The Omnibus Budget Reconciliation Act of 1990 forbids any action to worsen the 5-year and 75-year actuarial balance of the trust fund. It cuts Social Security off from the rest of the budget as well, which means cuts in the budget can't be used to finance Social Security reforms of a beneficial nature.

These restrictions do nothing to improve the health of the Social Security system. They are devoid of economic meaning, and have no impact on the health of the Social Security program. They should be scrapped.

If Congress nonetheless insists on playing the budget scoring game, there are many ways to pay for the apparent cost of repealing the earnings test. My favorite would be accelerating the already scheduled increase from 65 to 66 and the normal retirement age to begin the phase-in by 1996 instead of 2000. This would save about $4 billion in OASDI outlays by the year 2000, enough to cover about half of the 5-year static cost of raising the earnings limit to $30,000 for workers ages 65 through 69. Someone planning on early retirement at age 62 in 1996 could make up for this change by working an additional 2 months.

To deal with the 75-year balance, Congress could adjust the benefit formula itself: effective October 30 or 60 years from now. The current formula provides for huge increases. The real benefits will have to be trimmed anyway. These benefits plus projected Medicare outlays cannot be sustained without a near doubling of the payroll tax, which I am sure you will want to avoid.

Ideally, the subcommittee should select from among the nontax options for trimming that were presented at the subcommittee hearing chaired by Mr. Jacobs on September 27, 1994, and put them in as soon as possible into a global reform package for Social Security.

These ideas were presented in bills submitted in the last Congress by Mr. Pickle and Mr. Rostenkowski. Therefore, one could envision a bipartisan effort in which the easing of the earnings test and reform of benefit taxation could pave the way for an economically beneficial solution to the system's long-term deficits as well.

Thank you very much.

[The prepared statement and attachments follow:]

HEARING ON THE SENIOR CITIZENS' EQUITY ACT

Statement of Stephen J. Entin
Institute for Research on the Economics of Taxation
before the
Committee on Ways and Means
Subcommittee on Social Security

January 9, 1995

The social security retirement earnings test is damaging to the economy, hurts elderly workers financially and infringes on their personal liberty. It should be repealed.

The provision in the Senior Citizens' Equity Act that would raise the earnings limit to $30,000 by the year 2000 for beneficiaries ages 65 through 69 is a step in the right direction, but bolder action is needed.

Phasing in the earnings test repeal would cost the economy some of the additional GDP that could be obtained by immediate repeal. Failure to ease the earnings test for workers ages 62 through 64 further reduces the potential economic benefits.

At the very least, then, the proposed increase in the limit should be extended to apply to beneficiaries ages 62 through 64 over the same time frame, and the limit should be further increased and removed entirely as soon as possible. Persons ages 62 through 64 face an even higher tax penalty from the earnings test than persons age 65 through 69, and are driven from the work force by the test by an even greater degree. Furthermore, these relatively younger beneficiaries are better able to continue in or to reenter the work force if the earnings test is eased. Consequently, extending relief from the earnings test to the younger age group would result in great economic benefits to them and to the nation as a whole.

How the test operates.

For beneficiaries ages 62 through 64, the earnings test reduces social security benefits by $1 for every $2 of wage and salary income earned by a beneficiary above an indexed exempt amount. For beneficiaries ages 65 through 69, the rate of benefit reduction is $1 for every $3 of earnings in excess of an indexed exempt amount. This reduced rate of loss is only for beneficiaries at or above normal retirement age, currently 65. As the normal retirement age is raised from 65 to 66, and from 66 to 67 in stages for people reaching age 62 between the years 2000 and 2005, and 2022 and 2027, respectively, the reduction will revert to $1 for every $2 of excess earnings for those ages 65 and 66. In 1995, the exempt amounts are $8,160 for beneficiaries under age 65, and $11,280 for beneficiaries age 65 through 69. Those over age 69 are not subject to the earnings limitation. Clearly, the test is perverse. The greatest penalties fall on the youngest beneficiaries with the greatest potential productivity.

Effect on marginal tax rates.

The $1 for $2 benefit reduction is equivalent to a 50 percent marginal tax rate on a beneficiary's earnings in excess of the exempt amounts, until the excess earnings build to more than twice the social security benefits and all benefits have been lost. The $1 for $3 benefit reduction imposes a 33-1/3 percent add-on tax rate on a range of earnings equal to three times the benefits. On top of this must be added other tax rates facing the working beneficiary. The most obvious among these are the marginal federal and state income tax rates and the payroll tax rate. In addition to these basic tax rates, there are also large increases in marginal tax rates for many social security beneficiaries due to the phase-in of income taxation of benefits, discussed below. (Other taxes or tax-like disincentives not factored into this analysis include federal and state unemployment taxes and welfare benefits subject to phase-out with income.)

When the various basic taxes are imposed together, marginal tax rates can become very high at moderate income levels. A single retiree age 64 with a total income of $17,500 or a married couple age 64 with total income of $22,500 could face an 83 percent marginal tax rate. A single retiree age 65 with income of $21,000 or a couple age 65 with income of $26,000 could face a 66 percent marginal tax rate. At higher incomes, with all benefits lost, the marginal rates would be lower.

EXAMPLES OF MARGINAL TAX RATES UNDER THE EARNINGS TEST

single retiree	age 64	age 65
income from:		
savings	$ 1,000	$ 1,000
wages	8,500	12,000
social security	8,000	8,000
total income	$17,500	$21,000
tax on added $1 of wage income from:		
benefit reduction	50 %	33.3%
federal income tax*	13.9	13.9
payroll tax	15.3	15.3
state income tax	4	4
total marginal rate	83.2%	66.5%

married couple	age 64	age 65
income from:		
savings	$ 2,000	$ 2,000
wages	8,500	12,000
social security	12,000	12,000
total income	$22,500	$26,000
tax on added $1 of wage income from:		
benefit reduction	50 %	33.3%
federal income tax*	13.9	13.9
payroll tax	15.3	15.3
state income tax	4	4
total marginal rate	83.2%	66.5%

* The examples incorporate the 1995 self-employed payroll tax rate, 15.3 percent, after adjusting the income tax to allow for deductibility, if applicable, of the half of the payroll tax corresponding to the employer's share for the self-employed. Even for those not self-employed, the combined employee/employer rate (after allowance for the employer's deduction of the employer's half of the payroll tax) is the true measure of the tax burden on the gross wage.

Interaction with income taxation of social security benefits.

Even higher tax rates occur when a beneficiary is subject to the phase-in of benefit taxation as well as the social security earnings limit on wage and salary income.

The so-called tax on social security retirement and disability benefits is really a tax on other, private income — interest, dividends, pensions, and wages — received by individuals collecting social security benefits. The taxation of benefits is triggered as other retirement income exceeds a set of thresholds, causing the tax on benefits to become a penalty on the other earnings. The tax poisoning of private retirement saving sends a terrible message to current workers: "Congress does not want you to save."

Before OBRA93, the tax treatment of up to 50 percent of social security benefits imposed tax rates of up to 42% on wages and earnings of private saving — powerful disincentive to work and save. OBRA93 raised the rate as high as 51.8% by phasing in up to 85 percent of benefits

into taxable income, and has made working and saving for retirement or disability even less attractive.

When all state and federal taxes are considered, beneficiaries subject to the earnings limitation and taxation of up to 50 percent of benefits can face marginal tax rates of roughly 85 percent to 105 percent on additional wages. Beneficiaries subject to the earnings limitation and taxation of up to 85 percent of benefits can face tax rates of 95 percent to 115 percent on additional wages.[1]

TAX RATES UNDER THE EARNINGS TEST
AS BENEFITS BECOME SUBJECT TO TAX

	married couple 50% phase-in range		married couple 85% phase-in range	
income from:				
pension	$12,000		$18,000	
savings	7,000		12,000	
wages	12,000		12,000	
social security	12,000		14,000	
total income	$43,000		$56,000	
tax rate on added dollar of wages from:	age 64	age 65	age 64	age 65
benefit reduction	50 %	33.3%	50 %	33.3%
federal income tax*	37.4	36.3	44.0	42.1
payroll tax	15.3	15.3	15.3	15.3
state income tax	4	4	6	6
total marginal rate	102.7%	88.9%	115.3%	96.7%

* The examples incorporate the self-employed payroll tax rate, 15.3 percent, and adjust the income tax rate for deductibility, if applicable, of the half of the payroll tax corresponding to the employer's share for the self-employed.

In a hearing on January 19th, the full Ways and Means Committee will consider repealing the OBRA93 increase, from 50 percent to 85 percent, in the amount of social security benefits subject to tax. That is a good step, but a more sweeping reform of the taxation of benefits is called for.

Congress should remove the 50 percent and 85 percent phase-ins, decoupling the taxation of social security benefits from the amount of other income, to eliminate the resulting spike in marginal tax rates on interest, dividends, pensions, wages, and other privately provided retirement income. Sheltering of lower income taxpayers from taxation of benefits could be achieved quite simply, and without this tax penalty on other retirement income, by an alternate method of benefit taxation. Some amount of benefits, say, $6,000 for a single retiree, $9,000 for a couple using a 50 percent spousal benefit, and up to $12,000 for a couple with independent benefits, could be made tax exempt. Benefits above the exempt amounts, up to half of benefits, would simply be added to ordinary taxable income. These exempt amounts and/or the percent of benefits subject to tax could be adjusted to produce the same or higher revenue, as desired.

Recomputation of benefits does not compensate for the earnings test.

Working additional years after beginning to receive social security benefits may increase one's earnings history and result in an automatic increase in benefits. This increase may offset a part, but generally only a small part, of the high tax burden on the earnings subject to the earnings test.

The delayed retirement credit (DRC) does not compensate for the earnings test.

Those retiring later than the month of attaining age 65 have their benefits increased by 3/8 percent per month for each month retirement is delayed past age 65. Those whose benefits are reduced in any month by the earnings test receive an increase in their future benefits of a similar 3/8 percent for each month the earnings test applied, beginning once their earnings have dropped below exempt amounts. Some may claim that this provision relieves the damage to incentives done by the earnings test. In fact, the DRC is not an adequate offset to the adverse effects of the earnings test.

The DRC acts as a partial offset to the incomplete indexation of workers' earnings histories in determining initial retirement benefits (primary insurance amounts, or PIA's). A retiring workers' earnings are indexed up until age 60. These indexed earnings are added to unindexed earnings through age 62, age 65, or any later retirement age in determining average lifetime earnings and PIA's. Furthermore, any earnings after retirement which go into a recomputation of benefits are not indexed. Thus, delayed retirement means giving up indexation of a larger portion of the wage history, resulting in lower replacement rates the longer one delays retirement. The DRC must be considered, in part, as an adjustment for that problem.

Furthermore, although some of the benefits lost to the earnings test may be partially recovered later in life through the delayed retirement credit if excess earnings cease, the retiree must live long enough to collect. That is not a sure thing. A risk-averse older worker may well prefer the bird in the hand of current benefits to the prospect of an "actuarially fair" future benefit increase. Consequently, beneficiaries would surely work less as a result of the earnings test even with a fairly valued DRC.

The current DRC, however, is not fairly valued. It is not adequate on an actuarial basis to make the present value of expected lifetime benefits under delayed retirement equal to the expected benefits received by retiring at the normal retirement age (currently 65; or at age 62, in spite of the actuarially fair early retirement penalty). Under current law, the DRC is being increased in stages to 2/3 percent per month for those reaching age 65 in 2008 and beyond. This will make the annual increase in benefits from delayed retirement equal to 8 percent per year. Under current interest rate and life expectancy assumptions, this should make the present value of expected benefits equal whether one retires at the normal retirement age (66 in 2005) or later. Under no circumstances should the scheduled increases in the DRC be repealed.

The scheduled increases in the DRC through 2008 would go a long way toward removing the disincentive from the earnings test (the earnings indexing problem aside). One could work several extra years and still collect the same lifetime benefits (if, as noted above, one lives the average post-normal retirement age lifespan, which is something of a gamble). The earnings test would then cease to affect the average amount of benefits paid, and influence only their timing. The earnings test could then be eliminated for those 65 and over with no meaningful budget consequences. However, this is thirteen years away, and does nothing to address the current problem.

Note that the rise in the DRC means that the cost of repealing the earnings test will decline over time. The current law benefit outlays for those who delay retirement or who are penalized by the earnings test are drawing closer to the amounts that would be paid out if the earnings test did not exist. That means that the cost of repealing the test is a limited lump sum, not an ongoing expense, and will cost virtually nothing beyond 2008.

Estimating behavior and budget impacts.

The Congressional Budget Office estimates a net five year cost of $6.6 billion from raising the earnings test to $30,000 for workers ages 65 through 69. The estimate is net of income taxes on a portion of the higher benefits paid out.

However, estimates of the budget consequences of easing the earnings test, whether prepared by the Joint Tax Committee, the Congressional Budget Office, or Treasury, are "static"

estimates. They will not include any tax revenues due to higher employment and earnings of the elderly as a result of the repeal, or from additional capital formation or employment of younger workers hired to work with the expanded elderly work force. Each agency as a matter of policy sticks to an unchanged economic baseline forecast in performing revenue estimates. Real world changes in GDP and associated revenue changes due to a policy shift are ignored.

In fact, additional work effort, capital formation, and taxable income due to repeal of the earnings test could easily result in additional tax revenue equal to the remaining apparent static cost of easing the earnings limit.

The budget estimators may also omit added benefits to the Federal budget in the form of reduced Medicare outlays as more of the elderly were covered by employers' medical insurance, and reduced outlays on Medicaid and SSI as the elderly ages 65-69 became able to earn additional income and to save more to support themselves when they turn 70 or older. Given the condition of the Medicare and Medicaid programs, these potential savings are an important consideration.

In the real world, there is no major adverse budget impact from repeal or easing of the earnings limit, and every economic reason for going forward with no offsetting revenue of outlay actions to offset the cost. Unfortunately, most of the revenue reflows that would occur following repeal of the earnings test are not counted under the current budget scoring rules.

Furthermore, the Omnibus Budget Reconciliation Act of 1990 (OBRA90) places Social Security off-budget for the purpose of computing budget deficit targets and meeting the spending limits and pay-as-you-go provisions governing discretionary spending and non-Social Security entitlements. OBRA90 also forbids any action to worsen the 5-year and 75-year "actuarial balance" of the system.

It must be clearly understood that these restrictions are entirely arbitrary and unnecessary. They are devoid of economic meaning, and have no impact on the health of the Social Security program. They should be scrapped or over-ridden so as not to stand in the way of a beneficial policy such as eliminating the earnings test.

In particular, the level of the trust fund is irrelevant to any real world considerations. The trust fund is often spoken of as providing a means of payment of benefits in the future. This is not correct. The trust funds do not contain any assets constituting a means of payment of future benefits. Rather, they contain Treasury securities, Federal I.O.U.s. These are liabilities, not assets, of the government. The trust funds constitute nothing more and nothing less than budget authority for the Social Security Administration. When the baby boom retires and the time comes to pay future benefits on the basis of the spending authority in the trust funds, the Treasury will have to find the money at that time out of that year's taxes or by borrowing that year in the credit market.

The trust funds and the actuarial balance are thus completely irrelevant in the short run, and the earnings test proposal has little or no impact in the long run. If the level of the trust fund is of concern to the Congress, the Congress can always add to the trust fund by fiat. The Congress could arbitrarily: 1) order Treasury to pay a higher rate of interest on the trust fund balances for 5 years; or 2) order the Treasury to mark up the trust fund balance by $6.6 billion over 5 years.

Financing repeal of the earnings test.

If Congress nonetheless insists on playing the budget scoring game, there are any number of ways of "paying for" an easing of the earnings limit within the confines of the Social Security system. Some changes often proposed for the system would enhance work and saving incentives, and be economically beneficial; others would reduce economic incentives.

Accelerating the scheduled increase in the normal retirement age. The 1983 Social Security Amendments provided for an increase from 65 to 67 in the normal retirement age, which

is the age at which a retiree may collect full benefits. The age will rise from 65 to 66 at a rate of two months per year for those reaching age 62 between 2000 and 2005; it will rise from 66 to 67 for those reaching age 62 between 2022 and 2027. The provision will still allow retirement at age 62, with an early retirement penalty of 5/12 percent for each of the additional 24 months of early retirement permitted under the change.

Accelerating the current law retirement age increases by four years, to begin the phased increases for those reaching age 62 in 1996, would save about $4 billion in OASI outlays by 2000, enough to cover about half of the 5 year static cost of raising the earnings limit to $30,000 for beneficiaries ages 65 through 69. The rise in the retirement age is very gradual. Someone turning age 62 in 1996, and planning to retire at age 65 in 1999, would have to plan on working an additional 10 months to collect current law benefits. Someone planning on early retirement at age 62 in 1996 could choose between two additional months of work or an additional early retirement penalty of less than one percent of the primary insurance amount. This proposal would encourage work effort and reduce Federal spending between now and the time the higher retirement age would have become effective anyway.

Minor adjustments in the benefit computation process. Minor adjustments in the benefit computation process that have been considered at one time or another by SSA and the Congress might be employed to provide additional savings. For example, accelerating the increase in the delayed retirement credit to 8 percent in 1995 would encourage later retirement, and save about $0.5 billion per year in conjunction with ending the retirement earnings test. There would be no adverse economic incentives from such an adjustment. Administrative cost savings of nearly $0.1 billion should be counted as well. Such savings would be a clear reduction in wasteful costs.

Ending recomputation of benefits for earnings beyond the normal retirement age. Eliminating the recomputation of benefits for additional earnings after reaching normal retirement age could save about $0.8 billion per year. Ending recomputation would somewhat reduce the incentive to work, but would offset only a small portion of the added incentive created by the earnings test repeal.

Early retirement penalty. Consideration should also be given to eliminating the earnings test for those below normal retirement age. Perhaps the early retirement penalty could be adjusted slightly to defer part of the cost. However, this should not be done without one or two year's advance notice to give people time to save or to plan to work an additional few months to make up for the change in the benefit computation procedure.

Changing the method of taxing benefits. As described above, it would be possible simultaneously to: 1) reduce the extreme marginal tax rate penalty on privately-provided retirement income inherent in the current method of taxing social security benefits, 2) avoid taxing lower income beneficiaries, and 3) increase revenue from taxation of benefits, by simply adding a portion of benefits to taxable income without "thresholds" and "phase-ins". Reducing the marginal tax rates on other retirement income would sharply enhance saving incentives and economic growth. However, adding more benefits to taxable income would push some taxpayers into higher tax brackets, and would be counter-productive. Changing the taxation formula would best be held to no more than a revenue-neutral trade-off.

Reducing replacement rates. Finally, some consideration could be given to a small adjustment in the benefit formula itself, effective some years from now. As shown in the attached table, derived from Table III.B5 of the 1994 Social Security Trustees Report, the current formula provides for very large increases in real benefits per retiree in the years ahead. Perhaps a trade-off could be devised of a reduction in the projected outyear benefit increases and replacement rates (benefits as a percent of pre-retirement earnings) in exchange for a phase-out of the earnings test for the lower age group. Such a reform would be of major economic and budgetary benefit.

Trimming outyear benefit growth is essential for bringing the system into balance in the long term, and will be done sooner or later. It is inevitable. On September 27, 1994, the Subcommittee held a hearing on three bills introduced to address the outyear imbalances. In

testimony at that time, I selected a package of the best provisions in the bills under discussion to trim benefit growth and balance the system without economically damaging tax increases. The Subcommittee might consider the advantages of dealing with the long term deficit of the Social Security system, completely eliminating the earnings test, totally reforming the taxation of benefits, and encouraging private saving through universal IRA's, all in one piece of legislation.

ESTIMATED REAL BENEFIT AMOUNTS OF RETIRED SINGLE WORKERS UPON RETIREMENT AT NORMAL RETIREMENT AGE* WITH VARIOUS PRE-RETIREMENT EARNINGS LEVELS** BASED ON ALTERNATIVE II ASSUMPTIONS

	CONSTANT 1994 DOLLARS			PERCENT OF EARNINGS		
Calendar Year	Low Earnings	Average Earnings	Maximum Earnings	Low Earnings	Average Earnings	Maximum Earnings
1995	6,076	10,030	13,995	57.8	43.0	23.8
2010	6,778	11,207	17,457	56.3	41.9	27.3
2040	9,081	15,046	23,787	56.0	41.8	27.7
2070	12,103	20,050	31,649	56.0	41.8	27.6

* Normal retirement age at which full benefits are payable is currently 65. This will rise to 66 in stages (two months per year) for those reaching age 62 between 2000 and 2005, and to 67 in stages for those reaching age 62 between 2022 and 2027.
** Low earnings equal 45 percent of average earnings. Average earnings assume worker earned national average covered earnings each year of working life. Maximum earnings assume worker earned the SSA contribution and benefit base (maximum covered earnings) each year of working life. Source: 1994 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds, Table III.B5.

Conclusion

It would be extremely beneficial from an economic, tax simplification, administrative, and personal liberty standpoint to repeal, or at least ease, the social security earnings test. Budget and distributional concerns are minor by comparison with the benefits to be had from this reform, and can be dealt with by other adjustments to the benefit computation rules.

Reform of the earnings test and social security benefit taxation is urgent. The current test and tax treatment impose mindless disincentives to work and save. If their objective is fairness, it cannot be achieved with tax rates approaching or exceeding 100%. If the objective is to turn social security into a means-tested welfare program, there are surely more efficient ways to do it.

Endnotes

1. As taxpayers move toward the upper end of the 15 percent tax bracket or the bottom of the 28 percent tax bracket, most would have sufficient social security income to trigger taxation of benefits. Their added wage income would then be subject to both the earnings limitation and the effects of benefit taxation.

Taxation of benefits begins when the sum of a beneficiary's adjusted gross income, tax exempt bond income, and half of social security benefits exceed $25,000 for a single beneficiary and $32,000 for a married couple filing jointly. These amounts are not adjusted for inflation, and will affect more beneficiaries each year at lower real incomes. For each dollar by which this sum exceeds the exempt amounts, $0.50 of the taxpayer's social security benefit becomes taxable income, up to half of benefits. During this phase-in range, the effect of earning an added dollar of interest or wages is to increase taxable income by $1.50, effectively raising the marginal income tax rate on the added dollar of wages or interest by half, e.g., from 15 percent to 22.5 percent or from 28 percent to 42 percent. Since the Omnibus

Budget Reconciliation Act of 1993, for taxpayers with higher incomes, $34,000 for single taxpayers and $44,000 for married couples, up to 85% of benefits are taxable, phased in at an 85 percent rate. This second tier of benefit taxation effectively raises the marginal 28 percent income tax rate to 51.8 percent (28 x 1.85). This is an unfortunate tax penalty on private saving for retirement.

The implicit tax rates due to the earnings test are not strictly additive to the income tax effects of benefit taxation, because the benefit reductions due to the earnings test slightly reduce the income tax spike on the benefits. Nonetheless, together with the payroll tax on the added earnings and state income taxes, the tax rate on beneficiaries' wages can reach confiscatory levels.

When a beneficiary is subject to both the earnings test and the phase-in of benefit taxation at the 50 percent rate, the interaction of the two provisions produces an effective increase of either 37.5 percent (for beneficiaries ages 62-64) or 41.67 percent (for beneficiaries ages 65-69) in the marginal tax rate on wage and salary income, rather than one-half. (The added dollar of wages costs the beneficiary $0.50 in benefits if age 62-65, $0.3333 if age 65-69. Since half of social security benefits are counted in determining whether a taxpayer's income exceeds the threshold for taxation of benefits, that measure of income falls by half of these benefit losses, or by $0.25 or $0.1667. Thus, the net result of an added $1 in wages is an additional $0.75 or $0.8333 in the income measure used to determine benefit taxation, and, as described above, an increase of half that amount -- $0.375 or $0.4167 -- in taxable benefits. Thus, the consequence of the added dollar of wages is to raise taxable income by $1.375 or $1.4167.) This effectively raises the 15 percent tax rate to 20.625 percent or 21.25 percent, and the 28 percent tax rate to 38.5 percent or 39.67 percent, for those in the 62-64 and 65-69 age groups, respectively. For people subject to taxation of up to 85 percent of benefits, the corresponding increases in taxable income are $1.6375 or $1.7085, raising the 28 percent marginal income tax rate to 45.85 percent or 47.84 percent, for those in the 62-64 and 65-69 age groups, respectively.

Adding in the 50% or 33-1/3% implicit tax rates due to the earnings test, plus payroll and state income taxes, marginal tax rates under these conditions can reach 85 percent to 115 percent.

Chairman BUNNING. Mr. Mitchell.

STATEMENT OF DANIEL J. MITCHELL, McKENNA SENIOR FELLOW IN POLITICAL ECONOMY, HERITAGE FOUNDATION

Mr. MITCHELL. Mr. Chairman, members of the subcommittee, I commend you on moving quickly to address this important provision of the Contract With America.

I am here on behalf of the Heritage Foundation where I serve as an economist. My remarks will focus on two issues. First, I believe too many policymakers have forgotten the lessons of the past 20 years that incentives do matter. While lawmakers are right to make almost every possible effort to reduce Federal spending, the earnings test reduces Federal spending in a way that has a large impact on incentives via the increase in marginal tax rates that others have already discussed.

Second, and perhaps even more important, I think lawmakers should address this issue in connection with a long-term reexamination of retirement policy. Simply stated, policies which penalize private retirement income may be inconsistent with necessary long-term efforts to rescue a Social Security system with a very large, long-term unfunded liability while at the same time doing that reform a way that protects living standards for senior citizens.

Let me quickly address the first point, the relationship between the earnings test and marginal tax rates. As the subcommittee already understands, the earnings test works by taking away a certain amount of Social Security benefits as private wage and salary income rises.

