TABLE 18.—*Estimated number of families and children receiving mothers' aid and estimated expenditures for this purpose*

[Based on figures available Nov. 15, 1934]

State	Number of families receiving mothers' aid	Number of children benefiting from mothers' aid	Estimated present annual expenditures for mothers' aid, local and State		
			Total	Local	State
Total	109,036	280,565	[1] $37,487,479	[1] $31,621,957	[1] $5,865,522
Alabama [2]	--	--	--	--	--
Arizona	106	379	20,940	--	20,940
Arkansas [3]	--	--	--	--	--
California	7,056	17,642	2,133,999	224,252	1,909,747
Colorado	552	[4] 1,435	149,688	149,688	--
Connecticut	1,271	3,276	734,627	489,752	244,875
Delaware	348	855	93,000	46,500	46,500
District of Columbia	209	720	143,997	143,997	--
Florida	2,564	6,164	222,286	222,286	--
Georgia [2]	--	--	--	--	--
Idaho [5]	230	619	36,315	36,315	--
Illinois	6,217	14,802	1,837,012	1,533,217	303,795
Indiana	1,332	3,856	352,224	352,224	--
Iowa	3,527	[4] 9,170	719,772	719,772	--
Kansas	768	[4] 1,997	75,721	75,721	--
Kentucky	137	[4] 356	62,889	62,889	--
Louisiana	88	[4] 229	9,312	9,312	--
Maine	817	[4] 2,124	310,000	155,000	155,000
Maryland	267	[4] 694	117,459	117,459	--
Massachusetts	3,939	11,817	2,450,000	1,400,000	1,050,000
Michigan	6,938	[4] 18,039	2,448,962	2,448,962	--
Minnesota	3,597	9,152	1,138,176	1,138,176	--
Mississippi [3]	--	--	--	--	--
Missouri	336	[4] 874	93,440	93,440	--
Montana [5]	839	1,969	213,623	213,623	--
Nebraska	1,654	[4] 4,300	272,036	272,036	--
Nevada [5]	200	[4] 520	44,035	44,035	--
New Hampshire	260	761	$82,440	--	$82,440
New Jersey	7,711	18,789	2,445,564	$2,445,564	--
New Mexico [6]	--	--	--	--	--
New York	23,493	56,524	11,731,176	11,731,176	--
North Carolina	314	947	58,706	29,353	29,353
North Dakota [5]	978	2,644	238,314	238,314	--
Ohio	8,923	24,470	2,116,908	2,116,908	--
Oklahoma [5]	1,896	5,166	123,314	123,314	--
Oregon	1,040	2,259	247,140	247,140	--
Pennsylvania	7,700	22,587	3,197,640	1,598,820	1,598,820
Rhode Island	513	1,666	267,252	133,626	133,626
South Carolina [2]	--	--	--	--	--
South Dakota [5]	1,290	3,324	285,986	285,986	--
Tennessee	241	[4] 627	71,328	71,328	--
Texas	332	[4] 863	43,987	43,987	--
Utah	622	[4] 1,617	78,651	78,651	--
Vermont	206	461	46,976	23,488	23,488
Virginia	136	545	33,876	16,938	16,938
Washington [5]	3,013	[4] 7,834	519,538	519,538	--
West Virginia	108	[4] 281	16,086	16,086	--
Wisconsin	7,173	17,932	2,180,790	1,930,790	250,000
Wyoming [5]	95	279	22,294	22,294	--

[1] Includes revised figures for Illinois.
[2] No mothers' aid law.
[3] Mothers' aid discontinued.
[4] Estimated on basis of 2.6 children per family, the average rate for 20 States reporting in December 1933.
[5] Estimated on basis of trends in comparable States from which reports have been received.
[6] Law not in operation.

Source: The U. S. Children's Bureau.