For the affected income range, every $3 of income causes a $1 reduction in Social Security benefits. This has the impact, of course, of an additional tax of 33⅓ percent. Combined with existing taxes, senior citizens are pushed into tax brackets, as Congressman Christensen noted, presumably reserved for millionaires, not that I think millionaires should be subjected to the tax brackets they are already affected by.

Some ask whether the policy really has an impact. Others either have or presumably will address this point, but I would like to point out that we already have evidence that the marginal tax rate increases enacted in 1993 are having a negative impact on the economy. Consider, for instance, the government's figures on revenue collections for fiscal year 1994. Income tax revenues, which were subjected to the biggest tax increase, rose by 6.49 percent compared to the year before. All other tax revenues, however, which were either not increased or boosted by small other amounts, rose by 11.01 percent, a rate of growth nearly 70 percent higher than that of personal income tax revenues. There clearly has been the adverse supply-side effect many of us warned about when the ill-fated 1993 tax bill was being considered.

One reason the 1993 soak-the-rich tax hike is backfiring is because it was designed to penalize a group that has the substantial abilities to alter their behavior in response to changed incentives. Because the bulk of their income comes not from wages and salaries but instead from investment sources, they can, and do, change their financial affairs to protect their earnings.

While senior citizens generally are not blessed with that kind of problem, they are similar in that they can alter their behavior. Many older Americans have the option of choosing whether to continue participation in the labor force. Referring to Dr. Goodman's testimony earlier, their elasticity is much higher because they in effect can choose just to retire.

The effective imposition of an additional 33 percent tax clearly can be the deciding factor when deciding whether to take a job or keep a job or not.

The problem to which I would like to devote the balance of my remarks, however, is the impact of such policies as the earnings test on the long-term viability of the Social Security system. As many of you may be aware, the Administration's budget director shortly before last November's elections prepared a memo for the President that included an estimate of a $2.5 trillion unfunded liability in Social Security. While we at Heritage disagreed with many of the Ms. Rivlin's proposed solutions, predominantly comprised of higher taxes, her acknowledgment of a problem was right on the mark.

In all likelihood, it will be fiscally impossible to guarantee future retirees the amount of benefits that are promised under current law. As such, lawmakers should examine policies that will remove government-imposed barriers to private savings, investment, and income.

This is why the earnings test is important. By penalizing seniors who wish to continue contributing to the Nation's economy, public policy is sending exactly the wrong message, telling older Americans they should depend on government. Yet, as Ms. Rivlin has accurately noted, it is exceedingly unlikely that Congress will be able to maintain promised benefit levels.

Not only should lawmakers repeal the earnings, they also should roll back, and eventually repeal, taxes on Social Security benefits. This tax effectively penalizes private sources of retirement income, since the only way a senior citizen can be subject to the tax is if he or she has enough private income to be subject to the tax.

Finally, two quick points. On the trust fund, I would argue that the trust fund in large measure is economically meaningless because the only way you can pay current benefits is through current taxation. Whether or not the pile of IOUs in the trust fund is this high or this high doesn't have any real economic impact. I would agree with Steve that the budget laws should be changed so that the offsets can be found from other government programs.

Finally, on the question of income redistribution, I frankly think that is an anachronism in a modern society, that we will not penalize those that are more successful, and I think it has no place in budget policy. I think the election in some degree showed that the American people believe that as well.

I will end my remarks here. I would like to thank the subcommittee for addressing these important issues. I would be happy to answer any questions.

Chairman BUNNING. Mr. Jacobs will inquire.

Mr. JACOBS. I thank the panel for its contribution.

I did find, Mr. Mitchell, your phrase about depending on the government a little incongruous with the bill before us, which I think

probably we will all end up supporting. It seems to me that the reduction of government benefits would indicate a reduction of benefits on the taxpayers. This bill provides for an increase of benefits, and therefore I don't quite comprehend how you can call that reducing dependence on government.

Mr. MITCHELL. What I was referring to is that in the long term, we would all recognize there is a relatively large unfunded liability. The question is what is going to be done about that. I can't imagine anyone is going to want to volunteer too many options right here today.

Mr. JACOBS. You aren't referring to the retirement test as such.

Mr. MITCHELL. We will talk about the long-term problems with Social Security and the size of the unfunded liability. If it is reasonable to assume that at some point in the future, Congress would triple back the projected growth in benefits, it might also be reasonable at the same time or preferably even before then to reduce some of the penalties the government currently imposes on private savings investment and private income. That is all.

Mr. JACOBS. But you would agree with me, though, if you get fewer benefits from the government, you are less dependent on the government. If you get more benefits from the government, you are more dependent on the government.

Mr. MITCHELL. Yes, but you are looking, I think, just in the short term.

Mr. JACOBS. Well, give us this day our daily bread.

Chairman BUNNING. Mr. Johnson, no questions?

Mr. Payne.

Mr. PAYNE. I just have one question, a point of clarification. Dr. Myers, you stated that between the ages of 62 and 64, you thought the current system was the proper system because there was a computation that would allow people to recapture those moneys that they might have lost in that period of time.

Mr. MYERS. That is correct, Mr. Payne. Under present law, if people work between ages 62 and 65, and either they don't claim benefits or if they have claimed benefits and have them withheld, then at age 65, they are actuarially equitably treated because their benefits are larger for the rest of their life.

If, for example, as some people propose, the test is eliminated completely at age 62 and over, there would be altogether too many people who would take the benefits at age 62, with a 20-percent reduction for life.

It is true, for the short range they would be better off; they would have their full wages and their 80 percent benefits. But in the long range, when they could no longer work, they would be worse off, because they would have this 20 percent reduction for life.

So I think that what is done now between ages 62 and 65 is perfectly equitable, and that there should be no liberalization there. I think that this is what Congress had in mind when it changed the basis and said that over age 65, people can earn more than at ages 62–64 and still receive full benefits. But between ages 62–65 we will discourage you from claiming benefits by having a lower exempt amount, so therefore when you reach age 65 you will get full benefits for the rest of your life.

Mr. PAYNE. I might ask Mr. Entin the same question, because I know you had a different view on the same subject.

Mr. ENTIN. Between ages 62 and 65 you have the recomputation, but if you have already got your maximum period of work that is counted under the system, you won't get any benefit from additional earnings at age 62, 63, 64, unless they exceed by a wide enough margin earnings in a previous year.

So you could get out of that, it would be really quite minor if you came out ahead, to a great extent, at all. All of this is based on an actuarial assumption that you are going to live long enough to collect. As people get older they get less and less risk preferential or more risk averse.

The declared retirement credit was also referred to as a source of compensation. If you don't take benefits, you get compensated later on. Again, the delayed retirement credit currently is far too low to fully reimburse people from what they would be losing. It is scheduled to rise over time. That increase should certainly not be interfered with.

In the younger age group, if you wanted to discourage them from taking retirement at age 62, the best thing to do would be to slightly increase the early retirement penalty. To do it through this mechanism of having an enormous tax rate on any effort to work does the job in such a punitive way that you have adverse economic consequences, and there is that alternative available that would do no harm at all.

Mr. PAYNE. Thank you very much.

Chairman BUNNING. Mr. Collins.

Mr. Gibbons.

Mr. GIBBONS. First, Dr. Myers, I want to thank you for your distinguished public service, going back to 1934, with this program, all the way up until this year in this program. You are really a treasure, and we want to thank you for your wonderful service.

Mr. Entin, let me go to page 9 of your testimony and ask you some questions about it, because it raises a lot of issues in my head. I am talking about the table at the bottom of the page, which in constant dollars or 1994 dollars, we increase the maximum earnings test from a compensation of almost $14,000 a year to $31,000 a year.

It would seem to me that perhaps by rescaling these basic earnings tests, we could satisfy the actuarial imbalance that begins to impact the system about the year 2029 or something like that. It wouldn't take a very great adjustment of those figures, would it?

Mr. ENTIN. It actually would not, sir, you are quite correct. Mr. Rostenkowski proposed a provision in his bill last session in the hearing that Mr. Jacobs organized in September, in which he was able to trim the benefit growth for persons at roughly middle and upper income by tinkering with the benefit formula itself, including such things as replacement factors and bend points and all that arcane material.

I suggested at the time that perhaps doubling up on Mr. Rostenkowski's proposal and including Mr. Pickle's proposal to raise the normal retirement age to 70, one could in fact balance the system from now on with current tax rates with a little bit to spare to do such things as the reforms you are talking about today, and it

would certainly not allow benefits to grow to $39,000. It would certainly allow for an increase in benefits from current levels.

That seems to me to be quite reasonable. These are real dollars, they are adjusted for inflation, and they are based on the modest assumptions for intermediate growth of the economy and wages in the last trustees report. I think they are quite reasonable.

Mr. GIBBONS. I think you have helped me with a problem I have been wrestling with, about the economic soundness of this problem. It can be economically sound by a slight raise in the retirement age and a small adjustment of this earnings at the same time. I can't really tell you why we ever indexed it that fast. I don't know. Do you remember when we did this? We must have been in a very generous mood.

Mr. MYERS. At that time, I think that the past experience didn't show that longevity was going to increase as much as it has, and also it was assumed the economy was going to grow more than it has.

Mr. GIBBONS. This is an old adjustment that we have cranked in here? Raising the maximum earnings from $14,000 a year to $31,000, how long ago did we do that?

Mr. MYERS. That was done in 1977.

Mr. GIBBONS. Well, thank you very much.

Chairman BUNNING. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman.

I appreciate the testimony this afternoon. A couple of points just to reiterate what has already been said.

It seems to me that Dr. Goodman, Mr. Mitchell, Mr. Entin, and others have talked about the dynamic versus the static analysis and how getting more people into the workplace is surely going to produce more revenue over time, particularly with the 5.4 unemployment rate announced this week. I would think that would be particularly true.

Mr. Entin talked about the reduction in the use of Medicare. I suppose that is true. Even SSI, with people working, although people would still qualify for Medicare, they would have their employer plans which they could rely on.

But the final point Dr. Myers raises, a point I had addressed earlier with Dr. Chater and Mr. Ballantyne, and that is the degree to which we really are creating expenditures to the system because of the delayed retirement credits.

I guess if you could, Dr. Myers, just for the record, to make it very clear over a 15-year period, because people would not be receiving the credits that they would otherwise get, is it your opinion that the system in fact would end up only being affected, I guess this is a term of art, but to a negligible degree?

Mr. MYERS. Yes, I think that over the long run of 75 years, the increase in cost would be negligible. However, what is not taken into account in these next 5-year looks at the increased outgo is the fact that when the earnings test is set at $30,000 and people draw benefits, they just look at the benefits which they receive that year, and they forget about the fact that some years later when they really retire, they will get larger benefits for the rest of their life. That is not considered to be an offset because it is outside of the 5-year period.

Therefore, I think that applying a 5-year period to a long-range social insurance system just does not make sense. The 75-year consideration, which this subcommittee has always done—long before any of these budget rules were set up—quite adequately assures proper analysis of the financial status of the program. The Ways and Means Committee has always been concerned about the long-range situation, and not merely just what happens next year.

Mr. PORTMAN. That is a good point. I guess I would ask you whether the same would hold true at the 15-year level or 20-year level as compared to 75 years. In other words, would this particular issue as to raising the earnings limit for people between 65 and 70, isn't it the case that even doing a 15-year look forward rather than 75 years, you would likely see only negligible cost increases?

Mr. MYERS. I would like to say yes, but I cannot. I think that over the next 15 years, there will be not only the roughly $6 or $7 billion more for the first 5 years, but there will be additional cost in the second 5 years and even the third 5 years.

When measured over the life of the system, then the cost is negligible.

Mr. PORTMAN. Thank you for that clarification.

Thank you, Mr. Chairman.

Chairman BUNNING. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

I appreciate, again, the testimony of these four gentlemen. It has been powerful, particularly as it is focused on the effect of confiscatory tax rates on many of our seniors.

I wonder, we have heard some testimony with regard to the impact of this provision on the Social Security system. Mr. Goodman, Mr. Entin, Mr. Mitchell, could you touch briefly on your view and your analysis of how this provision will impact on the overall Federal budget deficit?

Mr. GOODMAN. My view is the deficit will go down because I think the government will make a profit on this transaction. The $6 billion revenue lost is based on static assumptions. It assumes that even though you lower elderly marginal tax rates by 33 percentage points, you get no net increase in work in the United States.

Now, that is an incredible assumption. It flies in the face of all the testimony we have heard here today, and it flies in the face of common sense.

I think we can all be confident that that settlement is wrong. There can be legitimate argument about how much additional work there would be. Most of the studies suggest that the elderly population represents a segment of the labor force that is most responsive to after-tax income, and therefore we believe that you get enough new work that you more than pay for any loss that we experience because of the increased payment of benefits.

Mr. ENTIN. I think if you look at the global budget, which includes Social Security as well as the rest of the budget, questions then don't have to be asked about the meaning of the trust fund and whether it is there or not.

Let me address it on that basis. Clearly you are going to get something back. Whether it is going to pay for itself entirely or not

is hard to say. It probably would. But I think we have to look a little bit beyond the budget.

You are going to be adding much more to the gross domestic product than you are to the Federal reflow. You ought to give some consideration to the good that you are doing beyond the budget.

The fact is that the way Congress scores the budget, and in this one instance they probably do it right, when the delayed retirement gets to the point where people are going to get the same lifetime benefits whether they subject themselves to the earnings test or just wait and collect the benefits later, the scoring is going to be this thing falls to zero. You are going to have some cost over the next 13 years, but then it is over. It is not that big a cost.

And when the bond markets look 20 or 30 years out, they are not going to notice something that is over that quickly. If there were a small intermediate term cost, it would not be affecting the credit markets. It would not be affecting interest rates or the growth of the economy adversely. It is something that you can do and not worry about it, even though I don't think it will cost you anything anyway.

Mr. MITCHELL. The only thing I would add is that we should be reducing the earnings test and repealing it because that is good policy. We should reduce the levels of projected spending, because that is good policy. Whether the deficit impact is a tiny increase because of the earnings test reduction, that is something that people with different models of the economy can argue over.

I don't want to in any way argue that we shouldn't be looking at reductions in Federal spending. But they should be done because they are good in and of themselves, not because they are being forced by coming up with an offset for the earnings test.

If you all don't decide to change the current law and there are no dramatic changes in CBO and you have to come up with an offset, fine, that is good; we are getting two good policies at once. We are easing these harsh marginal tax rates we are applying against senior citizens.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

Chairman BUNNING. Mr. Christensen.

Mr. CHRISTENSEN. Mr. Chairman, I want to thank this distinguished panel and also Dr. Goodman for coming from Dallas, Tex. I appreciate your taking the time.

Are you each familiar with the Administration's testimony earlier, Dr. Chater's testimony? She said that low income families would receive little benefit from this modification. I would like to hear what each of you has to say about that, and if you agree or disagree with her assessment.

Mr. GOODMAN. I disagree for the following reasons. One of the most regressive parts of the rule that we are talking about is it applies only to wage income and not to capital income. What that means is if you are well off in life, you receive most of your income from capital, you are not touched by this earnings limit. You can earn as much as you like from investments and your Social Security benefits are not lowered.

But if you have to depend upon wage income, then you are penalized. It seems to me that is really unfair, that is really regressive, and I can't understand it.

Mr. MYERS. By and large, I agree with what the Commissioner said. Certainly, the very lowest income people are not going to be at all affected by this provision. If they cannot earn more than $10,000, this provision is not going to make any difference for them. However, I don't think that is a reason not to do this.

I think that the large proportion of the aged population that is in the middle income bracket and those who are average earners do have these great apparent disincentives to work—in part because they do not realize about the presence of the delayed retirement credits. But still, in real life, there is this disincentive to work.

One thing that I would like to add is in defense of the actuaries at the Social Security Administration. I think that when they made estimates for these proposals, they always used what I call dynamic considerations to see what effect a change like this would have on labor force participation.

Maybe they did not make as much allowance for it as some people at this table would. Nonetheless, they did consider it, and they made some allowance for it.

Chairman BUNNING. Anyone else?

Mr. ENTIN. If you have a high crime rate in the city and rich and poor people are getting mugged, and you could come up with a way to stop the muggings, would you only stop mugging the poor? This provision which has 60 and 80 and 100 percent marginal tax rates is outrageous. No one should be subjected to that.

Mr. Myers is correct. If you are not earning enough to be subject to the limit, you are probably not very well off. But if you are earning enough, even at $10 or $20,000 income, or even up to $60,000 income where the marginal rates really begin to taper down again because you have lost all your benefits, that is not rich. I don't think that is rich.

As middle income people work more and provide their skills to the economy, I think we have to bear in mind that all factors of production work cooperatively. If you have more capital, you get more labor. If you have more skilled labor, you get more unskilled labor employed as well.

Each type of factor that is employed needs the other factors to work with to be efficient. So getting these skilled people, most of them are skilled and experienced, back into the work force, you are going to create a demand for low-skilled work and capital formation. Low income people will be helped by this provision even if they are young.

Mr. MITCHELL. The only thing I would add is, as I mentioned in my testimony, I think the entire income redistribution aspect of this, I just don't feel it has any economic legitimacy. I think it is also morally reprehensible that some people would try to pit one class of society against the other. It is somewhat analogous to what I think is a silly debate on middle class tax relief.

Some people say no benefits of this proposed tax cut go to people who don't pay taxes. It is very hard to give a tax cut to people who don't pay taxes. That shouldn't be used as an argument against cutting taxes for people who do pay taxes.

I think we are going to be shortsighted in terms of the economic growth that we all like to have in our economy if we are constantly

using a measurement that says, Well, if person X way down at the bottom doesn't benefit by at least as much as person Y who is paying a thousand times more in tax, then we are basically cutting off all the types of tax policy that would have the biggest progrowth impact on our economy.

Mr. CHRISTENSEN. Thank you, Mr. Chairman.

Chairman BUNNING. I would like to thank the panel for appearing, for their good testimony, and we appreciate it very much.

I am pleased to welcome Dr. Eugene Steuerle, Stephen Moore, and Dr. Dorcas Hardy. Dr. Steuerle is a senior fellow at the Urban Institute. Stephen Moore is director of fiscal policy studies, the CATO Institute, and Dorcas Hardy, president, Dorcas Hardy & Associates, and former Commissioner of Social Security.

Dr. Steuerle, if you would begin.

STATEMENT OF C. EUGENE STEUERLE, PH.D., SENIOR FELLOW, URBAN INSTITUTE

Mr. STEUERLE. Thank you.

Most of the long-term budgetary issues facing the government today center around retirement and health policy. The rapid aging of the population in the next century, with its dramatic drop in the number of workers per retired persons, requires the need for a different type of system than one centered partially around the Great Depression of the thirties.

I realize the issue before the subcommittee today is the earnings test. But I would like to argue with you that there is a very strong relationship, and it is to these longer term issues where most of our attention should be focused.

I am also not going to pretend that raising the earnings list or simply eliminating the earnings test would deal with these larger budgetary issues. I would argue, however, that elimination of the earnings test or raising its limit in my view is a small piece of a larger reform strategy. Although not a sufficient component, it may well be a necessary one.

More specifically, I believe that reform of retirement age rules is becoming an absolute budget necessity if we want to direct resources to the greatest needs in society; that we should stop wasting and discouraging the productive capabilities of many of our near elderly and elderly; that government should not simultaneously forbid age discrimination by private parties and then essentially promote such discrimination in tax and Social Security laws; and that the earnings test is one of the obstacles to these broader reforms.

Now, among the many institutions and social signals that have supported this trend toward an unsupportable Social Security system, and more years in retirement than I believe we can support, are the following: Government and private pension specification of the normal retirement age that is really unrelated to the number of years of life expectancy. That is a definition of need that is defined by years since birth such as 65, rather than the expected number of years until death, such as 15.

Another signal is the early retirement age specified at 62. Still another one, which is not the subject of the hearings today, but one that is closely related, is what I call the health earnings test; that

is, a requirement that Medicare be a secondary payer for those elderly who work for employers providing health insurance to employees. This earnings test, probably more than the one you examine today, greatly restricts the hiring of older workers.

Finally, the OASDI or the Social Security earnings test itself. All of these signals send a powerful message to the near elderly and the elderly. They set a social standard hard for any individual to ignore. Most were designed a long time ago in an industrial, not a technological and service sector economy, and at a time when there was fear that there were too few jobs to go around rather than too few workers to support the future retirement system.

The simple fact is that the earnings test is a tattered remnant of a bygone era. Even independently from its strong antiwork sentiment, it violates almost all standards of efficiency and equal treatment of equals under the law. For example, it helps maintain a tax system in which households with equal incomes are taxed very differently. Elderly workers pay much more tax than nonelderly workers, who in turn pay much more tax than elderly nonworkers with the same levels of income.

Given enough adjustments in retirement credits, some of these equity deficiencies could be resolved. But all of these additional offsets cannot solve the more basic issue. The earnings test would remain one of the many signals that our society as well as our government sends to our citizens when they still have a life expectancy as long as 15 or 20 years: "You are old. You should retire. We do not want you to work. We will penalize you quite heavily if you do work." Even with all the actuarial adjustments in the world, I do not believe this very bad and confusing signal can be removed without eliminating the earnings test as one step.

Keep in mind the earnings test is one of the worst sources of error in benefit calculations by the Social Security Administration, so that, again, raising the limit or eliminating the test is one way to simplify this vast government system we have today.

I would like to conclude with two basic points. One, those on Social Security who work today are already subject to a Federal income tax, a Social Security tax, a phase-in of the tax in Social Security benefits, and in most States a State income tax. As noted already, this edifice, when combined, already provides tax rates as high as 50 percent. The earnings test has no role to play in this tax system.

If one would gather together a few people from the staff of the subcommittee, from the Joint Committee on Taxation, from the actuaries in Social Security, we could design for you a system solving the problem of dealing with the budget deficit or (even over the short run) the question of whether you want the system to be more or less progressive. There are lots of ways to provide offsets to this earnings test and do it in a way that provides horizontal equity and a more efficient system.

Thank you.

[The prepared statement follows:]

TESTIMONY OF C. EUGENE STEUERLE, SENIOR FELLOW
THE URBAN INSTITUTE

Mr. Chairman and Members of the Subcommittee:

Most of the long-term budgetary issues facing the government today center around retirement and health policy. Promised retirement and health expenditures are far in excess of any taxes due to be collected, and all of the Social Security trust funds are far out of balance. Whereas retirement health, and disability occupied less than 10 percent of outlays in 1950, today they are at about half of the total. With such demographic changes as the retirement of the baby boom population just around the millenial corner, current law leaves even less room in future budgets for programs other than those devoted to retirement and health. The rapidly aging population of the next century, with its dramatic drop in number of workers per retired person, implies the need for a different type of system than one centered partially around the Great Depression of the 1930s.

I realize that the Committee's focus today is on the ***earnings test***. I am not going to pretend that raising the earnings limit or simply eliminating this test would deal with these larger budgetary and societal issues. Indeed, weakening the test initially would increase federal expenditures on retirement. Its reform or repeal, however, should not be considered in isolation. The issue is whether the earnings test is a reasonable component of a larger tax system, given the level of revenues and progressivity that is sought. I would argue that it is not. Keep in mind, however, that any change in the earnings test can be offset easily in ways that would be deficit neutral and equally progressive, such as slight changes in the benefit formula. Thus, maintenance of a cap on earnings, even at higher income levels, is unnecessary for revenue and distributional reasons, and it prevents achievement of more significant gains in simplicity.

Elimination of the earnings test, in my view, is a small piece of a larger reform strategy. Although not a sufficient component, it may be a necessary one. More specifically, I believe that reform of retirement age rules is becoming a budget necessity if we want to direct resources to the greatest needs in society, that we should stop wasting and discouraging the productive capabilities of many of our near elderly and elderly, that government should not simultaneously forbid age discrimination by private parties and then promote such discrimination in tax and Social Security laws, and that the earnings test is an obstacle to those broader reforms.

The rise in cost of programs for the elderly is not due for the most part to increases in the rate at which Social Security replaces the annual wages of former workers. Costs have risen, among other reasons, because of the dramatic increase in number of years of retirement support given. To take one example, a couple retiring at age 62 today can expect, on average, to receive Social Security payments for 25 years (that is, until the death of the longer living of the two).

Among those institutions and social signals that have supported this trend toward more and more years in retirement are the following:

- government and private pension specification of a normal retirement age that is unrelated to number of years of life expectancy -- that is, a definition of need that is defined by years since birth (such as 65) rather than expected number of years until death (such as 15);
- an early Social Security retirement age specified at 62;
- similar, if not earlier, retirement ages for private pensions;
- seniority pay systems that poorly accommodate declining, but not zero, productivity in later years;
- government private pension, health, and labor laws that indirectly encourage employers to pay older workers higher total compensation than younger workers for the same work, and, hence, push companies to retire workers early;

- a health "earnings test" -- a requirement that Medicare be the secondary payor for those elderly who work for employers providing health insurance to employees -- that restricts the hiring of older workers; and

- the OASDI or Social Security earnings test, itself.

All of these signals send a powerful message to the near-elderly and elderly. They set a social standard that is hard for any individual to ignore. Most were designed a long time ago -- in an industrial, not a technological and service sector economy, and at a time when the fear was there were too few jobs to go around, rather than too few workers to support a retirement system.

Suppose we decide that there are greater needs in society than supporting more and more years in retirement among a group of near elderly and younger elderly who by a variety of standards are often better off than children, young adults, and the older elderly. The adjustment process still would not be easy. It would involve reversing a trend of at least 60 years and probably could not be done without tackling a whole host of institutional arrangements and societal signals, including the earnings test.

The simple fact is that the earnings test is a tattered remnant of a bygone era. Even independently from its strong anti-work sentiment, it violates almost all standards of efficiency and equal treatment of equals under the law. For example, it helps maintain a tax system in which households with equal incomes are taxed very differently: elderly workers often pay much more tax than non-elderly workers who, in turn, pay much more than elderly non-workers.

Given enough adjustments in delayed retirement credits, actuarial adjustments in benefits, and a variety of other reforms, some of the equity and efficiency problems eventually could be resolved even while retaining the test itself. Congress, indeed, has been moving in that direction over the years.

All of these additional offsets, however, cannot solve a more basic issue: the earnings test would remain one of many signals that our society, as well as our government, sends to our citizens when they still have a life expectancy as long as 15 or 20 years or more. "You should retire. You are old. We do not want you to work. We will penalize you quite heavily if you do work." Even with all of the actuarial adjustments in the world, I do not believe that this signal, this very bad and confusing signal, can be removed entirely without eliminating the earnings test as one step. Keep in mind also that this confusion makes the earnings test one of the worst sources of error in benefit calculations by the Social Security Administration.

Those on Social Security who work today are already subject to a federal income tax, social security tax, the phase in of a tax on Social Security benefits and, in most states, a state income tax. These taxes -- including the additional social security tax -- add almost nothing to the Social Security or other benefits received by the elderly person paying them. Given this tax edifice -- when combined, these tax rates alone sometimes equal 50 percent or more -- the earnings test and its companion, the health earnings test, really have no roles to play.

In the remainder of my testimony, I will elaborate on these points.[1]

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[1] Most of the remainder of this testimony is taken from C. Eugene Steuerle and Jon M. Bakija, Retooling Social Security for the 21st Century: Right and Wrong Approaches to Reform, Washington, DC: Urban Institute Press, 1994.

Rationales for Earnings Test

The original design of the Social Security system included clear and powerful financial penalties for working during old age. Until 1951, for example, a person would lose all of his or her Social Security benefits in any month during which he or she earned $15 or more. Penalties of this sort were tolerated, in part, because there was a naive but strong belief among many that the economy could support only a limited number of workers. Earlier retirement of individuals, therefore, was viewed by some as a way of opening up more positions to the young.

William Graebner presents a well-documented case that this belief was a crucial source of early political support for the Social Security system.[2] He offers evidence that in the 1930s key congressmen, at least a few members of the Council on Economic Security, and President Franklin Delano Roosevelt shared this view. Councilmember Barbara Armstrong, for example, noted in her memoirs that "the interest of Mr. Roosevelt was with the younger man. And to that extent, I went along." With regard to the strict earnings test that allowed only $15 per month of earned income, she contended that it was in response to the scarcity of jobs during the Depression: "That's why that little ridiculous amount of $15 was put in... Let him earn some pin money, but it had to be on retirement. And retirement means that you've stopped working for pay" (quoted in Graebner 1980:186). Councilmember Murray Latimer's testimony before Congress "surveyed the disruptive impact of older workers, employed and seeking employment, on wage rates, efficiency, and work prospects of younger elements in the labor market. He was distressed at the legislation then being considered because the level of pensions provided, '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'" (quoted in Graebner 1980:188).

This, of course, represented poor economics. Elderly workers increase production and income in the economy and with their additional income demand goods and services from other workers. In aggregate they do not take jobs away from the young. In any case, the rapidly aging population of the 21st century, with its dramatic drop in number of workers per retired person, implies the need for a different type of system than one centered around the Great Depression of the 1930s.

Although few today are willing to defend the earnings test on grounds that early retirement should be encouraged, a number of other rationales are frequently cited by its supporters. One argument made in favor of the earnings test is that Social Security should provide benefits to people because they are *retired*, not just because they are *old*. This is misleading. Social Security is a program intended to meet the needs that often accompany old age. Both old age and retirement at best are proxies for measuring those needs. Whereas a substantial number of people do cite poor health or disability as reasons for retirement, it is clear that many retirements are voluntary in nature. In these cases, the difficulty with any "retirement test" is that it is under the control of the individual, regardless of need. It creates great inequities between two persons, equally situated, who make different choices between work and leisure.

A political argument is also made that Social Security retirement benefits should only be paid to those who are retired so that the system does not 'appear' to be providing benefits to high-income, working individuals. If actuarial adjustments were made properly, of course, this would merely be a fiction, as the returns to high-income individuals would be the same regardless of when actual benefits are paid. The fear, however, is not that the lifetime value of the pension would be too high, but that Congress would respond to benefits going to higher-income individuals by enacting welfare-like means tests. While I believe that an means test for Social Security cash benefits is unnecessary as long as there are already means tests implicit in both the income tax

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[2] Willam Graebner, A History of Retirement: The Meaning and Function of an American Institution, 1885-1978, New Haven, CT: Yale University Press, 1980.

and the Social Security benefit formula, this political justification for an earnings test is inadequate given its efficiency and equity costs. In many ways, moreover, this argument turns inward on itself. The earnings test, after all, has all the markings of a means test based upon earnings.

A final argument often used to defend the earnings test is that it enhances progressivity. Elimination of the earnings test is usually shown to increase net income mainly for those in middle- or upper-middle-income ranges. After all, the test doesn't even begin to apply until someone has earned enough to push himself or herself above the poverty level, and an older worker with that amount of earnings typically has other additional sources of income, including Social Security itself.

As applied to the earnings test, the progressivity argument is misconstrued. One could also deny businesses deductions for the cost of running a business or subject individuals' dividend income to tax three times; since business deductions and dividend income are more concentrated in upper-income groups, the net result would probably be progressive. But it wouldn't make sense because the normal rules for equity require that we treat equally all persons with equal ability or need and not distinguish on the basis of arbitrary criteria, such as whether their income came from work. Progressivity is no excuse for treating equals unequally.

Not every program needs to be progressive in every provision for government itself to be progressive. There a variety of ways to achieve the same general level of progressivity while improving the system's fairness and efficiency. One could phase in elimination of the earnings test and simultaneously phase in a slight change in the benefit formula. Congress merely needs to request that the Social Security actuaries provide them with a slight benefit adjustment that would leave the system as a whole roughly revenue-neutral and distributionally neutral. Recent estimates suggest that repealing the earnings test would cost about $6 billion per year, with perhaps 10 percent of this cost being offset by higher payroll tax revenues. In the longer run, some of the cost would also be offset by reduced delayed retirement credits and larger actuarial reductions for early retirement.

Does the Earnings Test Affect Behavior?

There is a fair amount of evidence that the existence of a Social Security system--or, more generally, growth in retirement assets and income--has over recent decades induced people to retire earlier than they otherwise would. Indeed, the labor force participation rates of older men have declined dramatically, at the same time that Social Security was covering a growing portion of the population and granting increasingly valuable benefits. The availability of private pensions, some of which pay retirement benefits even before age 62 (and which often are designed around Social Security), also plays an important role.

In the presence of these fairly strong relationships between greater resources near old age and earlier retirement, what is the impact of particular retirement rules of Social Security, such as the earnings test, on the retirement decision? Most statistical studies on this question have examined behavioral responses to marginal changes in the earnings test or related rules, and have typically found only a small impact. In general, they have concluded that retirement decisions seem to be determined mainly by other factors, such as total income available in retirement. The logic is not hard to understand. Most individuals today retire completely and do not even work up to the earnings threshold at which the earnings test begins to apply. Only a small percentage of the population (11.6 percent in 1991) work past age 65 at all, even though the earnings test exempts several thousand dollars' worth of wages. Given the failure to work of many near- and young-elderly even at income levels where no earnings test applies, it is usually concluded that the earnings test has only a minor impact on the choice to work. Recent reductions in the tax rate implicit in the earnings test also seem to have had little effect on the decision not to work.

One difficulty with this literature is that it cannot separate out the "social" or "signalling" effects sent by the system as a whole from marginal changes in behavior due to marginal changes in tax rates. That is, if people tend to react as a group to the signals they detect, then their responses may be related more to the signal sent by an earnings test than to the exact actuarial value of the net tax implicit in the test. If most of one's cohort of workers retire and take up new life styles, one may want to follow them regardless of minor differences in the effective tax rates one faces. On top of this, employers may respond by setting retirement ages and designing pension plans in ways that follow the signals set by both Social Security retirement ages and the apparent penalties in the earnings tests.

These socialization effects, of course, would occur in response to several signals, not just the earnings test. The maintenance of a Normal Retirement Age of 65, for instance, may be a principal social signal and the earnings test merely a principal reinforcement. Eliminating the earnings test by itself, therefore, might have only a modest effect on labor supply, especially in the initial years.

The fact that most people do not fully understand the subtleties of Social Security rules only reinforces the importance of signals. OASI beneficiaries who work tend to clump unnecessarily around the earnings test threshold. The clustering of earnings around the earnings limit, by the way, might also be a sign of underreporting of income or cheating--which is often easy to accomplish with self-employment earnings, where the taxpayer, rather than a separate employer, keeps the books of account. This, of course, does not speak well to the behavioral incentives of the earnings test, either

Repealing the Earnings Test

Partly because of its ambivalence toward the earnings test, Congress over time has continued to chip away at its application by increasing exempt amounts, lowering benefit reduction rates, and introducing the delayed retirement credit. The test now applies to only a minority of retirement years--albeit the first years, when the signal is most powerful and most likely to have an effect on labor supply decisions.

Eliminating the earnings test at all ages would probably be the simplest way to reduce many of the perverse incentives in the existing system. It also would simplify greatly the administration of the system, since the earnings test is the largest source of errors in benefit calculations. Many corrections of benefit amounts are required as earnings change over time, and taxpayers are extraordinarily confused about what is occurring. The delayed retirement credit would then become unnecessary in most cases, although it should still be made available to those who choose voluntarily to forgo benefits after the Normal Retirement Age.

As we move toward the 21st century, significant changes may need to occur in the work patterns of the near elderly and the young elderly. Society may not desire the ratio of workers to beneficiaries to decline so dramatically as now expected. Perhaps even the tendency to define old age with the year 65--a "signal" that can be traced back well over a century--will itself be called increasingly into question. The rising proportion of jobs in service industries and increasing life spans are bound to affect choices. In the end, no one knows for sure how work behavior will change in the future, but it seems unrealistic to maintain an earnings test that announces somewhat loudly that most people should retire at age 65 or 62 and stay retired.

Removing the earnings test, by itself, would probably not have a large impact on behavior. In combination with other changes such as increases in the Normal and Early Retirement Ages and elimination of the health earnings test (the requirement that Medicare be a secondary payor), however, it could eventually have a significant impact on the work patterns and behavior of the near-elderly and young-elderly. Such reforms, moreover, could serve as an important first step in a transformation of social attitudes. In the end, however, we're never going to know until the walls start coming down.

Chairman BUNNING. Thank you.
Stephen Moore, please.

STATEMENT OF STEPHEN MOORE, DIRECTOR OF FISCAL POLICY STUDIES, CATO INSTITUTE

Mr. MOORE. Thank you, Mr. Chairman.

The person who really hit the nail right on the head was you, Mr. Christensen, when you said earlier that the impact of the earnings test is to tax senior citizens like millionaires. The truth of the matter is that we tax our senior citizens more than we do millionaires. The tax rates, given the tax and Social Security benefits, the earnings test and so forth, can get up to 60, 70, even 80 percent.

I would like to make very quickly five or six quick points. First, I agree entirely with what Gene Steuerle has just said. The impact of the earnings test and many of our Social Security policies is to punish the elderly for work. This is not a side effect. If you look at the origins of the Social Security system, these types of penalties were intentional. That is, they were intentionally designed to keep the elderly out of the work force.

You go back to the thirties when Social Security was set up. What you find is, throughout the testimony, when the Social Security system was being debated, testimony about how the fact that one of the benefits of this new Social Security system was that we would take the elderly, drive the elderly out of the work force, and free up jobs for younger workers.

In fact, I dug up a quote from one of the first founders or sponsors of the Social Security system, Senator Robert Wagner, who said when he was defending the Social Security system in a debate on the Senate floor, he said that the impact was that the incentive to the retirement of elderly workers will improve efficiency standards and make new places for the strong and eager. That is, we get the elderly out of the work force and free up spaces for younger people.

That is economic illiteracy. I think we all recognize that today.

I will make one other quick point about this. I bet most of you aren't aware that the original earnings test was $15. $15. So clearly they didn't want people who are over the age of 65 to be working.

Second of all, that policy of driving the elderly out of the work force has worked. It has worked in spades. If you look at my testimony and you look at the table that I have produced at the end, what you find is that when you look at the percentage of men aged 55 to 70 in retirement, what we have seen over the last 35 years has been a studied increase in the number of people retiring at earlier and earlier ages. Now, this is a very strange thing because over the same period people are living longer and longer.

So what we have today is now a system where people are living on Social Security, the average person, for up to 18 to 20 years, when you look at life expectancy, when people reach the age of 65.

The third point that I would make is that that policy simply is no longer affordable. In the thirties, that policy of getting the elderly out of the work force might have been something we can afford. Now we can't. By the year 2030 the Social Security Administration predicts there will be two people working for every retired person.

If you go even further into the future, like 2050, they are projecting one and a half workers per every retired person. No economy can prosper under those conditions.

The fourth point that I would make is that even if the static analysis of the cost of this that we have been talking about earlier today is correct, and I agree with Dr. Goodman that it is not correct, this will probably pay for itself. But let's assume that it will not pay for itself. The truth of the matter here is that there are very many ways that you can pay for this.

First of all, I agree entirely that we have to raise the retirement age. We have to phase in more quickly the increase in retirement age. This is something, by the way, you should do in any case. It is good policy and fair policy. So this is a good excuse to do something you want to do in any case.

Second of all, I would look at doing something about increasing the penalties for early retirement. Sixty-two is too early for people to be retiring, especially when we are looking at people at age 62 who are living to ages 82, 83, 84. That is simply too long of a period for people to be collecting government benefits.

The fifth point that I would make is that in addition to raising the income threshold of association security earnings test as you have proposed, Mr. Chairman, I would suggest that you change the ratio that is now $3 of Social Security for every $1—let me get this correctly. You lose $1 of benefits for every $3 of earnings. I would make that $1 lost earnings for every $5 of earnings.

By the way, Secretary Bentsen, Lloyd Bentsen proposed something very close to this when he was the chairman of the Finance Committee back in the late eighties. So certainly this new Congress can be at least as bold as Bill Clinton's former Treasury Secretary.

The final point that I will make is that I think that the change that many people are making—the point that this is fiscally irresponsible and this is a spending program. I will make the case there is no group in Washington, D.C., that is more hawkish on the deficit than the CATO Institute, that is more hawkish on reducing government spending.

The reason we are in favor of what you are trying to do, Mr. Chairman, is that we believe this is simply an unfair policy, that it will not increase government benefits, but rather it will increase tax payments and it will increase work.

Thank you.

[The prepared statement and attachment follow:]

TESTIMONY OF STEPHEN MOORE
THE CATO INSTITUTE

Mr. Chairman, I am honored to have the opportunity to discuss the issue of reforming the Social Security earnings test.

The Social Security earnings test provision is anti-work, anti-senior citizen, and anti-tax fairness. The earnings test should not be reformed; it should be repealed. Its major effect is to impose punitive tax rates on senior citizens thus driving them out of the labor force altogether, or to reduce their hours worked.

If the Social Security earnings test cannot be repealed, then we should minimize the damage of this policy by raising the income threshold as in the Republican contract, and by lowering the amount of lost benefits for each dollar earned. Currently, the earnings test leads to a 33 cents in lost benefits for each additional dollar earned; that should be lowered to 20 cents.

Given the trend of an aging workforce in America, such anti-work policies are becoming increasingly economically unaffordable. Indeed, although reforms in the Social Security earnings test are opposed by some on the grounds that these tax changes would injure the financial status of the Social Security system, the truth is that unless ways are found to keep healthy and productive senior citizens in the workforce and off of this and other benefit programs, Social Security will be financially insolvent when the baby boom generation reaches retirement age. In any case, even if one assumes that the Congressional Budget Office static scoring is correct--which I believe it is not--and the GOP earnings test provision loses $7 billion over five years, that could be paid for easily with reforms in Social Security that must be made in any case.

One of the most troubling economic trends in America is that American workers have been retiring from the labor force at earlier and earlier ages. This trend has occurred over the past 30 years and is shown in the attached Table 1. It shows that in 1963 only 20 percent of American men aged 62 or over were retired; today that percentage is nearly 50 percent. At age 65, less than half of American men were retired in 1963, today, three-quarters of all men are retired.

It is true that these earlier retirement ages are in part a function of an increasingly wealthy society where individual workers with higher living standards begin to prefer more leisure over more work. The trend is also a function of private pension policies and private sector retirement rules. But there is no question that Social Security has played a substantial role in encouraging retirement from the workforce. The big spikes in retirement by age occur when people reach of 62, i.e. when they become eligible for early retirement under Social Security, and at age 65, when they become eligible for full benefits under Social Security.

One reason this trend is troubling from an economic standpoint is that over this same time period, life expectancy has risen substantially. In 1960 life expectancy was 70. Today, it is 76. Life expectancy could easily reach 80 over the next thirty years. Moreover, life expectancy for those who reach the age of 65 today, is about 83. In other words, the average person who goes on Social Security collects government benefits for 18 - 20 years.

This combination of earlier retirement, longer life spans, and the aging of the baby boom cohort, is leading America head-on toward a financial trainwreck of spectacular proportions. The ratio of workers to retirees in America has dropped from 15 to 1 in 1950; to 3 to 1 today; to 2 to 1 by 2025. (See Table 2) No nation can prosper under such demographic conditions. The wagon will become too heavy to pull. To the extent we can adopt policies that can entice healthy and productive senior citizens

to prolong their work years, we in a sense take that person out of the wagon and create an additional hand to help pull.

Skeptics of repealing or reforming the earnings test contend that the current policy does not deter senior citizens from working. Evidence from tax rate reductions in the 1960s and 1980s suggest otherwise. Both the Kennedy and Reagan supply side tax rate reductions had a significantly positive impact on work effort. Much of the literature on this subject is covered in Larry Lindsey's book The Growth Experiment. What is especially interesting and relevant about the economic literature on labor market responses to changes in tax rates is that it is women and the elderly who are among the most responsive to changes in tax policy.

* An Urban Institute study by Robert Haveman found that "persons 62 and over" had "high responsiveness to changes in work incentives" after the Reagan tax cuts. (See: Robert Haveman, "How Much Have the Reagan Administration's Tax and Spending Policies Increased Work Effort?" in Charles L. Hulten and Isabel Sawhill, The Legacy of Reaganomics, Urban Institute, 1984)

* A Brookings Institute study on retirement and earnings data from 1969-79 concluded: "The elimination of the [earnings] test is estimated to raise the work effort of average retirees over age 62 by 30 to 40 percent." (See: Gary Burtless and Robert A. Moffitt, "The Effect of Social Security Benefits on the Labor Supply of the Aged," in Henry Aaron and Gary Burtless, Retirement and Economic Behavior, Brookings Institution, 1984)

* Economists Stanley Masters and Irwin Garfinkel find that the elderly's work patterns are influenced by government benefit levels. (See: Stanley Masters and Irwin Garfinkel, Estimating the Labor Supply of Income Maintenance Programs, New York, Academic Press, 1977)

Perhaps the most compelling evidence that senior citizens' work effort changes in response to Social Security policies is that this was one of the intentions of the program in the first place. An explicit goal of Social Security when it was originally conceived by Franklin Roosevelt in the early 1930s was to drive the elderly out of the workforce. Social Security was passed in 1935 during an era of high unemployment and widespread Keynesian economic illiteracy in Washington where policymakers believed that the way to create more jobs and prosperity was to have less people working. Senator Robert Wagner, the original chief sponsor of the Social Security Act advised his colleagues to voter the bill because "the incentive to the retirement of elderly workers will improve efficiency standards, [and] make new places for the strong and the eager."

The Social Security earnings test was invented to serve as a financial punishment to senior citizens who chose to continue to work beyond the age of 65 rather than freeing up jobs for younger workers. The very first income limit was set at $15 per year.

The United States can no longer afford policies based on economic illiteracy. Today, we need to adopt policies that encourage senior citizens to work, or at least, which do not push them involuntarily into retirement. And we need to do so with a sense of urgency. Along these lines, Congress should:

1) Allow workers to gradually opt-out of Social Security through a Super-IRA approach and corresponding reduction in payroll taxes. This would allow workers to manage their retirement earnings and pensions to match their individual choices.

2) Gradually raise the retirement age and early retirement age for Social Security by four months per year until early

retirement age reaches 66 and normal retirement 70.

3) Reduce benefits for those choosing early retirement.

4) Repeal the 1993 increase in the tax on Social Security benefits;

5) Alter the delayed retirement credit to encourage later retirement and allow the credit to be expanded past the age of 70;

6) Repeal the earnings test.

Even if the earnings test cannot be repealed, the reform proposed in the Republican contract is not, in my opinion, the best way to reform this onerous law. Rather than, or in addition to, raising the income threshold, the best way to reduce the perverse incentives of the Social Security earnings test would be to reduce its marginal impact on all working--or potentially working--senior citizens. This could be accomplished by changing the income test formula. Currently, that formula is $1 of lost benefits for every $3 of earnings. This should be changed to $1 of lost benefits for every $5 of earnings. This reduces the increased marginal tax rate on senior citizens as a result of the earnings test from 33 to 20 percent.

In 1989 then-Senator Lloyd Bentsen proposed changing the formula to $1 of lost benefit for every $4 of earnings. Certainly this new reformist Congress can be at least as bold as Bill Clinton's first Treasury Secretary.

Paying for these changes should not deter immediate action. The earnings test changes under consideration could be paid for by raising of the retirement age by four months per year as recommended above. This is a change that Congress should do as a matter of essential Social Security reform in any case.

The elderly have been called the people that the supply side revolution forgot. Today, we impose unfair--even punitive--tax rates on our senior citizens today to discourage them from working. The earnings test is particularly offensive because it is only a tax on work--not on unearned income. When all of the existing federal and state income taxes are combined with the special earnings taxes imposed on the elderly today, marginal tax rates for these Americans often reach 60, 70 and even 80 percent. Once upon a time, the nation could afford such economic folly. That time has long passed.

TABLE 1

Percentage of Men Aged 55-70 in Retirement

	1963	1970	1985
60	12	16	29
61	16	19	34
62	20	26	49
63	24	31	55
64	28	36	58
65	46	50	70
66	57	55	74
67	61	61	76
68	67	62	80
69	67	66	80
70	73	70	84

Source: Rita Ricardo-Campbell and Edward P. Lazear, Issues in Contemporary Retirement (Stanford: Hoover Institution, 1989. Based on Bureau of Labor Statistics data.

TABLE 2

The Growing Dependency Crisis of Social Security

	Workers Per Social Security Recipient
1950	16
1993	3
2025 est.	2
2040 est.	1.8
2070 est.	1.3

Source: Social Security Trustees Report, 1993.

Chairman BUNNING. Ms. Hardy.

STATEMENT OF DORCAS HARDY, PRESIDENT, DORCAS R. HARDY & ASSOCIATES

Ms. HARDY. Thank you, Mr. Chairman.

I am pleased to be before you once again to address the issue of the Social Security earnings test. The subcommittee is aware of my long-standing advocacy of the elimination of the earnings test because I believe it is an unfair penalty and not, as its name implies, a fair test. The Contract With America Senior Citizens' Equity Act, which gradually raises the limit, is an opportunity to bring tax relief to working older Americans and to end the government policy of age discrimination.

It has my very strong support. I would also at this point like to extend, for the record, my admiration of Mr. Hastert's tenacity and leadership on this issue over many years.

I have submitted long testimony for the record. But I would like to highlight just a few things that are in agreement with most of the people who have spoken here today.

The earnings test does create inequities. High marginal tax rates and the gray underground economy, as referred to by the Retail Federation, are only two areas. I believe there are a lot of seniors working for cash and not reporting their earnings, primarily because of the earnings test which drives them into the underground economy.

Other reasons why we should be eliminating the earnings test are noted in my written testimony.

I appreciate that you are concerned about the purported cost of this proposal, estimated at $6 billion. There are several methods you could use to develop offsets. One is to increase the delayed retirement credit faster, not phase it in, as currently scheduled.

Second is to consider excluding benefit recomputations. In other words, if you take your benefit and you want to work, you do not receive any recomputations based on additional work. You would not have your benefit increased just because you worked longer.

Some say this idea is somewhat harsh; however, I believe it would be fair.

Third, you could save up to $2 billion annually if the Social Security Administration focused on decreasing or eliminating overpayments. The fact is that SSA is not accurate in a lot of its benefit payments. I am sure there are other offsets that people have come up with; I do think it is doable.

In conclusion, I talk to a lot of senior citizens around the country, and they all say that the earnings test is onerous. You heard a lot of that in several comments today. The earnings test is confusing and it is unfair., Many beneficiaries need the additional income the employment provides; they enjoy the challenges and the stimulation, and they do want to work and be good participants in the labor force.

I think the earnings test sends the wrong message to seniors in terms of a policy. Gene Steuerle pointed out the bigger picture with regard to Social Security and future needed reform.

When you begin discussion of Social Security's long-term financing, I certainly hope it will emphasize senior self-reliance, savings

incentives, and lower payroll taxes hopefully for the future workers.

The September 1994 hearings began to address some of these concerns. I hope you will continue in that vein, perhaps integrating much of the earnings test discussion. I am hopeful, as I always have been, that this subcommittee will support equity for senior citizens and continue to move toward modification to a $30,000 earnings test for seniors.

Thank you very much.

[The prepared statement follows:]

Testimony of Dorcas R. Hardy
Before the
Committee on Ways and Means
Subcommittee on Social Security
U.S. House of Representatives

January 9, 1995

Mr. Chairman, Mr. Jacobs, and Members of the Subcommittee, I am pleased to appear before this Subcommittee once again to address the familiar issue of the Social Security Earnings Test. This Subcommittee is aware of my longstanding advocacy of the elimination of the Social Security Earnings Test because I believe it is an unfair penalty and, not as its name implies, a fair test.