TABLE 19.—*Funds for State maternal and child-health work*

State	1928			1934	Percent increase 1934 over 1928	Percent decrease 1934 under 1928
	Total funds	Federal	State			
Delaware	$18, 008. 02	$11, 504. 01	$6, 504. 01	$33, 000. 00	83. 3	
Pennsylvania	132, 621. 98	68, 810. 99	63, 810. 99	197, 539. 00	48. 9	
Maine	25, 000. 00	15, 000. 00	10, 000. 00	26, 300. 00	5. 2	
Massachusetts	78, 275. 00		78, 275. 00	80, 850. 00	3. 3	
New Hampshire	20, 976. 62	12, 988. 31	7, 988. 31	21, 620. 50	3. 1	
Rhode Island	24, 276. 28	14, 076. 28	10, 200. 00	24, 065. 00		0. 9
Illinois	70, 000. 00		70, 000. 00	69, 070. 00		1. 3
Connecticut	[1] 32, 760. 00		32, 760. 00	29, 392. 00		10. 3
New Jersey	118, 163. 55	31, 284. 55	86, 879. 00	103, 872. 52		12. 1
Wisconsin	50, 752. 00	27, 751. 62	23, 000. 38	43, 350. 00		14. 6
Maryland	33, 554. 00	19, 277. 00	14, 277. 00	26, 844. 00		20. 0
Minnesota	47, 000. 00	26, 099. 65	20, 900. 35	36, 000. 00		23. 4
South Dakota	7, 500. 00	7, 500. 00		5, 000. 00		33. 3
Arizona	19, 507. 42	12, 253. 71	7, 253. 71	12, 890. 00		33. 9
New York	210, 041. 78	80, 041. 78	130, 000. 00	134, 500. 00		36. 0
Virginia	75, 574. 00	25, 574. 00	50, 000. 00	40, 372. 00		46. 6
Kentucky	47, 597. 48	26, 298. 64	21, 298. 84	25, 200. 00		47. 1
Michigan	[1] 64, 741. 11	34, 741. 11	30, 000. 00	31, 940. 00		50. 7
Missouri	49, 186. 81	24, 186. 81	25, 000. 00	23, 799. 00		51. 6
Texas	77, 902. 52	41, 450. 52	36, 452. 00	34, 840. 00		55. 3
Montana	24, 400. 00	13, 700. 00	10, 700. 00	10, 500. 00		57. 0
Georgia	64, 438. 89	35, 451. 10	28, 987. 79	26, 000. 00		59. 7
North Dakota	8, 000. 00	6, 500. 00	1, 500. 00	3, 056. 00		61. 8
North Carolina	49, 519. 66	27, 259. 56	22, 260. 00	18, 500. 00		62. 6
Washington	8, 387. 00	5, 000. 00	3, 387. 00	3, 000. 00		64. 2
Mississippi	49, 076. 58	22, 076. 58	27, 000. 00	15, 150. 00		69. 1
Wyoming	[1] 10, 000. 00	7, 500. 00	2, 500. 00	2, 500. 00		75. 0
Louisiana	30, 042. 00	7, 521. 00	22, 521. 00	7, 000. 00		76. 7
Kansas	35, 000. 00	20, 000. 00	15, 000. 00	8, 000. 00		77. 1
West Virginia	40, 443. 48	19, 571. 74	20, 871. 74	9, 140. 00		77. 4
Hawaii	18, 451. 92	11, 725. 96	6, 725. 96	4, 100. 00		77. 8
California	[1] 57, 580. 00	31, 290. 00	26, 290. 00	12, 225. 00		78. 8
Florida	37, 906. 00	16, 531. 72	21, 374. 28	7, 330. 00		80. 7
Ohio	53, 334. 00	23, 585. 57	29, 748. 43	10, 048. 00		81. 2
Oregon	27, 533. 46	15, 283. 46	12, 250. 00	4, 701. 00		82. 9
Iowa	42, 298. 91	21, 085. 31	21, 213. 60	6, 600. 00		84. 4
Idaho	12, 500. 00	7, 500. 00	5, 000. 00	1, 430. 00		88. 6
South Carolina	37, 711. 30	21, 355. 65	16, 355. 65	2, 046. 00		94. 6
Tennessee	55, 767. 00	25, 767. 00	30, 000. 00	2, 912. 00		94. 8
Alabama	64, 173. 90	25, 836. 95	38, 336. 95	2, 520. 00		96. 1
Arkansas	38, 635. 02	21, 817. 51	16, 817. 51			
Colorado	15, 000. 00	10, 000. 00	5, 000. 00			
Indiana	53, 897. 00	31, 927. 00	21, 970. 00			
Nebraska	17, 000. 00	11, 000. 00	6, 000. 00			
Nevada	16, 044. 00	10, 522. 00	5, 522. 00			
New Mexico	19, 860. 66	12, 430. 33	7, 430. 33			
Oklahoma	42, 358. 96	23, 679. 48	18, 679. 48			
Utah	20, 500. 00	12, 500. 00	8, 000. 00			
Vermont	5, 000. 00	5, 000. 00				

[1] For four States (California, Connecticut, Michigan, and Wyoming), 1929 figures are given.
Source: The U. S. Children's Bureau.