The Contract With America Senior Citizens Equity Act which gradually raises the earnings limit to $30,000 is an opportunity to bring tax relief to working older Americans and end the government policy of age discrimination. It has my strong support.

The earnings test mandates a reduction in Old Age and Survivors Insurance (OASI) payments for beneficiaries who continue to work and earn more than a set amount of annual wage-based income. It imposes a penalty on older Americans who choose to keep actively participating in the work force. The earnings test also provides strong disincentives to many other senior citizens to work longer hours, seek higher paying employment, or even hold any job at all.

Although many provisions of the Social Security program have been substantially revised and expanded over recent decades, the basic structure of the earnings test has remained largely unchanged since it was created in 1939.

One of the original objectives of Social Security, enacted during the Depression era, was to encourage older Americans to quit work and open job opportunities to younger workers. Today, however, economic and demographic conditions are vastly different. Potential labor shortages exist in many areas. Retirees face rising living costs and longer life spans, necessitating a greater need for income over a longer period of time. The needs of today's retirees and the nation's work force, as well as simple fairness, demand an end to the test's outdated existence.

According to current law, Social Security benefits of retirees between the ages of 65 and 69 are reduced $1 for every $3 earned above the annual limit of $11,280. Earnings test deductions are in addition to FICA payroll taxes. With the additional cost of paying other federal, state and local taxes, the net income for an older worker is likely to be less than 50% of gross earnings.

As Aldona Robbins, Vice President of Fiscal Associates has noted: "The earnings test imposes extremely high marginal tax rates on income from work: 40% to 80%, clearly a disincentive to work."[1] Rep. Dennis Hastert (R.-IL.), the leading proponent of earnings test repeal, adds: "Senior citizens are paying more than a 56% marginal tax rate, nearly twice the rate millionaires pay. Because of the Earnings Test, seniors are being forced out of the workforce and into the rocking chair."[2]

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[1] "Paying People Not To Work: The Economic Cost of the Social Security Retirement Earnings Limit" by Aldona and Gary Robbins for The Institute for Policy Innovation and the National Center for Policy Analysis, Dallas, TX, September, 1989.

[2] Comments of Rep. Hastert at Freedom to Work rally, U.S. Capitol, May 16, 1990 and on the floor of the U.S. House of Representatives, 138 Cong. Rec. H2587, April 9, 1992.

Honorable Dorcas R. Hardy, former U.S. Commissioner of Social Security (1986-1989) and President, Dorcas R. Hardy & Associates, 703/972-1552.

Nearly 2 million senior citizens are subject to the earnings test. It is estimated that at least 750,000 workers over age 65, plus those who hold their earnings at or just below the annual limit, would benefit from elimination of the earnings test.[3] Seniors who have been unable to accumulate savings and have little or no pension income would be helped the most.

The arguments for ending this work barrier are logical, timely and persuasive. Such action would benefit older Americans immediately, and through generation of both capital and labor over the long term, the economy as a whole. It would:

* Remove a major work disincentive for beneficiaries. The marginal tax rate on extra earnings can be as high as 80%.
* Give seniors greater freedom in choosing whether to continue to work to augment Social Security benefits and increase total income. This is especially important to low and middle income individuals whose financial resources are limited.
* Make continued use of the knowledge, experience and dependability of older workers to offset the nation's shrinking labor supply.
* Eliminate the "gray underground economy" which is fueled by seniors who are now paid in cash.
* Treat all income uniformly, whether earned from wages or investments.
* Make the Social Security program easier to understand and less costly to administer. Today, administration of the earnings test costs more than $75 million and is responsible for more than half of the overpayments to beneficiaries.
* Make the system fairer for <u>all</u> older Americans.

Support for elimination of the earnings test comes from several quarters. First, the current beneficiaries themselves. According to a 1991 survey of the membership of the American Association of Retired Persons, 85% wanted to at least increase the annual earnings limits.

Beneficiaries are not the only advocates of earnings limit reform. The business community has been very outspoken because it needs experienced, productive and loyal workers. According to Samuel K. Mitchell of the Chicago Association of Commerce and Industry, the earnings test is a "federal policy dinosaur" that has outlived its usefulness.[4]

The nation's pool of available labor is growing more slowly as fewer young people enter the labor force. Economists agree that this trend will continue and the business community will need to rely more heavily on the knowledge and skills of older workers. In particular, companies in the service, retailing, travel and health care industries find retired workers to be especially valuable additions to their work forces.

For example, a 1992 study of employment at Travelers Insurance, Days Inn, and a British hardware chain found that:

> Older workers can be trained to operate sophisticated computer software in the same time as younger workers: two weeks.
>
> Older workers stay on the job much longer than younger workers -- an average of three years compared to one year. This results in average training and recruiting costs per hire of $618 for older workers, compared to $1742 for younger workers.

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[3] See Stephen J. Entin, "Iron Threads Amongst the Gold," IRET Byline no. 104 (Institute for Research on the Economics of Taxation), June 24, 1992.

[4] Testimony of Samuel K. Mitchell before the House Ways and Means Subcommittee on Social Security, May 23, 1991.

> Older workers are better sales people than younger workers. They generate additional revenue by booking more reservations than younger workers, although they take longer to handle each call than the reservations center.[5]

According to Workforce 2000, a U.S. Department of Labor study of future employment trends, "A combination of older, more stable, and better-educated workers, and higher rates of investment [would] support projected doubling of output per worker in the 1990s, from 0.7 percent per year to 1.5%."[6] And by the year 2000, the average age of the population and the workforce will rise, with the number of young workers decreasing by almost 8%. Companies that have grown by adding large number of flexible, lower-paid workers will find such workers in short supply....[7]

Despite the importance of a flexible workforce, our current national policies regarding pensions and Social Security inhibit workers from changing jobs, discourage employers from hiring older workers, and through the earnings test, make it extremely difficult for older workers to remain gainfully employed.

The greatest deterrent to change is the fear that elimination would add to the federal budget deficit. However, the most authoritative study of this issue by Gary and Aldona Robbins of the National Center for Policy Analysis, concludes that the elimination would boost federal revenue:

> The federal government would be obligated to pay an additional $4.8 billion in Social Security benefits on earnings after retirement, but it would collect $4.1 billion in additional taxes on a $10.3 billion increase in income from wages and $0.8 billion in additional taxes on a $5.1 billion increase in capital income. The result would be a $140 million net increase in federal revenue. [8]

The Congressional Budget Office (CBO) disagrees. Though some retirees might increase their hours as a result of eliminating the earnings test, CBO finds no data to support large-scale reentry of individuals into the work force. This view is based on the finding that there were no significant behavior changes when the earnings test was liberalized in the 1970s as well as the fact that more than 50% of new Social Security beneficiaries elect Social Security benefits as soon as they are eligible (age 62) even though the amounts are reduced.

With a changing environment and retirees' need for income for a much longer period of time, it is not likely that behavior of 20 years ago can be considered comparable. Moreover, unlike the Robbins' study, CBO research is based on static analysis. However, employment choices and the decision to retire are made in a very dynamic, not a static, environment.

Even CBO acknowledges that the earnings test is only one of many factors that determines work effort. Other factors include the level of Social Security and pension benefits, spousal employment, the availability of suitable work and the health of the worker and his family. According to Helen Dennis, a national specialist in aging, employment and retirement, "Just as the removal of the mandatory retirement age provided additional options to workers,

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[5] Americans Over 55 At Work, Commonwealth Fund, New York, Spring, 1992.

[6] Johnston, William B., Workforce 2000: Work and Workers for the 21st Century, Hudson Institute, Indianapolis, Indiana, 1987. p. xix.

[7] Ibid.

[8] Aldona and Gary Robbins, "Paying People Not to Work: The Economic Cost of the Social Security Retirement Earnings Limit" for The Institute for Policy Innovation and the National Center for Policy Analysis, Dallas, TX, September, 1989.

so would the elimination (or significant increase) of the retirement earnings test provide more choice for the potential retiree."[9]

According to recent estimates, the cost of the Senior Citizens Equity Act, over the next 5 years is $6.8 Billion. Two suggestions have consistently been made to finance any changes:

1. Accelerate gradual increases in the delayed retirement credit to an 8% annual rate. (The credit is the additional percentage benefit that a retiree receives for delaying receipt of a benefit beyond normal retirement age, currently age 65.) Under present law, benefit payments were increased in value by 4 percent in 1993 for each year that retirement was delayed. The annual rate for the credit is scheduled to rise an additional 0.5 percent every two years until it reaches "an actuarially fair" rate of 8% by 2009.[10] Proposals to speed up the increase in the delayed retirement credit would provide short-term savings because more workers would delay retirement in order to receive higher benefits.

2. Exclusion of benefit recomputations once a beneficiary has elected to receive a retirement benefit. Currently, all earnings subject to Social Security taxes are considered in computing and recomputing benefits. This idea would move Social Security more toward an annuity, in that eligible beneficiaries (between 65 and 70) could receive Social Security payments and participate to various degrees in the work force (up to a higher ceiling) without any penalty. However, if they elected to receive a retirement benefit, they would forfeit credit for the Social Security-taxed earnings in that year and subsequent ones. They would no longer have their benefits recomputed annually, although they would still receive annual cost-of-living adjustments.

Another source of revenue is the nearly $2 billion in incorrect benefit payments which could be captured by the Social Security Administration if emphasis were placed on recovery of overpayments or more appropriately, through more effective technology, not causing the overpayments initially. A serious effort to annually decrease overpayments by 50% would result in savings of nearly $5 billion.

Additionally, I firmly believe that the increased economic activity and decreased gray underground economy will substantially offset the suggested cost estimates.

As I continue to speak with senior citizens throughout the country, they concur that the earnings test is onerous, confusing and unfair. Many senior citizens need the additional income that employment provides. They enjoy the challenges and stimulation which employment offers. They want to work, they are needed in the labor force and they are good workers.

As I have been in the past, I am ever hopeful that this Committee will support equity for all our senior citizens and substantially modify the Earnings test through passage of the Senior Citizens Equity Act. Thank you for the opportunity to appear before you today.

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[9] Conversation with Helen Dennis, University of Southern California Leonard Davis School of Gerontology, June 1992

[10] Although the delayed retirement credit may be sufficient by 2009 to negate most of the disincentive effects of the earnings test, it will remain too small during the intervening years to make up, over an average retirement, for the loss of benefits that were not claimed. Thus, the earnings test will still penalize older Americans who are eligible for retirement over the next 15 years. See Stephen J. Entin, "Iron Threads Amongst the Gold."

Chairman BUNNING. Mr. Jacobs.

Mr. JACOBS. No questions.

Chairman BUNNING. Mr. Johnson.

Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

Just one question having to do with the delayed retirement question, the first item that you mentioned. Could you explain a little more how that works and how in fact that assists in terms of the balance in the Social Security trust fund?

Ms. HARDY. Currently, the longer you decide not to take your Social Security benefit after becoming eligible, the larger your benefit will be. This year it is a 4-percent delayed retirement credit, after the age of 65. So if you were supposed to receive $100 a month, you would receive 4 percent each year after that.

There are short-term savings to the Social Security trust fund, because an individual waits longer to receive a check.

Mr. PAYNE. So in the adjustments you alluded to, it would be a smaller amount in any year that you would be earning if you waited 1 year? Is that——

Ms. HARDY. The earnings test and the delayed retirement credit are not related to each other. The delayed retirement credit applies only to those who decide not to receive a benefit. That person can continue to work as much as he/she wants and take the Social Security benefit later, and I receive 4 percent more per year than he would have gotten at normal retirement age, at age 65.

Mr. STEUERLE. This is a perfect example of how the confusion in this system has effects none of us even want. Eventually the delayed retirement credit was designed so that if you are a private insurance company, it would provide a complete offset. That is why the Social Security Administration tells you the changes don't really have a big impact, because eventually the delayed retirement credit cost offsets what we pick up from the earnings test.

But the problem is that is not how senior citizens view this. They say, "I have got to stop this work. This is a 33-percent tax rate, I can't afford it." They are misinterpreting what they are getting because they don't understand the offset. That is worse than a tax where at least the government is getting something out of it.

Here is a tax where the government doesn't get anything out of it. The result is that older Americans, senior citizens, feel like this Government is basically telling them they just cannot work.

As we mentioned several times, the administrative costs to the Social Security system—and Commissioner Hardy can comment on this also—are quite large because these are the sources of a lot of confusion in benefit computation.

Just imagine if you had to go in technically every month and report what you think your earnings were. Suppose you are self-employed and you are guessing; at the end of the year you have to go back and adjust the calculation, Social Security has to adjust it, and you have papers going back and forth. This is all caused by the very complicated system of having an earnings test.

Mr. PAYNE. One more question that has to do with the retirement age. Both you and Dr. Steuerle said that independent of the outcome of this hearing and the legislation, that something ought

to be done about the retirement age. Could you comment just briefly on that and what you think ought to be done?

Mr. MOORE. Our proposal is to, beginning in 1996, raise the retirement by 3 months per year until the retirement age reaches the age of 70. We also agree with something you did talk about earlier, a proposal Steve Entin talked about, where you index the benefit formula to prices rather than wages. We think that is something very important to do as well.

Mr. STEUERLE. Mr. Payne, earlier in 1994 I completed a book on Social Security where I tried to examine a broad range of reforms in Social Security aimed mainly at getting at the lower deficit. I argued this is not a liberal or conservative issue; this is an issue of having to bring the system into balance. What I tried to do was argue that one wants to think about what changes are appropriate and which ones are inappropriate.

The current budget accounting system in Social Security encourages the short-run changes like increasing tax rates. Increasing the retirement age doesn't show up in the budget window, but over the long term is probably the more appropriate response. Things like cutting back on the COLA—the price index hits the oldest and the very poorest of the elderly who often can't afford it. Increasing the retirement age impacts the younger and much better off of the elderly and also takes into account the fact that we have been supporting so many years of retirement. For a couple retiring at 62 today, their insurance payments—their pension will last 25 years. That is a long time to be paying out benefits.

That is why the cost to the system can be very high even when annual benefits don't look to be that high. The reason I tend to favor increasing the retirement age, is its effects impact the younger, richer elderly and does it in a way that I think would be fair.

Mr. MOORE. One thing you should know about that is when you look at when Social Security was put in place in the thirties, if we had indexed the retirement age to the increase in life expectancy, it would be about 75 or 76.

Ms. HARDY. The normal retirement age today would be 72 versus 65 in the beginning. However, I suggest to this subcommittee an even more dramatic increase in the retirement age: all those born in 1946 would be eligible at age 66; in 1947, age 67, until reaching age 70 or 72. Such a reform would allow the younger baby boomers to have enough time to plan ahead and increase their retirement age faster than in current law.

Chairman BUNNING. Thank you very much, panel. We appreciate your interest.

If the last panel will please step forward.

Arthur Flemming, former Secretary of Health, Education and Welfare; Jake Hansen, director of the Seniors Coalition; Priscilla Rogers from the Kentucky Department of the Blind; and Betty Niceley from the National Federation of the Blind of Kentucky. Accompanying them is James Gashel, director of Governmental Affairs of the National Federation of the Blind. And finally, Martha McSteen, president of the National Committee to Preserve Social Security and Medicare.

We welcome each of you and to my fellow Kentuckians who had traveled so far to share testimony with us today.

Dr. Flemming, you may begin, please.

STATEMENT OF ARTHUR S. FLEMMING, CHAIR, SAVE OUR SECURITY COALITION; FORMER SECRETARY, U.S. DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

Mr. FLEMMING. Thank you, Mr. Chairman.

I appreciate the opportunity of testifying before the Subcommittee on Social Security on the subject of the retirement earnings tax. I won't attempt to review the proposal that is before you but simply say the principal item advanced for this proposal is that it would increase the incentive for Social Security beneficiaries to be employed in part-time or full-time work.

In evaluating that proposal from this point of view, we should recognize that if a Social Security beneficiary goes to work, he takes home the income received from work plus the income received from his reduced Social Security benefits. Also, under present law as has been brought out in previous testimony, the beneficiary who returns to the work force is entitled to delayed retirement credits, which increase the worker's retirement benefit for each month that benefits are fully withheld.

The delayed retirement credit is currently 4½ percent per year. The delayed retirement percentage will increase by a half a percentage point every 2 years until it reaches 8 percent per year by 2000. Social Security analysts state that the adoption of the proposal now before the committee will mean that by the year 2000, approximately 600,000 families will receive additional benefits after taxes.

Under this proposal, the upper 50 percent of earner families would receive 75 percent of the increase in benefits after taxes. Low income families would receive little benefit if this proposal becomes law. This is because their earnings are already below the present exempt amount or their earnings are so little above the exempt amount that they would receive very limited gains from raising the exempt amount.

According to our preliminary Congressional Budget Office estimate, the Contract With America proposal would call for an increase in spending over a 6-year period of $7.2 billion, and according to Social Security Administration estimates, the increase in spending over a 10-year period would be approximately $15 million.

As a long-time advocate of doing everything possible to maintain the integrity of our Social Security provision, I believe in the proposition in the Budget Act that states there is a point of order against any Social Security legislation which is not financed through cuts in other Social Security benefits or increases in Social Security taxes.

I have read that some are recommending the change in the retirement test would pay for it by freezing the present delayed retirement credit figure of 4½ percent per year, thus preventing it from rising to a percent—8 percent by 2008. Others are recommending cuts in Medicare, which is an integral part of the Social Security system.

I am a great believer in providing as many incentives for work for older Americans and persons with disabilities as we can and

eliminating disincentives. I believe that permitting the delayed retirement credit to become fully effective, along with the present requirement for the retirement test, would be a better incentive for work than if we should freeze the delayed retirement credit at its present figure. I would be unalterably opposed from the standpoint of the welfare of older persons and persons with disabilities to weakening Medicare by using Medicare funds to pay for any adjustments in the earnings test.

Furthermore, I believe that if we depart from the position of the Budget Act relative to financing of the Social Security system, including Medicare, we could open a Pandora's box and undermine confidence in the entire Social Security system.

Thank you.

Chairman BUNNING. Thank you, Dr. Flemming.

[The prepared statement follows:]

STATEMENT OF ARTHUR S. FLEMMING
FORMER SECRETARY OF HEALTH, EDUCATION AND WELFARE
CHAIR, SAVE OUR SECURITY COALITION (SOS)

I. Introduction

A. I appreciate the opportunity of testifying before the Subcommittee on Social Security on the subject of the retirement earnings test.

B. The proposal before this subcommittee is to increase the tax exempt amount from its present level of $11,280, in stages beginning in 1996, to $30,000 in the year 2000---with the understanding that the amount would be increased automatically thereafter based on the increase in average wages and that withholding rate would remain at $1 for $3 for beneficiaries age 65 to 69.

II. Body

A. The principal argument advanced for this proposal is that it would increase the incentive for Social Security beneficiaries to be employed in part-time or full-time work.

1. In evaluating the proposal from this point of view we should recognize that if a Social Security beneficiary goes to work he takes home the income received from work plus the income received from his reduced Social Security benefits.

2. Also under present law, the beneficiary who returns to the work force is entitled to Delayed Retirement Credits which increase the worker's retirement benefit for each month that benefits are fully withheld.

a. The Delayed Retirement Credit is currently 4 1/2 percent per year.

b. The Delayed Retirement Credit percentage will increase by a 1/2 percentage point every two years until it reaches 8 percent per year by 2008.

B. Social Security analysts state that the adoption of the proposal now before the committee will mean that by the year 2000 approximately 600,000 families would receive additional benefits after taxes.

1. Under this proposal, the upper 50 percent of earner families would receive 75 percent of the increase in benefits after taxes.

2. Low income families would receive little benefit if this proposal became law.

3. This is because their earnings are already below the present exempt amount or their earnings are so little above the exempt amount that they would receive very limited gains from raising the exempt amount.

C. According to a preliminary Congressional Budget Office estimate, the Contract with America proposal would call for an increase in spending over a six year period of $7.2 billion; and according to a Social Security Administration estimate the increase in spending over a ten year period would be approximately $15 billion.

D. As a longtime advocate of doing everything possible to maintain the integrity of our Social Security system, I believe in the provision in the Budget Act that states there is a point-of-order against any Social Security legislation which is not financed through cuts in other Social Security benefits or increases in Social Security taxes.

1. I have read that some who are recommending the change in the retirement test would pay for it by freezing the present Delayed Retirement Credit figure of 4 1/2 percent per year thus preventing it from rising to 8 percent by 2008.

2. Others are recommending cuts in Medicare, which is an integral part of the Social Security system.

III. Conclusion

A. I am a great believer in providing as many incentives for work for older Americans and persons with disabilities as we can and eliminating disincentives.

B. I believe that permitting the Delayed Retirement Credit to become fully effective along with the present requirement for the retirement test would be a better incentive for work than if we should freeze the Delayed Retirement Credit at its present figure.

C. I would be unalterably opposed, from the standpoint of the welfare of all older Americans and persons with disabilities, to weakening Medicare by using Medicare funds to pay for any adjustment in the earnings test.

D. Furthermore, I believe that if we depart from the position of the Budget Act, relative to financing of the Social Security system including Medicare, we could open a Pandora's box and undermine confidence in the entire Social Security system.

Chairman BUNNING. Next is—make sure I have the right person here—Mr. Hansen.

STATEMENT OF JAKE HANSEN, DIRECTOR OF GOVERNMENT AFFAIRS, SENIORS COALITION

Mr. HANSEN. Mr. Chairman, members of the subcommittee, thank you for allowing me the opportunity to speak with you on what I consider to be a watershed occasion.

Today, you have heard from economists and experts from Social Security who have quoted the numbers and statistics that show both why the Social Security earnings test should and should not be changed. I would like to take this opportunity to focus on the human side of the equation.

One of the terrific things about Social Security is its flexibility, its ability to fit changing financial dynamics and society's needs. Now this is an exciting time. Significant liberalization of the Social Security earnings test has been debated for years. Now in 1995, it is an idea whose time has come.

Liberalization of the earnings test is an important concept. It embodies much of what is right with the Contract With America. Through this liberalization, we are empowering many Americans to live fuller, more productive lives, a benefit to themselves, their families, and society.

We have heard from hundreds of our members about their frustrations and the hardships that the earnings test has wrought. At best, they find it confusing and exasperating, and at worst, they find it devastating.

We have heard from members who tell us that they want to work to keep active and to continue playing a role in society. To them the earnings test is an economic and bureaucratic disincentive to help us all. We have heard from members who have seen their life's savings wiped out by some unforeseen circumstance. To them, the earnings test is a ball and chain that condemned them to live a substandard existence. We have heard from members who are barely making ends meet. They want to work, to earn their own money so that they are not forced to become wards of the state.

Mr. Chairman, liberalization of the earnings test is not something that benefits the rich. Is it an archaic barrier that penalizes the many low class seniors and lower income seniors. The Seniors Coalition applauds your efforts to move with such haste to free so many senior Americans from the inequities of the Social Security earnings test.

Thank you.

Chairman BUNNING. Thank you, Mr. Hansen.

[The prepared statement follows:]

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Statement of Jake Hansen
Director of Government Affairs
The Seniors Coalition

Presented to the
U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Social Security

Monday, January 9, 1995

Contract with America Hits the Mark on Social Security Earnings Limit

Mr. Chairman, thank you for inviting me to address the committee on one of the components of the Contract With America — the Social Security Earnings Limitation Test.

The Seniors Coalition has made a repeal of the earnings limit a primary focus over the past three years. I am excited that the 104th Congress may finally take action to free America's seniors from the shackles of this discriminatory and punitive tax. And that is exactly what the earnings limit is — a tax on individuals who want to remain a productive part of society.

Technically, the Government refers to it as a loss of benefits, but the economic effect is the same as a tax. Not only are working seniors faced with the loss of Social Security benefits, but they also must pay their Social Security payroll taxes to support the same benefits they are being denied. Combined with federal, state and local tax withholdings, a senior making $5.00 an hour may increase their disposable income by less than $1.00 for that hour. The earnings test is simply a bad economic policy.

The earnings test is harshest on poorer senior citizens who must work to make ends meet. The seniors we hear from are not millionaires trying to find a way to fleece the Government. They are people who have worked hard and want to continue to work either because they have to, or they want to. Dividends and interest from savings accounts do not count against the earnings limit, but seniors with little or no private investment income from their working years may need to work just to provide basic needs such as shelter, food, clothing, and health care. By continuing to impose this punitive tax on senior citizens, policy makers are selectively discriminating against those seniors who most often desperately need income.

Aside from the punitive tax this policy places on seniors, this country is being denied productive workers. The message coming from Washington is that seniors should stop being self-sufficient and become the responsibility of the government. That may not be the message you think you are sending, but it is the message seniors are hearing. The benefits of allowing seniors to continue working without losing Social Security are clearly evident. More disposable income and continued participation in the work force are unambiguously positive developments. Today, our economy is suffering from a lack of skilled workers to fill available positions. Sound labor policy would demand that the earnings test, which drives some of our nation's most productive, well-trained workers into premature retirement, should be immediately repealed — or at least rolled back.

This country is also being denied the economic benefits that would result from more seniors in the workplace. Seniors fill a unique niche with small employers and retailers because they are reliable, they are available during daytime hours, and they generally don't need company benefits. Seniors who work also contribute to the economy because they have more disposable income. They purchase consumable goods which benefit local economies and pay federal, state and local taxes. It makes sound social and economic sense to allow America's seniors a chance to contribute.

Most of us testifying here today could go on for hours with facts and figures and charts to show the costs and benefits of repealing or raising the earnings limit. So I thought I'd use some of the time remaining to tell you about the people this limit affects. These are real people who can't be her themselves to explain how the earnings limit has made their lives less than they could be.

A member from Pembroke Farms, Florida writes: "I need to keep working to cover my expenses, but since I can't collect Social Security benefits and work above they earnings limit, I am stuck with low-paying hourly jobs that do not provide enough discretionary income to make difference. Rather than being able to work and contribute to the economy, these are the types of things which we will have to postpone:

"• Postpone indefinitely the purchase of a new or used car to replace our 1979 Datsun 210 hatchback with 190,000 miles on it.

"• Postpone indefinitely purchase of new carpet for our 16-year old home.

"• Postpone indefinitely repayment of a $13,000 loan taken for my daughter's college education.

"• Postpone indefinitely replacement of a fractured tooth with crown.

"An annual income of $16,000 places us just barely above the poverty line and unable to participate in the economic recovery of the nation."

Mr. Chairman, I feel confident none of us in this room would consider these expenses extraordinary or greedy in nature. We have received many letters from others who want to work because they need the money.

From Jackson, Wisconsin we hear: "I am 68 years old. My Social Security check only covers my housing needs. I'd like to work more than the government says I can so I can live a better life. Also, employers prefer us older employees because we are dependable and conscientious about our work."

From Lopez Island, Washington a member writes: "Although we live frugally in our tiny mobile home, the enclosed list of income and expenses illustrates how significantly our living expenses exceed our Social Security income. This is why I must continue working. I am able and willing to work. I contribute to the economy of the community and to the I.R.S.. If it were not for the earnings cap, I would likely double or triple my earned income, which would make living a whole lot nicer."

Many of these seniors are working hard, not only to make their own lives better but to help their community. Often times, it is not the immediate economic burden that the earnings test imposes as much as it is the shock a few months later of finding that they must "pay" a substantial amount back to the Government.

A member from San Antonio, Texas says: "I happened to stumble into an opening for a six week replacement of a teacher taking maternity leave. Innocently naive about tax laws and Social Security, I just went along happily until April and then got some irritating surprises. My wife and I needed the money, but had I foreseen the tax result, I would have preferred to teach for two weeks without pay to benefit the local school district."

From El Cajon, California, we hear: "I am 67 and my wife is 62. We are both self-employed. After our 1993 taxes were done, we discovered it would not be worth the effort or professional liability to strive for extra earnings above what we are allowed under the earnings test. It appears to me the government is losing self-employment tax and income tax by limiting us under the earnings test requirement."

And from Poway, California: "With this earnings limit the government has just taken one more working taxpayer out of the system."

A member from Iowa says: "I am a physically fit farmer and it is not my intention to quit working completely but I find I am being taxed at a total of 70% for every dollar above the earnings limit. Is it any wonder seniors decide to leave the work force with that kind of penalty for being productive?

"The government has, in effect, informed seniors that our contributions to the economy are no longer needed and told us to leave the workforce. If the earnings test were repealed, many would re-enter the workforce and the taxes they pay could be used to reduce the national deficit."

Many of the letters we received focused their outrage on the loss of productive workers by limiting seniors with the earnings test.

From San Mateo, California a member tells us: "There is a tremendous amount of skill and knowledge that is being wasted because of the earnings limit. It is the retirees of this age group that are still part of the backbone of this nation, and can still hold up their end against anyone, maybe even better. The earnings limit is a disincentive to work."

And from Massachusetts we hear: "The earning cap inhibits productivity on the part of seniors. As a independent Realtor, I am not taking a job away from a younger person, I am not dead wood in a crowded office, but I am losing my incentive to be active and productive.

"By dropping the earning cap, older people will be encouraged to get out of the rocking chair, stay active, stay healthy and be a contributing taxpayer."

I'd like to conclude with one final letter. I think that the most frustrating and fearful prospect to a senior citizen with little income, is the fear that they will become a statistic of the welfare state. They want to be independent and they want to provide for themselves. As the 104th Congress continues with its mission to decrease the role of the government over people's lives, the words of a member from Mesa, Arizona should be remembered:

"Living on seven or eight thousand dollars a year is next to impossible. I do not want to go on welfare or food stamps. I would just like no penalties on the earnings I work hard for."

Chairman BUNNING. Now we have Ms. Niceley and Ms. Rogers. Ms. Niceley, would you go right ahead.

JAMES GASHEL, DIRECTOR OF GOVERNMENTAL AFFAIRS, NATIONAL FEDERATION OF THE BLIND, AS PRESENTED BY BETTY NICELEY, PRESIDENT, NATIONAL FEDERATION OF THE BLIND OF KENTUCKY

Ms. NICELEY. Good afternoon, Mr. Chairman. I am Betty Niceley, president of the National Federation of the Blind of Kentucky. Also here with me are leaders from several other organizations and agencies with significant roles either in representing or serving blind people.

You will be hearing from the commissioner of our Kentucky Department for the Blind who is also representing the National Council of State Agencies for the Blind. She and I would each like to present brief remarks on behalf of the panel. Represented here are the American Council of the Blind, the American Foundation for the Blind, and National Industries for the Blind.

We unanimously support a joint statement which puts forth 10 brief but noteworthy points that we would like to be brought to you for your consideration:

No. 1, under an amendment authored by Mr. Archer, blind people who have not attained age 65 are affected by the same earnings limit that the Social Security Act imposes on age 65 retirees. The identical earnings exemption threshold has been the law for almost 20 years and certainly has sound rationale.

No. 2, blindness and retirement age are both defined as eligible conditions in section 216 of the Social Security Act.

No. 3, the disability test—the inability to engage in substantial, gainful activity—is not used to determine whether an individual meets the blindness criteria in the Social Security Act. Only medical evidence is used for that determination.

No. 4, the modification to the earnings limit as proposed in the Senior Citizens' Equity Act includes five mandated upward adjustments in the exempt amount which is to reach $30,000 of annual earnings beginning in the year 2000.

No. 5, section 101(b) of the bill would specifically exclude blind people from the mandated adjustments.

No. 6, the exclusion in question is a change from existing law, and all organizations having interests in the blindness field strongly oppose this change.

No. 7, the provision would mandate an earnings limit for blind people which is far more severe than the earnings limit for age 65 retirees—a serious change in policy with far-reaching and harmful work disincentive effects on the blind.

No. 8, continuing the existing policy by mandating the adjustments in the earnings limit for blind people, as well as for age 65 retirees, will assure that an estimated 161,300 blind beneficiaries will receive a powerful work incentive by permitting earnings of $30,000 as a base amount. Most blind people could then not lose financially by working.

No. 9, the mandated earnings limit changes, if made applicable to blind people, as now required, would be cost-beneficial since 70 percent of blind people who are working-able are either unem-

ployed or underemployed. Most of them are already beneficiaries. Therefore, their positive response to the higher amounts of earnings allowed will bring additional revenues into the Social Security trust funds.

No. 10, we support the provisions of the Senior Citizens' Equity Act which mandate five upward adjustments in the earnings exemption threshold, and we are certainly requesting and depending on you to have the exclusionary provision which is applicable to the blind only removed from the bill.

I thank you, sir, for the opportunity to bring these points to you.

Chairman BUNNING. Thank you.

[The prepared statement and attachment follow:]

TESTIMONY OF JAMES GASHEL, AS PRESENTED BY BETTY NICELEY NATIONAL FEDERATION OF THE BLIND

Mr. Chairman, I am James Gashel. I am Director of Governmental Affairs for the National Federation of the Blind (NFB). My address is 1800 Johnson Street, Baltimore, Maryland 21230, telephone, (410) 659-9314. I am appearing today along with Mrs. Betty Niceley, president of the National Federation of the Blind of Kentucky. Mrs. Niceley will summarize this written statement. Thank you for offering us this opportunity to present the views of the NFB in response to Social Security earnings limit issues which have been raised in legislation to fulfill the Contract with America.

At the outset, Mr. Chairman, I would like to say that the position we are taking concerning modifications to the earnings limit is shared by every national organization in the blindness field. The groups in question have entered into a joint statement of our position, and I am submitting a copy of this statement as an attachment. I believe that each organization, represented by the individuals on this panel, is submitting a separate written statement for this hearing. The organizations involved are listed at the end of the joint statement. Collectively we represent people who are blind throughout the United States, professionals who provide services to the blind, agencies throughout the country which employ blind individuals in significant numbers, and agencies in every state which assist blind people in finding jobs in the competitive labor force. In other words, the joint statement which we are submitting represents the complete spectrum of interests from the blind themselves to those who serve them.

There are over fifty thousand blind people who are members of the National Federation of the Blind. We have a local chapter of the Federation in almost every sizable population area in this country and a state affiliate in all states, Puerto Rico, and the District of Columbia. In short, Mr. Chairman, NFB is organized and active in all parts of the United States.

By virtue of its size and scope NFB represents and speaks for the blind as a collective body. We speak for older blind persons and younger blind persons as well. The positions we express in hearings such as these are the result of the democratic process of debate and decision-making among people who are blind in the United States. The supreme authority of the Federation is its National Convention, which occurs annually. During the convention we openly debate (and approve or disapprove) a number of policy resolutions. In this manner the Federation is truly the blind speaking for themselves. It is not simply an organization speaking for the blind. All of our elected officers and the vast majority of our members are blind. For these reasons the NFB is widely known as the voice of the nation's blind.

This hearing concerns proposed modifications in the earnings exemption threshold provisions of the Social Security Act. The legislation which would accomplish the specific changes is known as the "Senior Citizens' Equity Act" -- introduced in the 104th Congress as HR8.

Blind people have a special concern in relationship to this subject. Most blind people are age sixty-five or older. The retirement test affects blind retirees in precisely the same way that it affects all senior citizens age sixty-five to seventy. But the retirement test also affects blind people under age sixty-five who receive Social Security benefits.

According to information available from the Social Security Administration this latter group is made up of about 104,300

blind beneficiaries. There are in addition approximately 57,000 blind individuals (most of whom are of working age) who receive Supplemental Security Income (SSI) payments but do not also receive disability insurance checks. This adds up to a combined total of 161,300 blind beneficiaries whose work patterns and earnings could be significantly improved by work incentives.

Under a provision in section 223(d)(4) of the Social Security Act, working-age blind individuals are subject to the earnings limitation which is precisely the same as the earnings limitation for age sixty-five retirees. This limitation is stated in section 203(f)(8)(D) of the Social Security Act. The present limit is $11,280 annually or $940 monthly, which by law is subject to upward annual adjustments.

The Senior Citizens' Equity Act would change existing law by creating an earnings limit for the blind which is different from the earnings limit for age sixty-five retirees. In fact, the earnings limit for the blind of working age would be far more severe than the earnings limit which would apply to retirees. For this reason, while we enthusiastically support the changes called for in the earnings exemption threshold, we are asking the Committee and the Congress to remove from the bill the provisions which would exclude blind people from the work incentives resulting from the new, higher threshold amounts.

In terms of establishing the point at which an individual becomes eligible, the Social Security Act treats blindness and retirement age (age sixty-five) in almost precisely the same manner. Section 216(l)(1) of the Act presently defines retirement age as age sixty-five. The definition of blindness is found in section 216(i)(1)(B). In looking at this definition it is critical to understand that blindness is not the same as disability. It may be more accurate to say that blindness under the Social Security Act is a distinct form of disability having a definition which is distinctly different from the definition of disability.

The definition of disability is an "(A) inability to engage in any substantial gainful activity . . . , or (B) blindness; . . . ." In the latter case (blindness) the inability to perform "any substantial gainful activity" is not a defining condition. Blindness is defined by means of specific visual acuity and field restrictions. Medical evidence is used to determine whether an individual has impaired eyesight to the extent of blindness. The determination is as clear as it is in the case of determining whether a given individual has reached retirement age.

Substantial Gainful Activity (SGA) is the test for eligibility for persons who are disabled. In such cases, the SGA guidelines are applied to determine the extent of the disability and its relationship to an individual's ability to work. Earnings are considered, but the SGA guidelines go far beyond that. Factors such as "comparability and worth of work" tests are also applied. The purpose of an SGA evaluation is, therefore, to determine whether the individual is disabled. Disability is actually defined by an individual's "inability to perform SGA." The determination of blindness under the Social Security Act does not depend upon an SGA finding.

Although blindness is defined medically and not by SGA as just described, there is an SGA guideline for blind people. This is the earnings limit which is also established for age sixty-five retirees. Also, in Title XVI (SSI) no SGA determination is made in the case of blind individuals. They are categorically eligible. This is exactly the same situation for persons who have reached age sixty-five. They, too, are categorically eligible for SSI. Of course, income and resources may affect eligibility or payment amounts for any individual. SSI is a means-tested program, but the point is that there is no earnings limitation attached to the basic eligibility conditions of blindness or old age. This is as it should be.

Unlike SSI, eligibility under Title II is not means-tested. Social Security benefits are paid to wealthy people and to poor people alike. True to the principles of insurance, not welfare, income for Social Security beneficiaries can be unlimited. Work

activity is limited. For blind people as well as for retirees this is a counterproductive policy, and it is so for precisely the same reasons.

Blindness as we still experience it today has profoundly adverse social and economic consequences. Therefore, Social Security benefits should offset these consequences insofar as possible. The social attitudes about blindness are full of myths and misconceptions. As a group, the blind face an incredibly devastating set of artificial impediments when they seek to enter and compete in the labor force. The blind are not just viewed as unemployed. We are usually considered unemployable.

To be sure, the blind pay a heavy price for this erroneous labeling. For example, most people agree that over seventy percent of the employable blind population is either unemployed or underemployed. If before blindness an individual had an income of, say, $20,000.00 annually (not an uncommon income for sighted individuals), and if after blindness that same individual finds employment at $12,000.00 annually (not at all an uncommon experience for the blind), he or she will still not be eligible to continue receiving Social Security benefits despite the fact that a substantial loss of income has occurred.

Under prevailing social conditions, blind people are pushed aside in competition for jobs and social opportunities. This results in significant lost income which is not replaced by Social Security. Responsibility for the prevailing attitudes about blindness does not rest with the blind alone; it is a general social phenomenon. However, it is the blind members of our society who currently bear the cost in lost opportunities, lost jobs, and lost income.

The Social Security system itself presents additional economic barriers to the full integration of the blind. I am referring to the direct impact of the earnings limitation. These are the stark economic realities: under existing law, if an individual becomes blind and has average monthly earnings which do not exceed the "exempt amount," he or she will likely draw Social Security benefits. The individual has every incentive to remain unemployed and not return to work at all. Why? In the first place, the beneficiary is undoubtedly not an expert in the law. The law is complex, and the talk of allowed earnings, trial work periods, impairment related work expense deductions, and extended eligibility is confusing and not generally conducive to an attempt to resume or continue working.

Ironically, the work incentives for blind people under Social Security are inversely related to the likelihood that an individual can engage in productive activity. For example, persons who are age seventy and older have the maximum incentive to work -- there is no limitation on their earnings. Persons age sixty-five to seventy are faced with the disincentive of the earnings limitation, but two-thirds of their earnings are still exempt. Blind persons under age sixty-five are subject to the harshest penalty of all -- there is an absolute barrier to earnings over the exemption threshold. If the individual goes to work and (after a specified trial work period) is earning somewhere in the neighborhood of $940.00 per month, benefits will be terminated.

Place yourself in the position of a blind person considering possible employment. Remember that, including dependents' benefits, the family income from Social Security may exceed $1,500.00 per month in many instances. I know a number of blind people who (believing in the work ethic) would accept employment offering gross wages at somewhat less than their possible Social Security income. However, many people are simply not in a financial position which would allow them to do so. Of course, there are also costs associated with working that any blind person must consider. These costs may include employment of readers or drivers or other assistants, which will further reduce take-home pay. When all of these costs are taken into account, many individuals find that they cannot sustain the economic losses which may result from working.

In the example under consideration the annual Social

Security benefit available to the primary beneficiary and dependents would be approximately $18,000.00. The blind beneficiary who, under present law, earns $11,300.00 ($20.00 over the limit) would lose $18,000.00. Almost anyone that I know of would opt to earn $20.00 less in order to retain $18,000.00. This is precisely the kind of economic choice presented to blind beneficiaries under the present law.

Taking the example a step further, it is revealing to examine just how much the primary beneficiary would need to earn, if working, in order to replace the loss of $18,000.00 in Social Security benefits. Using conservative numbers, such as 28% for all taxes (including FICA withholding) and taking into account the cost of working (transportation, meals away from home, blindness related work expenses, union dues, et cetera), I would estimate that the working blind individual would need to have an income of $27,917.00, not including child care expenses. Since the example includes two dependents, child care expenses can be anticipated. A conservative estimate for child care would be approximately $4,600.00. This amount added to $27,917.00 means that the working blind beneficiary with two dependents in child care would likely need to have gross income of $32,517.00 in order to replace the buying power of the Social Security income -- $18,000.00 -- if lost due to working.

The proposal in the Senior Citizens' Equity Act is a phased-in lifting of the earnings exemption threshold over a five year period in order to reach an annual ceiling of $30,000.00 in the year 2000. This policy should be adopted. If it is adopted it should apply to blind people and to age sixty-five retirees alike. That is the policy of existing law. As I have already said, the provision in the Senior Citizens' Equity Act which would withhold from blind people the mandated adjustments in the earnings limit threshold is a change from existing law and should not be included in the final bill.

The policy of linking the earnings limit for the blind and for seniors became law with the 1977 amendments to the Social Security Act. Mr. Archer, who was at that time the ranking minority member of this Subcommittee and is now the Chairman of the full Committee, is the architect of this policy. The amendment which he offered to create the present linkage was approved with unanimous Republican support when the conferees met to resolve differences between the Senate and House versions of the Social Security Financing Amendments of 1977.

The 1977 bill contained five mandated increases in the earnings exemption threshold, with automatic annual adjustments kicking in beginning in the sixth year. Under Mr. Archer's amendment both blind people and seniors were subject to the mandated increases as well as to the automatic adjustments. The Senior Citizens' Equity Act, if adopted, would be the first time since 1977 that mandated increases in the earnings exemption threshold have been made. The precedent, as well as the existing law, clearly establishes that both the mandated increases and the annual adjustments should apply to blind people as well as to age sixty-five retirees.

If this is done the blind person who earns less than $30,000.00 could not lose by working. This policy, while not removing the earnings limit altogether, would cover the vast majority of blind people. The harsh reality of the choice to receive benefits or to work would seriously be diminished, and it would be replaced by an extremely powerful work incentive. The beneficiaries who respond will become taxpayers, and they will join the productive ranks of our society. The blind person is better off being productive. Society in general is better off if the individual is productive instead of idle -- working instead of sitting at home.

Proponents of the earnings limitation complain that individuals with high earnings will continue to receive Social Security benefits. The fact is that the number of blind people being paid $12,000.00 a year or more is surprisingly small. Most blind people do not even work. Approximately 161,300 blind persons under age sixty-five now receive Social Security or SSI

benefits. They would not be paid more as a result of increasing the earnings exemption threshold. They would have the maximum incentive to work, and thousands would begin paying into Social Security.

By comparison, raising the earnings exemption threshold would add some blind persons as new beneficiaries but this would only be a fraction of the more than 160,000 who are now beneficiaries. The new beneficiaries would be individuals who earn more than the present exempt amount but less than $30,000.00. Although they would begin to receive benefits, there would be an overall positive effect on the Social Security system. That would result from providing a powerful incentive to work to more than 160,000 beneficiaries who would not receive one dime more from Social Security. Besides, fewer blind individuals would receive SSI as a result of becoming Social Security beneficiaries.

Overall, there would actually be a positive cost impact on the Social Security system resulting from increased payments into the trust funds by working blind beneficiaries. The greater their earnings, the greater will be the amount that they pay into the trust funds. Considering the costs and benefits involved, the provision which would withhold the mandated earnings limit adjustments from blind people is truly punitive. Information reported by the Office of the Inspector General for the Department of Health and Human Services indicates that in 1993 there were approximately 1,700 blind beneficiaries who had earnings above the exempt amount then in effect. It is fair to say that many (if not most) of these individuals would continue to receive benefits while working if the earnings limit threshold goes to $30,000.00. The punitive part is that all of these individuals would lose their beneficiary status if the policy of linking the earnings limits for the blind and for seniors is changed.

Mr. Chairman, in concluding this testimony I would like to restate our long-standing position about work incentives and the counterproductive impact of the Social Security earnings limitation. The blind as a group are prepared to work -- and work hard. The disincentives created by Social Security force blind people into financial dependence. We seek to renounce this status. We are asking only for the opportunity to lead normal, self-supporting, independent lives. If there continues to be a limitation on earnings, those who are subject to it will be paid to remain outside of the work force. This policy reinforces the myth that the blind cannot be productive members of society. Until that myth is changed, we will be subject to the conditions of ignorance, prejudice, and discrimination which have long kept blind people out of the mainstream. Mr. Chairman, we are committed to use work incentives effectively as instruments of rehabilitation, self-help, and self-support for the blind. On behalf of the National Federation of the Blind, I thank you.

JOINT STATEMENT OF ORGANIZATIONS OF AND FOR THE BLIND

SUBJECT: Increase of the Social Security earnings limit threshold in accordance with item seven of the Contract with America

Announced plans to modify the senior citizens' retirement test could mean either opportunity or a severe blow to work incentives for blind people. The exempt earnings threshold for senior citizens and for blind people of any age is precisely the same. This linkage of the exempt earnings of blind persons of any age and senior citizens was brought about by an amendment to the Social Security Act sponsored by Representative Bill Archer in 1977, recognizing the similarity of the two groups with respect to the effect of an earnings limit. Provisions of a bill entitled the "Senior Citizens' Equity Act" would modify the present language of the earnings exemption.

This statement presents an analysis of the proposed changes in the earnings exemption and how those changes would affect persons who are "blind" as defined in the Social Security Act. The essential point to be made is that actions which are taken to raise or eliminate the ceiling on outside earnings which applies to retirees will inevitably have a direct effect upon the treatment of earnings for blind people of any age.

The bill entitled the "Senior Citizens' Equity Act" responds to item seven of the Contract with America. The earnings exemption changes can be found in title I of the draft bill. Section 101(a) of the bill calls for a phased-in increase of the Social Security earnings limit threshold, which applies at age 65 and is then removed at age 70. Under the proposal the earnings exemption would be raised in annual increments in order to reach $30,000 annually ($2,500, monthly) in the year 2000.

Under section 223(d)(4) of the Social Security Act the exempt amount for persons who are "blind" as defined in the Social Security Act is directly tied to the exempt amount for age 65-69 retirees. The connection occurs by way of a statutory cross-reference to section 203(f)(8)(D) -- the provision which defines the age 65-69 retirees' exempt amount.

By virtue of the statutory cross-reference that is found in section 223(d)(4), section 203(f)(8)(D) also applies to blind people of any age. However, the drafters of the "Senior Citizens' Equity Act" have written a "Conforming Amendment" into the bill (subsection [b] of section 101 of the bill), which has been included for the sole purpose of withholding the earnings exemption increases from blind persons.

The "Conforming Amendment" is contrary to existing law. In 1977, as has already been stated, Congress decided that the earnings of blind people who receive disability insurance under Social Security should be exempt to the same extent as in the case of age 65 retirees. This explains the statutory cross-reference which connects section 223(d)(4) to section 203(f)(8). Since that time, in drafting amendments to repeal the retirement earnings test or to raise it, the legislative counsel staff have almost always included language which would break the relationship between the retirement test and earnings provisions for the blind. This explains why language similar to the "Conforming Amendment" in the "Senior Citizens' Equity Act" continues to show up in amendments or bills which are offered. It is important to note that the "Conforming Amendment" in the "Senior Citizens' Equity Act," or other bills, is contrary to existing law.

Blind people and the professionals who serve them are strongly opposed to a conforming amendment which breaks the existing linkage with the senior citizens' retirement test. The rationale for linking these earnings limits was the expressed

fact that both retirement age and blindness are defined conditions in the Social Security Act. Therefore, it would be inequitable and counterproductive to have a different policy for persons who meet such statutorily defined circumstances as blindness and retirement.

Organizations of and for the blind are in favor of increasing the earnings level for those age 65-69 because it would encourage individuals to remain in or reenter the labor market. The continuation of employment is good for both the individual and society. This is as true for blind people as it is for retirees, age 65-69. Many experts agree that the limitation on outside earnings should eventually be eliminated altogether. We agree with this goal and believe that the "Senior Citizens' Equity Act" is the proper step in that direction. However, we strongly oppose the "Conforming Amendment" (subsection [b] of section 101) because it would continue to apply a work disincentive policy to blind people while providing a much greater work incentive for those who attain age 65. Accordingly, we are asking for your help in having the conforming amendment removed from this bill. Removing the conforming amendment would continue the policy of existing law by which the exempt amounts for seniors and for blind people are defined by the same provision in the Social Security Act.

Concurring Organizations

American Council of the Blind (ACB)

American Foundation for the Blind (AFB)

Association for Education and Rehabilitation of the Blind and Visually Impaired (AER)

Blinded Veterans Association (BVA)

National Council of Private Agencies for the Blind and Visually Impaired (NCPABVI)

National Council of State Agencies for the Blind (NCSAB)

National Federation of the Blind (NFB)

National Industries for the Blind (NIB)

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Chairman BUNNING. Ms. Rogers.

STATEMENT OF PRISCILLA ROGERS, COMMISSIONER, KENTUCKY DEPARTMENT FOR THE BLIND; REPRESENTING THE NATIONAL COUNCIL OF STATE AGENCIES FOR THE BLIND

Ms. ROGERS. Thank you, Mr. Chairman and members of the subcommittee for allowing me to be here today.

As Ms. Niceley said, I am representing the National Council of State Agencies for the Blind, and I am also the commissioner of the Kentucky Department for the Blind.

Our National Council of State Agencies Serving the Blind is very concerned about two points relating to the bill. First are the disincentives which exist to employment for individuals who are blind. As a State director who is charged with helping blind persons find suitable and gainful employment, I, and our other State administrators, feel there are far too many disincentives now.

Jobseeking blind persons experience discrimination because of their disability. It is estimated that up to 70 percent of individuals who are blind are currently unemployed.

Second, the existing earnings limit leads to underemployment and part-time employment. I personally know of several cases of people who are blind who do not work full time because they can't afford to work full time. They will lose their benefits if they do, and they can't afford to lose those benefits.

A number of those individuals have out-of-pocket expenses every day to go to work. They have commuting costs, costs for reader services, equipment costs, and other expenses that cost them out of pocket to go to work. So, having the Social Security disability insurance helps them, and we would hate to see that taken away.

Third, the loss of medical benefits. Many individuals have medical conditions which require them to have medical insurance. It would be a disincentive to them to lose those medical benefits, since the small employers for whom many work often do not provide medical benefits.

Another point that we feel is necessary to make is that we need to keep the existing linkage which currently exists between retiree recipients, and blind recipients

This was set up in 1977, as Ms. Niceley has testified, and this has served blind people well. To disengage that linkage would be to increase the disincentives to work, which we do not want to happen. This would not help the budget, or our clients. You have heard a lot of cogent arguments here today with regard to older Americans. Those arguments also apply to individuals who are blind.

We therefore join all the other national organizations of and for the blind in requesting you to continue to support the existing law which links exempt earnings of seniors and blind persons, and we thank you for this opportunity to speak here today.

Thank you.

Chairman BUNNING. Thank you, Ms. Rogers.

[The prepared statement follows:]

TESTIMONY OF PRISCILLA ROGERS, COMMISSIONER
KENTUCKY DEPARTMENT FOR THE BLIND
NATIONAL COUNCIL OF STATE AGENCIES FOR THE BLIND

I am here today as the Commissioner of the Kentucky Department for the Blind, representing the National Council of State Agencies for the Blind. The Council is comprised of the chief administrators of public agencies which provide vocational rehabilitation and independent living services to persons who are blind throughout the country and are responsible for administering the Rehabilitation Act of 1973, as amended. Our mission is to provide services which enable blind and visually impaired individuals to achieve maximum personal and vocational independence.

As public administrators of State vocational rehabilitation programs, we are aware that the unemployment rate of blind individuals is approximately 70%. We are concerned that proposed changes in the Social Security work incentive program might adversely affect this already high percentage.

Due to a lack of knowledge, blind individuals continue to face well meaning discrimination on the part of many potential employers. Even with the help of well trained rehabilitation professionals, employment commensurate with the skills and abilities of most blind persons is difficult to secure. As a result, many blind persons are underemployed or choose not to face the rejection and humiliation which comes from an active employment search. Blind persons who want to work are faced also with major disincentives such as possible loss of medicare benefits. Employed blind persons very often face high out-of-pocket expenses related to their blindness and associated with their employment. Such costs might include specialized equipment, reader service or extraordinarily expensive commuting costs.

Members of the National Council of State Agencies for the Blind are concerned about any proposed change in the Social Security Act which might adversely affect the linkage between blind persons and retirees relative to earnings limitations. Any such change will have a negative impact on the number of blind persons who are currently employed and those actively seeking employment. Further, the proposed changes are contrary to present law established in 1977 at which time Congress decided the earnings of blind persons receiving disability insurance under Social Security should be exempt as in the case of individuals 65 year of age and older. This was done because the Social Security Act defines only two conditions "blindness" and "retirement." We, as State Administrators, are strongly opposed to the conforming amendment which breaks this existing linkage with the retirement test for senior citizens. It would be inequitable and counterproductive to have differing policies for persons who meet these statutorily defined circumstances and for whom the same rationale of work disincentives applies.

We therefore join all the other national organizations of and for the blind in requesting you to continue to support the existing law which links the exempt earnings of seniors and blind persons.

Mr. Chairman, thank you for the opportunity to present these views on the social security retirement test and its effect on the work activity of persons who are blind.

Chairman BUNNING. Martha McSteen, National Committee to Preserve Social Security and Medicare.

STATEMENT OF MARTHA A. McSTEEN, PRESIDENT, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE; FORMER ACTING COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Ms. MCSTEEN. Thank you, Mr. Chairman.

Members of the National Committee to Preserve Social Security and Medicare welcome as a major step in the right direction the Contract With America proposal to raise the Social Security earnings limitation for persons who have reached age 65. The National Committee has in fact supported complete repeal of the earnings limitation for those 65 and over.

Many National Committee members need or want to work, but they also deserve to receive their retirement benefits currently. Today, it is difficult to understand why benefits are still tied to an earnings limitation. It is really viewed as a relic of the Depression years.

National Committee members do not believe that Members of the 104th Congress would have sanctioned such a provision if they were starting anew. Assuming for the sake of argument that the economy of the thirties and the post-World War II forties required extreme measures to get older workers out of the work force, those conditions do not exist today. Yet, the earnings limitation stays in place, still encouraging older workers into retirement and financially penalizing those who do not retire.

Under existing circumstances, it is hard to imagine why any senior would continue working after reaching retirement age. The truth of the matter is, that like younger workers, many need the money; increased cost of living, including high health care costs, force many retirees to supplement their savings and fixed income.

Social Security is often depicted as one almost of a three-part retirement income package; savings and pensions are meant to provide the remaining two-thirds. It is shocking that in this country almost 50 percent of retired men and over 75 percent of retired women have no pensions to supplement Social Security. For them, additional earnings are not an option, they are a necessity.

Other seniors remain in the work force or reenter the work force to meet extraordinary medical or nursing care expenses of an ill spouse. And as lifespans increase, more and more retirees find themselves responsible for the care of an aged parent.

Independence has long been a hallmark of today's seniors. To be able to maintain that independence in later years is highly significant. However, not all seniors work because they need the money. Many seniors receive satisfaction from continuing to be productive and creative. Instead of a national policy to encourage the continuing use of talent, experience and energy, this Nation discourages it.

Whether the senior works out of the need for extra income or the pleasure of working, the combination of payroll taxes, income tax, and the loss of Social Security if earnings exceed the limitation, exacts a high price. Opponents of raising the earnings limit center their argument on the advantage eliminating the earnings test would give to the wealthy who say, "don't need Social Security."

Upper income workers have paid for their benefits and need is not supposed to be a criterion. This attitude is nothing more than a means testing in disguise.

High income individuals have another decided advantage over those with lesser income and assets. As you know, unearned income from savings and investments often provides a substantial supplement to Social Security but unearned income never affects a right to benefits.

It is estimated by Social Security actuaries that eliminating the retirement test and recomputations would save around $50 million to $100 million a year in administrative expenses. It is a paper process that creates so many problems. These are resource-intensive administration operations that could be eliminated and/or reduced with a lifting of the earnings limit.

In summary, Mr. Chairman, the Contract With America's initiative to raise the earnings limitation to $15,000 in 1996 and to $30,000 by the year 2000 has the unqualified support of the National Committee to Preserve Social Security and Medicare.

Thank you.

[The prepared statement and attachment follow:]

TESTIMONY OF MARTHA A. McSTEEN
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

Mr. Chairman:

Members of the National Committee to Preserve Social Security and Medicare welcome as a major step in the right direction the Contract With America proposal to raise the Social Security earnings limitation for persons who have reached age 65. The National Committee has, in fact, supported complete repeal of the earnings limitation for those 65 and over.

Many National Committee members need or want to work, but they also deserve to receive their retirement benefits currently. Today it is difficult to understand benefits are still tied to an earnings limitation. It is really viewed as a relic of the depression years. National Committee members do not believe that members of the 104th Congress would sanction such a provision if they were starting new.

Yet, in the past, concern over the short-term cost and the continued use of Social Security trust funds to offset general budget deficits has kept Congress from relieving workers from the financial penalties of the earnings limitation and the Social Security Administration of its administrative burden.

A major goal in 1935 was to move older workers out of the work force to open up jobs for younger, unemployed workers. Even in 1935, the concept that there was a one-for-one tradeoff between entrants into and departures from the work force represented a misreading of the dynamics of the economy. Nevertheless the availability of Social Security benefits made retirement feasible for workers unable or unwilling to continue working and the earnings limitation encouraged into retirement those who might otherwise have chosen to keep going. Workers wisely responded to the double-edged disincentive.

Assuming for the sake of argument that the economy of the 1930s and the post-World War II 1940s required extreme measures to get older workers out of the work force, those conditions do not exist today. Yet the earnings limitation stays in place, still encouraging older workers into retirement and financially penalizing those who do not retire.

Under existing circumstances, it is hard to imagine why any senior would continue working after reaching retirement age. The truth of the matter is that, like younger workers, many need the money. Increased costs of living, including high health care costs, force many retirees to supplement their savings and fixed income.

Social Security is often depicted as one element of a three-part retirement-income package. Savings and pensions are meant to provide the remaining two-thirds. It is shocking that, in this country, almost 50 percent of retired men and over 75 percent of retired women have no pensions to supplement Social Security. For them additional earnings are not an option—they are often a necessity. For those who do have pensions, lack of cost-of-living adjustments after retirement mean a continuing decline in the purchasing power of those pensions. They, too, may need to return to the work force.

Savings can be equally elusive. Investments are not always successful and for those who chose bank or savings accounts to avoid the risk of a loss of principal, the decline in interest rates means far less income than anticipated at retirement. Some have seen life savings wiped out by medical expenses not covered by Medicare or incurred before becoming eligible for Medicare. Younger spouses of retired workers, particularly those with preexisting conditions, for example, can find themselves without health insurance protection and unable to buy it.

Other seniors remain in the work force or reenter the work force to meet extraordinary medical or nursing care expenses of an ill spouse. And, as life spans increase, more and more retirees find themselves responsible for the care of an aged parent.

Statistics compiled by the Social Security Administration from the Census Bureau Current Population Survey demonstrate that seniors who work have approximately twice the median total money income of seniors who don't work (see chart 1) and are one-fifth less likely to be poor (see chart 2).

Independence has long been a hallmark of today's seniors. To be able to maintain that independence in later years is highly significant. However, not all seniors work because they need the money. Many seniors enjoy their work and the associations that come with work. They receive satisfaction from continuing to be productive and creative. Instead of a national policy to encourage the continuing use of talent and energy, this nation discourages it.

Research by the Commonwealth Fund's Americans over 55 at Work Program identified 1.6 million Americans between the ages of 65 through 69 who were ready and able to work. Interestingly, the largest group of seniors 55 or older who pronounced themselves ready and able to work were in the 65 through 69 age group. This is the group who are not only discouraged from trying to supplement retirement income, they are penalized with a lifetime loss in Social Security benefits.

Whether the senior works out of the need for extra income or the pleasure of working, the combination of FICA payroll taxes, income tax and the loss of Social Security if earnings exceed the limitation exacts a high price.

Opponents of raising the earnings limit center their arguments on the advantage eliminating the earnings test would give to the wealthy who "don't need Social Security." Upper income workers have paid for their benefits. Need is not supposed to be a criterion. This attitude is nothing more than means testing in disguise.

High income individuals have another decided advantage over those with lesser income and assets. Unearned income from savings and investments often provide a substantial supplement to Social Security. But unearned income never affects a right to benefits. A question of equity exists in these situations.

Over the years, Congress has increased the earnings limits and reduced the penalty. This has been a big help to many seniors. The current limit of $11,160 a year for those age 65-69 may even seem generous. But it certainly isn't generous in metropolitan areas like New York, Chicago or Los Angeles where the cost of living is high. And it is hardly a princely sum in many other communities.

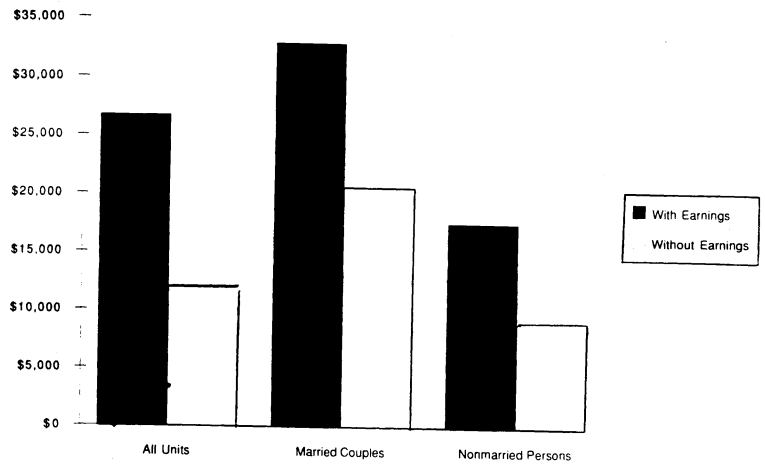
A National Committee member from Texas learned his lessen well in the first year of retirement when his earnings exceeded the limit. He had to ask that all benefits be ceased until he was out of debt. But to make up for the loss of Social Security income, he needed to increase his earnings over those intended. Again, he went over the limit and lost three more checks the following year. In June of 1995, he will reach age 70. Until then he will continue to keep his earnings right at the limit.

> *For a salary equal to the earnings limitation, I agreed to work from 8:00 a.m. to noon. Now I work from 6:30 a.m. to noon, but my pay is the same. . . . I would like all of them (Members of Congress) to get $900 in Social Security and be limited in what they can earn over that. . . . We need to raise the cap to $20,000 now. Taxes, insurance and utilities have been raised. All we want to do is live like human beings.*

It is estimated by Social Security actuaries that eliminating the retirement test and recomputations would save $50 to $100 million a year in administrative expenses. No longer would claims representatives have to calculate benefit withholding based on earnings estimates, under- or overpayments at the end of the year based on actual earnings and the new benefit taking into account both new earnings and months of benefits withheld. The many appeals that result from the misunderstanding of the retirement test and the waivers of repayment from those who can't pay back the overpayments would also be eliminated. Each year of work generates endless paperwork not just for the Social Security Administration but also for the beneficiary. These are resource intensive administrative operations.

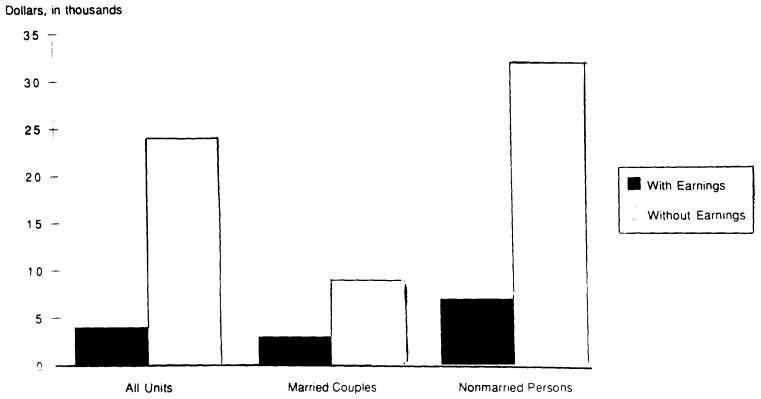
In summary, Mr. Chairman, the Contract With America's initiative to raise the earnings limitation to $15,000 in 1996 and to $30,000 by the year 2000 has the unqualified support of the National Committee to Preserve Social Security and Medicare.

Chart 1, Median Total Money Income, Aged Units 65 and Older, 1992



Source: *Income of the Population 55 and Older, 1992*, Social Security Administration, May 1994

Chart 2, Percent of Aged Units 65 and Older Below Poverty Line, 1992



Income of the Population 55 and Older, 1992, Social Security Administration, May 1994

Chairman BUNNING. Thank you, Ms. McSteen.

Mr. Jacobs will inquire.

Mr. JACOBS. No. I simply want to thank the panel for its contribution and one additional thing—your patience.

Chairman BUNNING. Mr. Johnson.

Mr. Payne.

Mr. PAYNE. I have no questions, but also wanted to thank the panel for their testimony.

Thank you all very much.

Chairman BUNNING. Mr. Portman.

Mr. PORTMAN. No questions.

Chairman BUNNING. Mr. English.

Mr. Christensen.

I would really like to thank each and every one of you for coming today and thank you for your input. Your testimony and views are valuable and very much appreciated.

This concludes our hearing.

[Whereupon, at 4:58 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

TESTIMONY OF CHIEF MASTER SGT. JAMES D. STATON, USAF (RET.)
AIR FORCE SERGEANTS ASSOCIATION

Mr. Chairman and distinguished committee members, on behalf of the 160,000 members of the Air Force Sergeants Association (AFSA), I appreciate having this opportunity to express our views on an issue being closely watched by older enlisted veterans and their families, and all senior Americans. AFSA represents the millions of active, retired and veteran enlisted members (and families) of the Air Force, Air Force Reserve and Air National Guard.

Over the years, this association has worked with Congress to eliminate the Social Security Earnings Test or significantly increase the earnings threshold ceiling. Most recently, we welcomed the support of Senator John McCain (R-AZ) and Representative J. Dennis Hastert (R-IL) who clearly reflect the views of our senior citizens. We, too, were frustrated last year by overwhelming congressional support (with strong bipartisan co-sponsorship) stifled by inaction within congressional committees. Clearly, the time has come for action.

I am here to express, on behalf of our members, our strong endorsement of the effort to raise or eliminate the Social Security Earnings Test. The current proposal would permit seniors of retirement age to earn approximately $4,000 more each year for the next five years, raising the earnings cap to $30,000 by the year 2000. Under current law, a working senior can earn only $11,280 before being penalized. Those between the ages of 62 and 65 lose 50 cents in benefits for every dollar they earn above this threshold. Those between the ages of 65 and 70 sacrifice a full dollar in benefits for every three dollars earned above the limit. This extremely unfair tax clearly must be changed.

I would submit that there are several national problems with the current system requiring immediate attention. It puts our senior former-enlisted citizens at risk. It blatantly tells our senior citizens, once again, that this nation does not need their input into our working economy. It serves as a disincentive for senior Americans to remain active and productive. It taxes those who can afford it least at rates experienced nowhere else in our society. Finally, it permits the wealthy non-working seniors to collect their full Social Security benefit with no penalty. In short, it reneges on the reciprocal contract our nation has with its citizens to treat them fairly if they work to ensure its economic and social vitality.

Enlisted veterans and retirees will most certainly be affected by this program. During their careers, they are called upon, by and large, to work very difficult jobs and pay levels far below those experienced in the civilian sector. Savings and preparation for the future are usually deferred in light of the low wages.

These patriots are called upon to sacrifice all, if necessary to protect our nation. Many do. And yet, those few who invest a third of their lives to serving our nation, and reach retirement, enter the job market at a disadvantage because of their middle age. Make no mistake: Enlisted retirement **must** be supplemented with a second job to exist in our society. As these veterans reach Social Security age and enter their most physically vulnerable years, they must often continue to work.

The first message they receive as they enter this age group is that their contribution is no longer needed or wanted by a nation that once depended on them for its defense. They can continue to work, but it will cost them. Once again, our nation sends the message too pervasive in many government programs: You will benefit more if you fail to produce; if you work, you will be penalized.

Thus, these veterans are forced to examine the resources that will help them manage their final years. A military annuity check and Social Security will have to completely underwrite the cost of their lives, homes, health care -- in short, their well-being.

Unfortunately, this disincentive to work, created by the Social Security Earnings Test, can be gladly embraced only by those who are wealthy. Usually, enlisted veterans don't have the luxury of choice. They must work, and they again face a greater-than-normal burden.

Clearly, no other group in our society is as highly taxed as those who are penalized under the current earnings test. The administration itself estimates that nearly a million beneficiaries currently lose some or all of their benefits because of the test that applies at age 65. With the one dollar penalty for every three earned, those in that age group face the equivalent of a marginal tax rate of 33 percent. When the returned benefits are combined with payroll taxes, federal income taxes, state taxes, and a possible tax on up to 85 percent of benefits, marginal tax rates are extraordinarily high. Once again, the disincentive to work is enormous. In fact, in some cases, the combined effect of the earnings limit and the various taxes can result in an equivalent marginal tax rate in excess of 100 percent.

Finally, the current earnings test tells senior citizens that those who least need the economic assistance of Social Security assistance will receive the full benefit without penalty. Only those who are already at jeopardy face the test. Because the earnings test applies only to wage income, those who can afford to live off of dividend and investment income face no reduction in benefits whatsoever. This clearly tells our enlisted seniors that because of their reduced career wages, they will pay still another price for their sacrifice.

Funding and deficit impact arguments for increasing the earnings threshold or eliminating the earnings test entirely have, to this point, been circular. Viewpoints have generally depended on the position of the presenter. The Social Security Administration focuses on short- and long-term costs; it minimizes the positive economic impact on the increased productivity through greater employment of our senior citizens. Others contend that the increased tax income and overall productivity of our seniors will more than compensate for any impact on the deficit. Rather than enter into this argument, we call for this committee to get the facts from bipartisan experts. We charge you to include in your deliberations the need to treat those who enter their late years of citizenship fairly.

While the current proposal will not eliminate the inequities cited here, raising the earnings limit, without penalty, to $30,000 over the next five years is clearly a step in the right direction. It is an effort that has often been proposed but unfairly side stepped by our congressional leadership for too long. AFSA wholeheartedly endorses your effort.

In closing, Mr. Chairman, the Air Force Sergeants Association does not underestimate the difficulty of the task before you. You are being closely watched by our senior citizens as this committee decides how to make the right decisions for those it represents. We applaud your effort and wish this committee well. As always, AFSA stands ready to assist in any way we can to do the right thing for the senior enlisted members we represent.

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January 12, 1994

The Honorable Jim Bunning
Chairman
Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Re: Provisions of the "Contract with America" Dealing with the Social Security Earnings Test

I am writing to you to present the views of the American Bar Association concerning the provisions of the "Contract with America" relating to the Social Security Earnings test.

In August 1991, the ABA's House of Delegates adopted policy supporting the elimination or the substantial liberalization of the retirement earnings test in Social Security. The retirement earnings test coupled with other taxes imposes a very large marginal tax rate on certain elderly Americans. We believe that such a high tax rate discourages work effort by these elderly workers, many of whom have the very skills America needs to be competitive in the coming years.

Different individuals and groups have conflicting views as to how many elderly individuals aged 65 and over would either return to work or continue to work depending on whether the test were repealed or liberalized. We cannot say with certainty what the results would be. However, we believe that if even a modest number of individuals in this group are encouraged to continue working, the effect on the economy can only be positive. The addition of skilled and experienced employees will enhance the competitiveness of the American economy and supplement the tax revenues derived from employment.

From the standpoint of tax policy, we believe that the current restrictions result in a most regressive tax. The changing patterns of compensation and employment have outdated and thwarted the original effects and objectives

of the law.

The ABA understands the importance to the individual of being given the option to continue to work in one's field of interest. A marginal tax rate as high as this one creates a substantial barrier to continued employment.

We would appreciate it if you would include this letter in the record of the your Subcommittee's January 9 hearing on the Social Security Earnings Test.

Sincerely,

Robert D. Evans

Robert D. Evans

cc: John C. Deacon, Chair, ABA Senior Lawyers Division
Joseph E. Ross, Chair, Committee on Legislation and Administrative Regulations, ABA Senior Lawyers Division

TESTIMONY OF GLENN M. PLUNKETT
AMERICAN COUNCIL OF THE BLIND

January 6, 1995

This is testimony for the record by the American Council of the Blind (ACB) in the hearing of January 9, 1995 about the Senior Citizens' Equity Act of 1995 before the Honorable Jim Bunning, Chairman, Subcommittee on Social Security, Committee on Ways and Means, U. S. House of Representatives.

The American Council of the Blind is a national membership organization established to promote the independence and well-being of individuals who are blind and visually impaired. By providing numerous programs and services, ACB enables blind and visually impaired people to live and work independently, contribute significantly to their communities, and advocate for themselves.

We are greatly concerned about a proposed amendment (sec. 101 (b)) in the Senior Citizens' Equity Act which would have far reaching and detrimental effects on people who are blind and who are employed or who may find employment while in receipt of Social Security Disability Insurance (SSDI) benefits. That amendment would destroy the linkage between the basic earnings limit for retirees age 65-69 which is by law used to determine if a blind person is performing Substantial Gainful Activities (SGA). The linkage has been in effect since 1977 and has been helpful to people who are blind in their continuing effort to be productive members of society. Blind beneficiaries want very much to work and contribute to society, but those who are able to earn enough to approach the SGA level are fearful of losing their SSDI benefits and medicare coverage. Those fears are serious work disincentives.

The proposed legislation to increase the earnings limitations for older workers would provide those older workers an incentive to remain productively employed. The current earnings limit has been shown to punish senior citizens who must work out of economic necessity, by penalizing them with a loss of benefits if they have earnings above the limit. It is the same for people who are blind, except the penalities are very harsh since the blind person loses his or her total benefit for the month if the earnings exceed the SGA limitation for that month. If the blind person continued to exceed the earnings limitation he or she would lose benefits and Medicare coverage, and have difficulty in regaining social security benefits.

Retention of the linkage between the SGA level for people who are blind and retirees would not have a great effect on the numbers of people who are on the SSDI rolls and those who may become eligible in the future. Currently, the number of people who are blind and under the age of 65 on the SSDI rolls is approximately 109 thousand, based on Social Security Adminstration estimates. The number includes disabled widows/widowers and disabled adult children. An increase in the earnings limit for people who are blind would not affect those already on the rolls except to encourage them in their efforts to improve their earnings to the extent possible. As for additional beneficiaries who may become eligible for SSDI, the numbers might increase slightly year by year as the limitations are lifted. It is noted however that the CBO (June 19, 1991) estimated that approximately only 69,000 might be added to the SSDI rolls if the earnings limit for people who are blind was totally removed. That figure would presume that all who could be eligible would file for benefits.

Contrasting the above figures with data developed by the Inspector General of the Department of Health and Human Services we can more clearly define the possible effects of relaxing the earnings limitations. In September 1993, the IG reported on a study of the Work Experiences of Blind and Non-Blind disabled SSDI Beneficiaries. The IG used 1990 SSA data and found that only 1.6 percent (1,100) of blind beneficiaries had earnings between $6,000 and $9,360 per year, page 6 of the IG report. It was found that only 11.3 percent of blind beneficiaries had some earnings in 1990. If the linkage with the earnings for retirees is retained, based on the above data there would be no additional cost for those already on the rolls. Based on the above data, it would appear that retaining the linkage between those who are blind and the retirees would have little, if any effect, on the numbers of people who are blind and who file for SSDI benefits in the future.

Inasmuch as the definition of disability because of blindness established by law is very strict and specific, the Congress recognized in 1977 that the definition of SGA for people who are blind could best be established by setting a dollar amount for earnings, and that linking such amount to the earnings limitations for the retirees was the most equitable and efficient way of doing so. Should Congress overturn the Congressional actions of 1977 and now break that linkage, it would not be helpful to the program at large and would discourage the efforts of those who attempt to remain in the labor market.

TESTIMONY OF SCOTT MARSHALL
AMERICAN FEDERATION FOR THE BLIND

Mr. Chairman and Members of the Subcommittee:

This statement is presented on behalf of the American Foundation for the Blind and is submitted for the hearing record relative to H.R. 8, the Senior Citizens Equity Act.

The mission of the American Foundation for the Blind is to enable persons who are blind or visually impaired to achieve equality of access and opportunity that will ensure freedom of choice in their lives. AFB accomplishes this mission by taking a national leadership role in the development and implementation of public policy and legislation, informational and educational programs, diversified products, and quality services.

AFB is opposed to H.R. 8, the Senior Citizens Equity Act as introduced on January 4, 1995. Section 101(b) of the bill should be amended to remove language which excludes blind persons from increases in the amount of money which blind SSDI beneficiaries can earn without loss of their SSDI payments and often Medicare benefits.

Since 1977, blind SSDI beneficiaries can earn the same amount per month as retirees age 65-69 without fear of losing their SSDI benefits, and if otherwise eligible, their Medicare benefits. Currently, the exempt earnings amount is $940 per month ($11,280 annually).

The Senior Citizens Equity Act, introduced in the 104th Congress as H.R. 8, mandates increases in the exempt earnings amount for retirees to $30,000 per year by the year 2000, but does not provide these increases for blind ssdi beneficiaries. You have heard other witnesses today testify that For retirees over 65 the tax paid on $1 for each $3 of excess earnings earned, the FICA tax, Federal and state income taxes when applicable leave most people with little economic incentive to work. In the case of blind persons under 65, there is no $1 for $3 offset to even encourage an attempt to reenter the labor market. The earnings limitations affect persons who are in most need of additional income to cover living or health care expenses. For those people with high incomes, the removal of earnings limitations would add few dollars to their overall income, and one-half of the benefit would be taxable as part of Adjusted Gross Income.

Failure to continue to provide these increases in the earnings limit to blind SSDI beneficiaries is contrary to existing law and would constitute a serious disincentive to work. Except for the mandated increases for retirees during the years 1978-1982, the earning limit for blind SSDI beneficiaries has continuously been adjusted upward and linked to the earnings limit for retirees. By contrast, continuation of the exempt earnings linkage between retirees and blind beneficiaries will help to prevent blind low income wage earners from losing financially by working.

In addition, continuation of the increases in the exempt earning amount for blind SSDI beneficiaries makes economic sense for the U.S. Treasury and the Social Security Trust Fund. For those who can return to the labor market, their earnings will benefit the economy through increased productivity, reduced transfer payments from support programs, increased payments of income taxes, and payments to the Social Security and Medicare Trust Funds. In addition, as more blind persons return to work and accumulate work credits, the number of blind SSI beneficiaries should be reduced if not eventually eliminated. The cost of continuing the linkage between the earning test for blind and retired beneficiaries must not be scored on a static basis, given the savings to the Treasury resulting from the offsets listed above. Finally, according to a study by the Office of Inspector General, HHS, only approximately 1.6 percent of blind SSDI beneficiaries earned above the SGA earning limit. The attached chart factors this percentage against current estimates of blind SSDI beneficiaries which leads to the conclusion that a very few individuals will be affected by including blind persons within the scope of H.R. 8's protections.

Should you desire further information, please do not hesitate to contact me.

Estimating Impact of Alternative SGA Policies	1991	1993
Total number of SSDI Blind beneficiaries under 65	90,000[1]	104,300[2]
Number of SSDI blind beneficiaries under 65 with earnings above SGA	1,400 (1.6% of 90,000)[3]	1,700 (1.6% of 104,300[4]
Number of SSDI blind beneficiaries under 65 with earnings at or below SGA	8,800 (11.3% of 90,000 minus 1,400)[5]	10,100 (11.3% of 104,300 minus 1,700)[6]
Number of SSDI blind beneficiaries under 65 with no earnings	79,800	92,500
Working-age blind non-SSDI		
with earnings[7]	90,100	85,000
with no earnings	167,200	158,000
Total working-age blind non-SSDI	257,300	243,000
Total working-age blind[8]	347,300	347,300
Base SSDI totals	3,194,938	3,726,000

[1] Personal communication with Ken McGill, Social Security Administration, January 4, 1995

[2] 2.8% of the base SSDI figure for 1993 (the proportion of blind beneficiaries in 1991)

[3] Work Experiences of Blind and Non-Blind Disabled SSDI Beneficiaries, U.S. Department of Health and Human Services, Office of the Inspector General, p. ii. (1993)

[4] ibid

[5] ibid

[6] ibid

[7] Assuming a 35% rate of employment

[8] Age/race specific prevalence rates for legal blindness are from Federal Budgetary Costs of Blindness, Chiang, Y-P, et. al (1992), and were applied to age/race 1991 Census population estimates from Statistical Abstract of the United States, 1993, 113th edition, U.S. Bureau of the Census, table 22, page 21.

TESTIMONY OF THOMAS F. YOUNGBLOOD
AMERICAN HOTEL & MOTEL ASSOCIATION

The Honorable Jim Bunning
Chairman, Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

RE: January 9, 1995 hearing on Social Security earnings limits.

Dear Mr. Chairman:

The American Hotel & Motel Association is the trade association of the lodging industry. With over $60 billion in annual sales through 45,000 properties, the lodging industry employs over one and a half million people. Our industry is one of the main sources of entry level jobs in our country and also offers employment opportunity for a broad range of citizens, including older Americans. AH&MA membership includes all major chains, as well as independent properties, resorts and convention hotels.

Our industry supports the efforts of this subcommittee to raise the Social Security earnings limit to $30,000. We believe this action will help expand the employment opportunities of many older Americans currently restrained from participating in the job market as fully as they wish.

Currently, the Social Security earnings limit severely penalizes older Americans between the ages of 65 and 70 who wish to, and in many cases need to, work. By cutting Social Security benefits one dollar for every three dollars earned over $11,280 the federal government is imposing an immediate 33.3 percent "tax". This is in addition to federal income tax, FICA tax and any state and local taxes which also must be paid. The net result is to take 60 percent or more of every three dollars earned over the Social Security limit. This is a painful deterrent to many older Americans who wish to work and we commend the subcommittee for addressing this issue early in the 104th Congress. The stepped increase to $30,000 targets its benefit without penalty to those who are most in need of relief - older Americans working to supplement Social Security and, all too often, a small retirement pension.

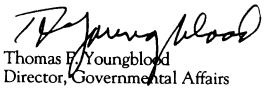
Currently in the United States we have a population with a growing number of older Americans. With improvements in the quality of life many are living longer and enjoying productive lives which include the satisfaction of continuing to work. The changes in Social Security law proposed by the subcommittee go hand-in-hand with demographic changes to create a classic win-win situation. Removing obstacles to work for older Americans is an acknowledgment that working is good for people. It gives them the satisfaction of being useful and provides the money needed to live a more comfortable life.

As a industry providing first jobs to many, we see, as a result, high turnover of employees as many move on to build careers both in and out of our industry. This turnover, when coupled with the large number of new jobs our industry adds in flourishing economic times, creates a continuing need for new employees. We have found that older Americans are good workers. They are experienced, reliable and welcome the opportunity to work. Frequently they become role models and mentors for their younger co-workers who are learning job skills they will need in their future. Also, the lodging industry is able to offer flexible work schedules which coincide with the work preference of many older workers seeking less than full time employment. Our industry welcomes older workers and actively seeks their employment.

With the employment needs of our industry and other being helped and the job desires of older workers being met, the government also benefits. Taxes will be paid on these increased earnings and the health of American businesses will benefit by increased consumption.

In summary, an increase in the Social Security earnings test from its current level to $30,000 will allow many of our older employees to work for longer periods during a year. This will benefit our industry's need for employees, while also benefiting the employees themselves many of whom, quite frankly, need the extra income and can not afford to forfeit any of their Social Security payment. We support legislation to increase the Social Security earnings test and ask that our comments be made a part of the record of the hearing.

Sincerely,



Thomas F. Youngblood
Director, Governmental Affairs

TESTIMONY OF TONY YOUNG
CONSORTIUM FOR CITIZENS WITH DISABILITIES

Mr. Chairman, we the undersigned members of the Consortium for Citizens with Disabilities Social Security and Long Term Services and Supports Task Forces appreciate this opportunity to submit the following statement for the record. The CCD is a coalition of over 120 consumer, advocacy, service provider, and professional organizations that advocates on behalf of individuals with disabilities and their families.

We applaud the committee for its efforts to bring much needed equity to senior citizens after a lifetime of contributing to society. It is appropriate to enable citizens to retire in dignity and comfort and to pursue activities delayed by the need to work and raise families.

as most Americans, persons with disabilities desire to work and assume all the responsibilities and duties of citizenship in an opportunity society. In order to do so, persons with disabilities must be able to compete on a level playing field. The reality is that faced with the extraordinary cost of disability, persons with disabilities need financial relief from these expenses to live independently and be self-sufficient. Therefore we recommend that this bill be renamed the "Senior and Disabled Citizens Equity Act" and the attached amendments be made to the proposed legislation.

Section 101(a) of H.R. 8 would increase the monthly earnings level for individuals of retirement age to $2,500.00 in the year 2000. We take no position on the merit of this increase. However, we are concerned about the great disparity which will result if the new earnings level is not applied equally to all people who receive monies under OASDI from the Social Security Agency. We suggest that Title I be amended to include people with disabilities who are receiving benefits under Title II, the Old Age, Survivors, and Disabled Insurance Program of the Social Security Act.

A recent Harris poll showed that two-thirds of working age people with disabilities are unemployed. Of this number, 79% want to work. As you may know, individuals with disabilities face significant disincentives in attempting to enter and remain in the workforce. Social Security statistics show that the number of SSDI beneficiaries who successfully return to the workforce is less than one-half of one percent. The Substantial Gainful Activity (SGA) level currently utilized by the SSA is the primary reason people with disabilities are unable to fully transition from SSDI to employment. The present SGA level – $500 per month – represents a barrier to tax-payer status for individuals who want to work. People with disabilities cannot afford to risk accepting employment at the "baseline of occupational demands" which the SSA has determined to constitute SGA. In determining the "baseline", SSA fails to take into account whether or not such a position would provide a living wage, much less an income level which would defray the extraordinary cost of disability.

When action is taken on the provisions related to the monthly earnings level that results in more favorable treatment of earnings for people who are aged, we urge that the same earnings level be applied to individuals with disabilities. We see no basis for continuing to make a distinction between persons who are disabled and persons who are aged, both of whom may need and want to work. As demonstrated by the Social Security statistics cited above, people with disabilities of all types, including physical, sensory, cognitive, or mental impairments, can experience difficulty in entering or re-entering the work force. Substantial costs associated with living and working with a disability are not encountered by those without disabilities.

These extraordinary costs might include personal assistance services, such as bathing, dressing, eating, toileting, transferring from bed to chair and back, communicating with others through sign language interpreters, hiring a driver to enable transportation to work or related activities, or hiring someone to assist a person with a cognitive disability to make decisions. They could include the cost of accessibility modifications such as a lift or hand controls to a car or van; a wheelchair ramp or alternative signaling devices for an accessible home; or medicines and medical supplies. There are major expenses for assistive technology, including wheelchairs, hearing aids, canes, computers, augmentative communications devices, and the maintenance costs of the tools. Not the least of these extraordinary expenses is for medical specialists above and beyond the typical medical expenses incurred by the average person. All of these expenses conspire to trap individuals with disabilities in a cycle of poverty from which most cannot escape without tax breaks to level the economic playing field.

In order to encourage individuals with disabilities to obtain employment, we recommend changes in Title III to address the cost of long-term services for all working persons with disabilities, not only those on SSDI. To do this, we propose a tax credit of one-half of all personal assistance services costs, up to $15,000 for any individual with a disability who is working. We recommend the incorporation of the attached section 303 as part of the Senior and Disabled Citizens Equity Act.

The proposed tax credits and changes in allowable medical care deductions will help to offset the extraordinary expenses of living with a disability and assist people with disabilities to enter the workforce by giving them a measure of economic equity with those who do not need to pay such costs.

We are concerned that this bill relies too heavily on long term care insurance to meet this critical service need for elders and individuals with disabilities. While we do not believe that private insurance will be able to adequately meet the long-term service needs of persons with disabilities of all ages, we recognize that it may help to pay some of the long-term service costs of those persons with disabilities (generally older people) who can afford to purchase and maintain private coverage. Since numerous inadequacies and abuses in the long-term care insurance market have been well documented, we believe that private long-term care insurance should not be given preferential tax treatment unless adequate standards are in place to protect consumers from such practices.

We believe that the inclusion of these amendments would greatly enhance the ability of individuals with disabilities to become and remain contributing members of American society. Encouraging people with disabilities to become tax-payers rather than tax-takers would reduce the out-flows of the SSDI Trust Fund and increase the revenues to both the General Fund and the SSDI Trust Fund. It will also assist them to discharge fully their duties and responsibilities as citizens. Thank you for this opportunity to present testimony for the record.

If you have further questions, please contact Tony Young of the American Rehabilitation Association, at 202-789-5700x4035, or 1350 I Street, NW, Suite 670, Washington, DC 20005. He is a co-chairs of both the Social Security Task Force and Long Term Services and Supports Task Force.

PROPOSED AMENDMENTS

THE SENIOR CITIZENS' EQUITY ACT

[RECOMMENDED AMENDMENTS ARE UNDERLINED]

1. Rename This **The Senior and Disabled Citizens' Equity Act**

SECTION 1. SHORT TITLE.

This Act may be cited as the "Senior And Disabled Citizens' Equity Act".

2. TITLE I -- SOCIAL SECURITY EARNINGS TEST

SEC. 101. ADJUSTMENTS IN MONTHLY EXEMPT AMOUNT FOR PURPOSES OF THE SOCIAL SECURITY EARNINGS TEST.

(a) INCREASE IN MONTHLY EXEMPT AMOUNT FOR INDIVIDUALS WHO HAVE ATTAINED RETIREMENT AG OR HAVE BEEN DETERMINED ELIGIBLE FOR DISABILITY INSURANCE BENEFITS. -- Section 203(f)(8)(D) of the Social Security Act is amended to read as follows:

(D) (i) Notwithstanding any other provision of this subsection, the exempt amount which is applicable to an individual who has obtained retirement age (as defined in section 216 (1)) or has been determined eligible for disability insurance benefits before the close of the taxable year involved shall be-

3. TITLE III -- TREATMENT OF LONG TERM CARE AND SERVICES

4. SEC. 301. TREATMENT OF LONG TERM CARE INSURANCE OR PLANS.

(a) General Rule. -- Subpart E of part I of subchapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 818 the following new section:

SEC. 818A. TREATMENT OF LONG TERM CARE INSURANCE OR PLANS.

(c) Qualified Long Term Care Services. -- For purposes of this section --

(1) In General. -- The term 'qualified long term care services' means necessary diagnostic, preventive, therapeutic, and rehabilitative services, and maintenance or personal care services, which --

(A) are required by an individual with a disability at home or in a qualified facility, and

5. AMEND SECTION 818A, (c)(2) to read:

(2) Individual with a Disability. --

(A) In General. -- The term 'individual with a disability' means any individual who has been certified by a licensed health care practitioner as --

6. AMEND SECTION 818A, (c) (2)(B)(v) to read:

(B) Activities of Daily Living. -- For purposes of subparagraph (A), each of the following is an activity of daily living:

(v) Eating. ---- The process of acquiring or preparing or getting food from a plate or its equivalent into the mouth.

7. AMEND SECTION 818A, (c)(3) to read:

(3) Qualified Facility. -- The term 'qualified facility' means --

(A) a nursing, rehabilitative, hospice, A COMPREHENSIVE OUTPATIENT REHABILITATION FACILITY, or adult day care facility....

(B) an individual's home, or any home-like setting of one or more individuals choosing to share quarters.

8. SEC. 303 (B) COST OF PERSONAL ASSISTANCE SERVICES REQUIRED BY EMPLOYED INDIVIDUALS.

``(a) Allowance of Credit.

``(1) In general. In the case of an eligible individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the applicable percentage of the personal assistance expenses paid or incurred by the taxpayer during such taxable year.

``(2) Applicable percentage. For purposes of paragraph (1), the term `applicable percentage' means 50 percent reduced (but not below zero) by 10 percentage points for each $5,000 by which the modified adjusted gross income (as defined in section 59B(d)(2)) of the taxpayer for the taxable year exceeds $45,000.

``(b) Limitation. The amount of personal assistance expenses incurred for the benefit of an individual which may be taken into account under subsection (a) for the taxable year shall not exceed the lesser of

``(1) $15,000, or

``(2) such individual's earned income (as defined in section 32(c)(2)of the Internal Revenue Code) for the taxable year. In the case of a joint return, the amount under the preceding sentence shall be determined separately for each spouse.

``(c) Eligible Individual. For purposes of this section, the term `eligible individual' means any individual (other than a nonresident alien) who, by reason of any medically determinable physical, mental, cognitive, or sensory impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months, is unable to engage in any substantial gainful activity without personal assistance services appropriate to carry out activities of daily living or instrumental activities of daily living. An individual shall not be treated as an eligible individual unless such individual furnishes such proof thereof (in such form

and manner, and at such times) as the Secretary may require.

``(d) Other Definitions. For purposes of this section:

``(1) Personal assistance expenses. The term `personal assistance expenses' means expenses for

``(A) personal assistance services appropriate to carry out activities of daily living in or outside the home,

``(B) homemaker/chore services incidental to the provision of such personal assistance services,

``(C) in the case of an individual with a cognitive impairment, assistance with life skills,

``(D) communication services,

``(E) work-related support services,

``(F) coordination of services described in this paragraph,

``(G) assistive technology and devises, including assessment of the need for particular technology and devices and training of family members, and

``(H) modifications to the principal place of abode of the individual to the extent the expenses for such modifications would (but for subsection (e)(2)) be expenses for medical care (as defined by section 213) of such individual.

``(2) Activities of daily living. The term `activities of daily living' means bathing, dressing, eating, toileting, or transferring from bed to chair or chair to bed

"(3) Instrumental Activities of Daily Living. The term `instrumental activities of daily living' means communicating, managing money, making decisions, traveling to and from work, and other similar daily activities.

``(e) Special Rules.

``(1) Payments to related persons. Credit shall be allowed under this section for any amount paid by the taxpayer to any person who is related (within the meaning of section 267 or 707(b) of the Internal Revenue Code) to the taxpayer.

``(2) Coordination with medical expense deduction. Any amount taken into account in determining the credit under this section shall not be taken into account in determining the amount of the deduction under section 213 of the Internal Revenue Code.

``(3) Basis reduction. For purposes of this subtitle, if a credit is allowed under this section for any expense with respect to any property, the increase in the basis of such property which would (but for this paragraph) result from such expense shall be reduced by the amount of the credit so allowed.

``(f) Cost-of-Living Adjustment. In the case of any taxable year beginning after 1996, the $45,000 amounts in subsection (a)(2) and the $15,000 amount in subsection (b) shall be increased by an amount equal to

``(1) such dollar amount, multiplied by

``(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins by substituting `calendar year 1995' for `calendar year 1992' in subparagraph (B) thereof. If any increase determined under the preceding sentence is not a multiple of $1,000, such increase shall be rounded to the nearest multiple of $1,000."

(b) Technical Amendment. Subsection (a) of section 1016 is amended by striking ``and" at the end of paragraph (24), by striking the period at the end of paragraph (25) and inserting ``, and", and by adding at the end thereof the following new paragraph:

``(26) in the case of any property with respect to which a credit has been allowed under section 23, to the extent provided in section 23(e)(3)."

(c) Clerical Amendment. The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 22 the following new item:

``Sec. 23. Cost of personal assistance services required by employed individuals."

(d) Effective Date. The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

NATIONAL ASSOCIATION OF CONVENIENCE STORES
STATEMENT FOR THE RECORD
ON SOCIAL SECURITY EARNINGS LIMIT

My name is Teri Richman, Senior Vice President for Public Affairs for the National Association of Convenience Stores (NACS), and we strongly support the provision in the "Contract With America" to raise the Social Security earnings limit. NACS is a national trade association with over 1,750 members that operate over 60,000 outlets in all 50 states. Collectively, these stores employ over half a million individuals of which only a small percentage (less than five percent) are 60 or older. It is our view that the earnings limit on these individuals is, at least in part, a main contributor to their small representation in our workforce.

NACS believes that this provision in the "Contract With America" is extremely important for the American work place. The earnings limit functions as a disincentive to work for many bright and potentially productive individuals in this country.

Older workers bring many positive attributes to the work place. They are usually experienced individuals with many important job skills. While the benefits of these workers to the employer may be obvious, they are also beneficial to younger employees who can learn from the examples set by these work place veterans.

To put the need for this change into context, let me review recent changes in the law which covers their benefits. Prior to 1984, social security benefits were excluded from the gross income of the recipient. Additional legislation changing the taxation of social security benefits was enacted in 1993 and again in 1994. These changes have had a devastating effect on industries, like the convenient store industry, who are traditionally disadvantaged in a tight labor market.

The current tight labor market has been especially hard on the convenience store industry due to some industry trends. Specifically, the convenience store industry is rapidly changing to add services. Indeed, many industry members are teaming up with traditional "fast food" chains (McDonald's, Burger King and Taco Bell, for example) to offer a combined facility to customers. A major impact of these combination outlets is the need for more employees. Whereas a traditional convenience store may operate well on an average of 10 full and part-time employees, the addition of a fast food operation can increase that requirement to near 30 per store. Social Security beneficiaries would fit this bill well, but for the current limitations they face on earnings.

Given that starting wages in our industry range from the minimum to over $6.50 per hour and that seniors are likely experienced enough to pull down the highest of hourly rates, it is easy to see that they would exceed the earnings limitation inside of a full year.

More importantly, they could never afford to get a raise since they would lose $1 in benefits for every $3 earned over the annual limit. To illustrate this point, let's assume a full-time senior employee earning $6.00 per hour. This individual will, within 12 months, reach the earnings limitation. If that individual were to receive a 50 cent per hour raise, that would add about $19.00 a week or $950.00 year to their income. The raise, therefore, could cost them nearly $300 in benefits a year when you apply the formula mentioned above. The idea that seniors have a built in disincentive to work is exacerbated when you realize that there is an even greater disincentive to reward, through raises, good job performance.

Given the country's demographics going forward in which we realize that the population is getting older and not younger and the ever present need for full and part-time help in industries like ours, NACS believes that it is entirely appropriate that Congress address this issue and update it to reflect today's realities. We urge you to reinstate work incentives for seniors and pass legislation to increase the earnings limitation as proposed.

Written Testimony of
Leland Swenson
President, National Farmers Union
submitted to the Subcommittee on Social Security
House Ways and Means Committee
January 9, 1995

Mr. Chairman, Mr. Jacobs and members of the subcommittee, I am pleased to represent the 253,000 farm and ranch family members of National Farmers Union in responding to your request for written statements for the printed record of your hearing on proposals to raise the Social Security earnings limit.

National Farmers Union believes older Americans provide knowledge, experience and skills which make them a valuable national resource. Our organization historically has supported programs which benefit senior citizens.

However, National Farmers Union's membership does not believe the current proposal to raise the Social Security earnings limit to $30,000 by the year 2000 is in the best interests of our nation and its senior citizens, particularly when there is no defined plan to pay the projected $7 billion in increased costs over the next five years.

The Congressional Budget Office (CBO) agrees and has found no data to support arguments that raising the earnings limit will result in large-scale re-entry of individuals into the workforce. CBO's findings result from the fact that no significant behavior changes occurred in the 1970's when the earnings test was liberalized. CBO further presents data showing that more than 50 percent of new Social Security beneficiaries elect Social Security as soon as they are eligible at age 62, even though amounts are reduced.

The present earnings test exists because Social Security was designed to help replace the income lost by workers when they genuinely retire. Because weakening the test broadens the entitlement and would cost the federal government $7 billion over five years it simply does not make sense to take such an action during a time when other critical programs for the elderly, children and the truly needy are being slashed or eliminated in the rush to reduce the federal deficit and balance the budget!

Data shows that the neediest beneficiaries would not be helped by this proposal. However, one-third of the $7 billion in increased Social Security costs which would result instead would go to increase benefits to households with incomes of more than $70,000, according to the Social Security Administration. More than half would go to households with incomes of more than $50,000.

As the number of elderly in our population increases due to the aging of baby boomers and improved medical technology, it becomes ever more important to assure the future financial integrity of Social Security.

Delegates to our most recent national convention adopted the following policy statement in this regard:

> **"The current Social Security tax rate could be reduced if it were made applicable to all earnings, as is the case with the Medicare tax rate, which in 1993 was applicable to $135,000 in earnings....We urge continued support for strengthening and protecting the Social Security program."**

Thank you for the opportunity to express the views of our organization on this issue.

BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

STATEMENT OF
Patricia M. Beattie
Director, Public Policy and Legislative Affairs
National Industries for the Blind
1901 North Beauregard Street, Suite 200
Alexandria, VA 22311
Ph. (703) 578-6513
January 9, 1995

Statement on H.R. 8, *The Senior Citizens' Equity Act*

National Industries for the Blind (NIB) is pleased to have an opportunity to provide this statement for the record, expressing our views on H.R. 8, the proposed *Senior Citizens' Equity Act*. NIB is designated by the Presidentially-appointed Committee for Purchase From People Who Are Blind or Severely Disabled as the central nonprofit agency to represent state and nonprofit agencies that participate in the program of the Javits-Wagner-O'Day Act. NIB is a 501(c)(3) organization which was incorporated in 1938. One of our primary responsibilities is to equitably distribute contracts from the Federal Government for products and services among qualified nonprofit agencies for the blind. Currently, 82 agencies, which operate 110 employment facilities in 40 states employing approximately 5,500 people who are blind, are associated with NIB.

We are greatly concerned about language in Sec. 101 (b)) of the *Senior Citizens' Equity Act* which would have far-reaching and detrimental effects on people who are blind. The language would destroy the linkage in existing law between the basic earnings limit for retirees age 65-69 and blind SSDI beneficiaries, which is the legal standard used to determine if a blind person is performing Substantial Gainful Activities (SGA).

Since 1977, blind SSDI beneficiaries can earn the same amount per month as retirees age 65-69 without fear of losing their SSDI benefits, and if otherwise eligible, their Medicare benefits. Currently, the exempt earnings amount is $940 per month ($11,280 annually. Continuation of this exempt earnings linkage between retirees and blind beneficiaries will help to prevent blind low income wage earners from losing financially by working.

Sec. 101(b) of the Senior Citizens Equity Act mandates increases in the exempt earnings amount for retirees to $30,000 per year by the year 2000, but does not provide these increases for blind SSDI beneficiaries. Failure to provide these increases to blind SSDI beneficiaries is contrary to existing law and would constitute a serious disincentive to work.

Retention of the linkage between the SGA level for people who are blind and retirees would not have a great effect on the numbers of people who are on the SSDI rolls and those who may become eligible in the future. Currently, the number of people who are blind and under the age of 65 on the SSDI rolls is approximately 109 thousand, based on Social Security Administration estimates. The number includes disabled widows/widowers and disabled adult children. Please keep in mind that the number of blind beneficiaries represents less than three percent of the 3.7 million working age SSDI beneficiaries. Maintaining the linkage would serve to encourage those already on the rolls to improve their earnings to the extent possible. As for additional beneficiaries who may become eligible for SSDI, the numbers might increase slightly year by year as the limitations are lifted. It is noted however that the

CBO (June 19, 1991) estimated that approximately only 69,000 might be added to the SSDI rolls if the earnings limit for people who are blind was totally removed. That figure would presume that all who could be eligible would file for benefits. However, the actual number of additional beneficiaries would more realistically be 25,000. This is not a "budget buster". Even at maximum rates, the cost would be less than $200,000 per year. The result would be more productive, tax-paying blind people--and additional contributions to the Social Security Disability trust funds.

The consequences of breaking the linkage between the blind and older retirees would be dramatic. Listen to the words of Richard Joiner, a blind employee at Royal Maid Association for the Blind in Hazlehurst, Mississippi, writing to the House Government Operations Subcommittee on Employment and Housing, February 20, 1991. His experience in trying to combat the effects of the low earnings limit are all too common among people who are blind. When the United States found itself at war with Iraq during Desert Storm, and NIB Affiliates had to complete much needed contracts to support the war effort, blind employees were forced to choose between working as hard as they could or surviving financially.

"If I could, I would dress in desert sand camouflage, carry an M16 and serve my country in the Persian Gulf. Instead, I am responsible for helping to produce Desert Storm items and carry a cane. I would like to produce more goods to supply our fighting men and women in the Persian Gulf, but because I receive Social Security benefits my working hours are limited. Hopefully this war will end soon, but in the mean time, we are told that our products are in high demand. ... For most of us, working only a few hours overtime decreases benefits from Social Security instantly. When the overtime hours stop, the benefits don't start back instantly. ... Give us the opportunity to do our part the best we can, but please don't penalize us for doing so."

Mr. Chairman and members of the Subcommittee, imagine what obstacles you would face if you became blind in mid-life at the height of your earning potential. Medical care is still a necessity, and your obligations to your family would be even more profoundly difficult to fulfill. Imagine yourself in the shoes of Marvin Shelley, another blind employee working at the Cincinnati Association for the Blind. Testifying before the Subcommittee on Employment and Housing on February 20, 1991, Mr. Shelley expressed the frustration of losing sight and trying to earn a living wage.

"I currently receive approximately $900 per month in SSDI benefits. Yet, if I earn even one dollar more than the limit of $810 I would lose these benefits. This would be devastating to my family. My wife and I would lose our house, car, and insurance. We would have to pull our son out of college. I would lose everything I have worked for."

It DOESN'T make sense for blind workers to feel they must turn down extra hours, raises in wages or promotions for fear of losing benefits. It DOES make much sense to encourage blind people to be productive, earn as much as they can, pay the resulting income taxes and contribute to the Social Security trust funds. I urge you to provide these work INCENTIVES by maintaining the linkage with the retirees' earnings test.

TESTIMONY OF COL. CHRISTOPHER J. GIAIMO, USAF (RET)
THE RETIRED OFFICERS ASSOCIATION

Dear Mr. Chairman:

On behalf of The Retired Officers Association, an association comprised of over 400,000 active duty, retired, reserve and guard personnel and their dependents, we wish to express our appreciation for the opportunity to present this statement in support of The Senior Citizens' Equity Act, a bill which proposes to raise the Social Security earnings limit to $30,000 by the year 2000. We support this legislation as a critical first step in redressing the current, unfair, seniors only tax.

Mr. Chairman, The Retired Officers Association (TROA) has worked diligently for the past several years to remedy what we consider to be a grave injustice--a form of discrimination, if you will--being perpetrated against our nation's senior citizens for over fifty years. This injustice comes in the form of the Social Security earnings test. At every turn we have supported efforts to either repeal or amend this egregious law--from whatever source or political party, for we truly believe it to be a non-partisan issue.

We applauded President Clinton's campaign document, Putting America First, wherein he pledged to "lift the Social Security earning limitation so that older Americans are able to rebuild our economy and create a better future for all." We stood shoulder to shoulder with Senator John McCain in 1991 when he successfully introduced a Social Security earnings test repeal amendment to the Older Americans Act. Likewise, we decried the House of Representative's refusal to act on this measure; a measure which was passed by a voice vote in the Senate. Lastly, we urged our membership to strongly support Senator McCain, Representative Dennis Hastert and their co-sponsoring colleagues in their 1993 efforts to, once again, achieve repeal of this law or, at the very least, incrementally increase the base amount of "excludable" income in some meaningful way. Had we been successful Mr. Chairman, there would be no need for this testimony today.

Members of the committee, the goals and opinions of The Retired Officers Association with respect to the Social Security earnings test have not changed over the years. We continue to maintain that the law is one of the most egregious, inequitable and anachronistic burdens of modern day America. We continue to aver that this law is bad economic policy, bad social policy and bad labor policy.

With your permission, we would like to highlight for the committee our rationale for these views:

• The law unequivocally "targets" senior citizens who wish to continue to work and contribute to America, specifically, those between the ages of 62 and 69 who are eligible to receive social security benefits. We say unequivocally because the Social Security earnings test applies to no other segment of working Americans.

• The tax penalty (and make no mistake about it, it is indeed a tax penalty) is extremely onerous on working seniors, costing those between the ages of 62 and 65, fifty cents in benefits for every one dollar they earn above $11,280 and, for those between the ages of 65 and 70, one dollar in benefits for every three dollars they earn above the limit. Coupled with the recently enacted tax increase on social security benefits for individuals with incomes in excess of $25,000 and couples with incomes in excess of $32,000, the tax penalties imposed by the Social Security earnings test makes working seniors the most highly taxed Americans in our society.

• We believe that the rationale which supported passage of this law some fifty years ago is archaic and out of step with current economic realities and needs to be carefully re-examined. At one time, it was a commonly accepted economic tenet that it was preferable to encourage older workers to leave the work force, have their lost earnings replaced by social security benefits, and have their jobs taken over by those younger workers who were under-employed or unemployed. This tenet is no longer true. Today, America is facing a shortage of skilled labor, a shortage that can be filled by allowing

older Americans who have honed their skills over a 30 or 40 year span, to participate in the work force without fear of losing a large portion of their Social Security benefits. America needs to re-examine it's perspective on this issue, to study how American society has changed in the last fifty years and how the Social Security program should and must interface with those employment practices that will carry us well into the 21st century.

• Mr. Chairman and members of the committee, we would like to briefly discuss what we consider to be perhaps the most egregious facet of this law and that is the impact that it has had on the morale of our nation's older citizens. No one, regardless of age, wants to be shunted aside; no one wants to be forced into doing something they don't want to do, especially if they are happy doing it and feel productive. Furthermore, Americans have always believed that as long as a person was willing and able to do a job, then that person should have the freedom to do it to the best of their ability. We know all too well the effects that forced retirement has on people. Higher health care and social service costs are just two that come to mind. People, who were never sick a day in their lives because they were gainfully and productively employed, suddenly become the victims of real or perceived illnesses. Programs (federal, state and local) that provide a variety of services to senior citizens have become fiscally strapped, due in no small measure to a law that forces the beneficiaries of these programs into not working.

Despite what supporters of this law say about the law not denying anyone their constitutional right to work, the practical impact is just the opposite. A reading of the legislative history behind this law amply demonstrates that it's stated purpose was to convince or "force" people not to work, to quit as it were, to make room for younger workers. While it may have been politically expedient and necessary to do so fifty years ago, it is not so today nor should it be.

Finally, we believe Congress has, to a certain extent, been mislead as to the real fiscal impact outright repeal or the incremental raising of

the Social Security earnings test base amount would have on our budget deficit. In the past, opponents have postulated that such actions would require an increased expenditure of Social Security funds to pay higher benefits to Social Security eligible recipients, with the result being the eventual bankruptcy of the Social Security trust fund and the addition of yet another huge increase to the federal budget deficit. We do not agree with this position. In an independent study conducted by The Institute for Policy Innovation, it was demonstrated that if the retirement earnings penalty were eliminated, at least 700,000 older workers would re-enter the labor market and that, as a result, our annual output of goods and services would increase by at least $15.4 billion and our government revenues (moneys received by the government through taxes) would increase by some $4.9 billion, more than offsetting the additional Social Security benefits that would be paid. As you can see, there is not a uniformity of opinion on this issue. We would, therefore, as a second critical step, urge the committee to consider the feasibility of having an independent non-governmental agency conduct a thorough analysis of this so-called "threat" and ascertain exactly what the real effects on the budget, Social Security trust fund, etc., would be if a total repeal of the Social Security earnings test were enacted. We also suggest that this study include data on how much revenue would be generated by senior citizens if they were allowed to work freely without fear of loss of social security benefits. If this independent study corroborates the work done by The Institute for Policy Innovation, we strongly recommend you take the final step to repeal the earnings limit entirely.

Mr. Chairman, members of the committee, we thank you for the opportunity to express our views on the issue of the Social Security earnings test. As mentioned earlier, we have been in this battle a long time. On many occasions, we have joined with other like-minded organizations representing the interests of senior citizens in concerted efforts to get the earnings test law repealed or amended. Up to now we have failed in our efforts. Today this committee has a chance to start the ball rolling on crafting a remedy for this long-

standing injustice and we applaud you for this effort. In that regard, we urge the committee to carefully examine all aspects of this issue: to commission an independent study of the fiscal impact repealing or amending this law would have on our budget deficit, to listen to those who will explain to you how our country is in need of skilled workers in an increasingly competitive international environment, to listen to those who tell you that they would rather be working than on the federal dole. Then, perhaps, armed with accurate data and a fresh outlook on this issue, you may accomplish meaningful change.

Mr. Chairman, The Non Commissioned Officers Association representing over 160,000 enlisted personnel, active and retired, from all seven uniformed services and their survivors and dependents join with us in presenting this statement.

STATEMENT OF CONGRESSMAN CHRISTOPHER SHAYS
EARNINGS LIMITATION HEARING
HOUSE WAYS AND MEANS COMMITTEE
JANUARY 9, 1995

I would like to express my strong support for the provisions of the Senior Citizens' Equity Act which would raise the earnings limitation on older Americans, and commend the Ways and Means Committee for acting so promptly in the 104th Congress to correct this injustice.

I strongly believe Social Security recipients who want to continue working should be able to earn outside income without being penalized. Senior citizens, like any other group of Americans, have a right to work to achieve financial independence without being penalized by the federal government.

Unfortunately, that is not currently the case. The earnings test imposed on senior citizens, taxing their Social Security benefits if they earn more than a certain amount, is an unfair punishment for those who merely wish to stay productive and contribute to our economy.

Persons aged 65 to 69 can receive full benefits as long as they earn no more than $11,160 in outside income. Benefits under this category are reduced $1 for every $3 earned above this amount. For those citizens 70 years old or older there is no earnings test.

I was an original cosponsor of H.R. 300, the Older Americans Freedom to Work Act, in the 103rd Congress. The legislation, introduced by Congressman Denny Hastert of Illinois, would have eliminated the earnings test for those who have reached the normal retirement age of 65. The legislation had more than 185 cosponsors and was referred to the Ways and Means Subcommittee on Social Security, but no further legislative action was taken.

On September 27, I along with 366 Republican members and challengers signed the GOP "Contract with America." The contract makes a pledge that, with Republican control of the House this year, votes will be held on 10 key issues during the first 100 days of the session.

The earnings test is among those issues, as it is a provision of the Senior Citizens Fairness Act, of which I am a cosponsor this Congress. The bill would phase in an increase of the earnings limit over five years, raising it to $15,000 in 1996, $19,000 in 1997, $23,000 in 1998, $27,000 in 1999 and $30,000 in 2000.

Support for this change is strong, both from the public and here in Congress. We cannot afford to ignore the experience and professionalism older Americans bring to our workforce. In addition, these older Americans will be working longer and paying more taxes.

The earnings test, developed during a depressed economic environment, was designed to drive workers out of scarce jobs. Its repeal is long past due as a recognition of the changing needs of businesses struggling to remain competitive.

Once again, thank you for addressing this important issue. I look forward to working with my colleagues to make this important change to help our senior citizens as quickly as possible.

Statement of James L. Martin, Chairman
The 60/Plus Association
1655 N. Fort Myer Drive, Suite 700
Arlington, VA 22209; (703) 351-5251

Subcommittee on Social Security of the Committee on Ways and Means
Hearing on the Senior Citizens' Equity Act:

Mr. Chairman and Members of the Committee, it is an honor to speak with you today.

My name is Jim Martin and I'm the Chairman of The 60/Plus Association. In only our second year of active operation, the membership of 60/Plus has grown to over 225,000 members. 60/Plus publishes a newsletter, the *Senior Voice*, which regularly features the popular "Lawmaker of the Month" column. Also, 60/Plus is the only conservative senior citizens group to publish a Congressional Rating System, scoring Members of Congress based on their pro-senior votes. If any Member of Congress scores 60 percent (60/Plus) or better on the Scorecard that Member receives the "GUARDIAN OF SENIORS' RIGHTS AWARD." In the 103rd Congress, 226 Members received our non-partisan award in the House and Senate.

60/Plus is an anti-tax advocacy group dedicated to repealing the Federal Estate and Gift Tax, an unfair tax placed upon Senior Citizens and their heirs. Specifically, we're working with several Members of Congress as well as many small family-owned businesses, and others concerned that the Estate Tax, otherwise known as the "Inheritance Tax" or "Death Tax," is unfair, burdensome and a job killer. I've attached to my testimony a recent column, "A 'Job-Robbing' Double Tax on Seniors and their Heirs," which was distributed to more than 200 Seniors' publications nationally. I submit it too, for the record.

However, today I want to include in the record the fact that the members of 60/Plus fully support the Senior Citizens' Equity Act.

We support the provision that raises the earnings limit three-fold, bringing it to $30,000 by the year 2000. This is a good first step, but we ask, why an earnings limit at all? Washington should not be in the business of driving productive Seniors out of the job market.

We also support the provision in the Act that calls for the repeal of last year's increase on Social Security benefits. Too many Seniors are now facing effective marginal tax rates of over 50 percent, a rate much higher than that of other Americans. This too is a good first step, but we would also ask the Committee to repeal the 1983 tax increases on Seniors' benefits as well. The 1983 tax implemented to raise revenues was wrong then, and it's wrong now.

I know that the Committee has already heard from the economists, the number crunchers, and the so-called 'policy wonks,' so 60/Plus would like to focus our testimony on the social consequences of the higher tax burden placed on Senior Citizens.

60/Plus believes, as do most on this Committee, that when taxes are cut, government revenue *increases*. Why is this the case? In our opinion, the dynamic analysis approach about how people and businesses respond, what they do, and why, is dead right.

Taxes alter how hard people work. Government revenue estimators continue to ignore the evidence that when taxes are raised, businesses don't hire, they fire. Government revenues decrease. However, when the tax burden is lifted, people invest, work harder and save more money. At the same time, businesses hire more people, invest more money, take more risks, expand operations and, thus, pay more taxes.

Expecting to raise $40 billion in new revenue, (by raising the top rate of tax by more than one third, from 31 percent to 42 percent), the 1993 Clinton tax increase will in our estimation have a devastating impact on revenue the government is counting on. One noted economist says the tax increase will yield only $10 billion, or only 25 percent of projections.

Another example given by Bruce Bartlett, former Executive Director of the Joint Economic Committee, shows a 1979 Joint Committee on Taxation (JCT) forecast of revenue gained by the Crude Oil Profit Tax. The JCT estimated raising $184.5 billion between 1980 and 1985. The tax raised only $77.7 billion, less than half of government projections. Examples like this are endless.

This gets back to the social consequences. Tax policy has consequences on everyday people and businesses. How they think, how they operate, and how they invest is oftentimes determined by Washington's taxes.

When taxes punish lifelong habits of thrift, when taxes discourage entrepreneurship, when taxes penalize families, when taxes are applied to already-taxed income, then they are wrong, immoral and, most of all, unfair. This is exactly the case with all Social Security Taxes, the Earnings Limit and I might add, the most confiscatory tax of all, the Inheritance Tax.

Mr. Chairman, you said, and I quote, "On November 8th, voters around the country sent a thundering message to the Nation's Capital that rocked the foundations of the U.S. Congress and sent the President and his advisors scurrying for cover ...[t]he voters basically said, there is 'too much spending and waste, too much taxing, and too much government involvement in our lives.'"

Mr. Chairman, we agree with your words 100 percent. And in fact, from everything we know about you and your less government, less taxes philosophy, you are

certaintly one of the exceptions to Mark Twain's admonition, "Your money is never safe as long as the Congress is in session." It's so heartening to America's Seniors that you are where you are.

The 60/Plus Association supports the Senior Citizens Equity Act, and we fully support the Contract with America.

I look forward to continuing our relationship on behalf of 60/Plus, which represents a rapidly growing Seniors population who've already made sacrifices and contributions to the safety, prosperity and security of our nation.

Thank you.

Testimony of The Honorable Beau Boulter
on behalf of the United Seniors Association, Inc.

Submitted to the Subcommittee on Social Security
Committee on Ways and Means

Hearing on the Senior Citizens Equity Act
January 9, 1995

Mr. Chairman, it is an honor to submit to this committee testimony concerning two issues which have long been of great importance to the members of United Seniors Association. I speak today in support of Titles I and II of the Senior Citizens' Equity Act.

United Seniors Association worked closely with Congressman Hastert's office in the last Congress to secure passage of H.R. 300 — The Older American's Freedom to Work.

We, like others who hoped to see a repeal of the unfair and outdated Social Security earnings limit, were disappointed that many in the bipartisan majority who co-sponsored the bill did not follow-through and sign Discharge Petition 18 so H.R. 300 could be considered by the House.

Even though United Seniors Association advocates full repeal of the earnings limit, we were then and are now prepared to support raising the cap on earned income to $30,000.

But, I must tell you that we view such a liberalization of the earnings limit only as a first step toward complete repeal.

As others have testified before this committee in past weeks, the earnings limit not only punishes the seniors it affects by denying them the human dignity inherent in providing for themselves; it also denies employers productive, experienced and reliable workers, forces the government to forego additional tax revenues and denies the economy a healthy injection of capital.

The bottom line is this: repeal of the Social Security earnings limit is an issue of fairness. Seniors who work above the earnings limit face an effective marginal tax rate of 56 percent, not including state income taxes — a tax rate higher than that paid by millionaires.

But these are not wealthy people we are talking about. As you are no doubt aware, fully two-thirds of those who would benefit from a repeal of the earnings limit would have an earned income of less than $40,000.

If you will allow me, I would like to give you an example from my own office which, more than any chart or policy analysis, brought home to me the personal hardship the earnings limit brings individuals.

United Seniors Association is fortunate to have two older women who work part time in our Fairfax office. Both women, who live alone, collect OASI benefits and both work to augment those benefit checks. In the fall of last year, these ladies were forced to take extended "vacations" in order to stay below the earnings test — then $8040 for one and $11,160 for the other.

They took time off not because they wanted to take trips to exotic destinations, nor did they simply not want to work. They took time off because, as one of the women put it, "the government wouldn't let me make any more money."

And, let me tell you, both of these women were sorely missed in our office.

Mr. Chairman, the Social Security earnings limit may have made sense in 1935. Now, with our nation facing shortages in the labor market and with seniors facing ever-increasing costs of living, it is past time for the earnings limit to be repealed, or, at the very least, lifted to a more humane level.

United Seniors Association realizes that the repeal or liberalization of the earnings limit has to be paid for. But this will not be as difficult as at first it may seem. As others have already testified, dynamic models suggest that abolishing the Social Security earnings limit would actually increase federal revenues by as much as $140 million.

At this juncture, I would like to note that United Seniors Association will release, within the next month, an updated version of the 1989 study in which that estimate appeared. I will be happy to submit the new study, for the record, to this committee just as soon as it is available.

As I have already mentioned, I come here today to testify also in support of Title II of the Senior Citizens' Equity Act. United Seniors Association fought President Clinton's tax hike on Social Security benefits when it was introduced, and we worked closely with then-Congressman Jon Kyl and Senator Trent Lott in support of H.R. 2959, The Senior Citizens' Tax Fairness Act, which would have repealed that provision of OBRA '93.

It is our position that any tax on Social Security benefits amounts to a double taxation of income, which we oppose. Those seniors who are subject to both the tax on benefits and the earnings limit pay marginal tax rates of up to 115 percent.

That, Mr. Chairman, is little short of robbery. In essence, the federal government is mugging older Americans.

In closing, I would like to thank you and the other members of this committee for your speedy action on the Senior Citizens' Equity Act.

The changes contemplated in this bill will make a real difference in the lives of real people who want nothing more than to have government off their backs so they can provide for themselves.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

R. BRUCE JOSTEN
SENIOR VICE PRESIDENT,
MEMBERSHIP POLICY GROUP

1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
202/463-5310

January 9, 1995

The Honorable Jim Bunning
Chairman
Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The U.S. Chamber of Commerce wishes to voice its strong support for the proposal -- contained in the *Contract with America* and the subject of today's subcommittee hearing -- to raise the Social Security earnings limit.

As you may know, the Chamber numbers among its members more than 215,000 businesses (96 percent with 100 or fewer employees), 3,000 state and local chambers of commerce, 1,200 trade and professional associations, and 71 American Chambers of Commerce abroad. All these members share a deep concern with the issue of hiring and keeping qualified employees. The Chamber believes that raising the earnings limit will enhance their ability to do so.

When Social Security was instituted during the Depression, few older workers had a pension that would enable them to retire with any kind of financial security. The Social Security benefit gave them some measure of economic protection, and served to encourage retirements that would open jobs to younger workers at a time when employment was scarce. Retirement was viewed as an absolute, that is, benefits were delivered only to those who had stopped working.

The earnings test preserves this sharp demarcation into a time when society has changed. Other provisions of federal law seem to encourage older workers to stay on the job; for example, the Social Security normal retirement age has been raised for those born after 1935, and the Age Discrimination in Employment Act has largely abolished mandatory retirement based on age. Employer-sponsored pension plans are required to begin distributing pension benefits to workers still on the job after age 70 1/2.

At the same time, demographic and social trends foster the concept of more gradual retirement. People live longer, and thus require more money to finance their retirement. The days of one long career with one employer are behind us as well; an older person who has changed jobs a number of times is likely to find a transition to post-retirement employment -- perhaps with reduced hours or lesser responsibility -- comfortable as well as financially appealing. But many now find themselves forced to curtail their time on the job or face an overwhelming loss of Social Security benefits. Having a job may be desirable, indeed necessary, but exchanging earnings for Social Security benefits under the current earnings test does not make practical sense.

Changing demographics have made the earnings test a significant issue for business as well. Retaining experienced and competent older workers becomes even more of a priority in view of an employment pool to which new entrants are fewer and often less well educated in comparison to the demands of the modern workplace. Chamber members report that older workers tend to be more mature and more loyal, as well as more experienced, than their younger counterparts. With more extensive life and work experience, older workers may be ideally suited to serve as mentors to the young.

The Chamber recognizes that there are revenue implications to continuing benefit payments without penalty to workers beyond the current $11,280 threshold. However, those who continue to work also continue to pay taxes, a revenue stream not properly accounted for in previous cost estimates.

In sum, the Chamber believes the present earnings test is a policy dinosaur. Raising the earnings limit to $30,000, as proposed in the *Contract with America*, brings Social Security into better alignment with modern reality. This increased limit will allow older Americans to make their knowledge and skills available to their employers and colleagues without facing unreasonable financial penalty. The Chamber calls for its early implementation, and asks that this letter be incorporated as part of the January 9 hearing record.

Sincerely,

R. Bruce Josten

cc: Members of the Subcommittee on Social Security
of the House Committee on Ways and Means