TABLE 20.—*General economic statistics*

INDICES OF BUSINESS CONDITIONS*

[1923-25=100]

	1929	1932	1934 (first 10 months)
1. Index of industrial production [1]	119	64	80
2. Index of factory pay rolls [2]	108	45	62
3. Index of factory employment [3]	101	62	79
4. Index of freight car-loadings [2]	106	56	63
5. Index of department store sales (value) [2]	111	69	68
6. Index of construction contracts awarded (value) [3]	117	28	33
7. Index of exports (value) [3]	115	35	48
8. Index of bank debits outside New York City	140	65	69
**Survey of Current Business*, February 1934, p. 3, and December 1934, p. 3.			

[1] Unadjusted for seasonal variation; adjusted for number of working days.
[2] Unadjusted for seasonal variation.
[3] Adjusted for seasonal variation.

TABLE 20.—*General economic statistics*—Continued

OTHER ECONOMIC DATA

9. Number of gainful workers, September — 1934 — 50,277,000
   Estimate of Committee on Economic Security.

10. Per capita full-time income, wage, and salaried employees — 1929 — $1,475; 1932 — $1,199
    National Income, 1929–32, Letter from Acting Secretary of Commerce, S. Doc. 124, 73d Cong., 2d sess., p. 19.

11. Average weekly factory earnings per wage earner — 1929 — $28.54; 1932 — $17.10; 1934 — $20.08
    Survey Current Business, February 1934, p. 7, and December 1934, p. 7. Data for 1934 for first 10 months.

12. Index of cost of living (1913=100) — December 1929 — 171; December 1932 — 132; June 1934 — 136
    Monthly Labor Review, August 1934, p. 526.

OLD-AGE DATA

13. Population, 1930 — 60 years of age and over — 10,385,026; 65 years of age and over — 6,633,805; 70 years of age and over — 3,863,200
    Fifteenth Census of the U. S., 1930, vol. II, *Population*, p. 576.

14. Number of old-age pensioners — 1931 — 76,339; 1934 — 180,003
    Data for 1931 from *Monthly Labor Review*, June 1932, p. 1261. Data for 1934 compiled by Committee on Economic Security from latest available information.

15. Amount paid in old-age pensions — 1931 — $16,173,207; 1934 — 31,192,492
    Data for 1931 from *Monthly Labor Review*, June 1932, p. 1261. Data for 1934 compiled by Committee on Economic Security from latest available information.

NATIONAL INCOME STATISTICS

16. National income paid out — 1929 — $82,300,000,000; 1933 — 46,800,000,000
    The National Income, 1933, release Jan. 14, 1935, p. 6, Department of Commerce.

17. National income paid out — 1933 — $46,800,000,000
    Wages and salaries — 29,300,000,000
    Dividends and interest — 7,300,000,000
    Net rents and royalties — 2,300,000,000
    Entreprenurial withdrawals — 7,900,000,000
    The National Income, 1933, release Jan. 14, 1935, p. 6, Department of Commerce.

18. National income paid out — 1932 — $48,894,000,000
    Business savings or losses — 9,529,000,000
    Income produced — 39,365,000,000
    National Income, 1929–32, letter from Acting Secretary of Commerce, S. Doc. 124, 73d Cong., 2d sess., p. 10.

WHOLESALE, RETAIL, AND MANUFACTURING SALES

19. Net wholesale sales — 1929 — $68,950,108,000; 1933 — 32,030,504,000
    Final United States Summary of Wholesale Trade in 1933, Department of Commerce, Bureau of the Census, p. 7. The 1929 figures have been revised.

20. Net retail sales — 1929 — $49,114,653,000; 1933 — 25,037,225,000
    United States Summary of the Retail Census for 1933, Department of Commerce, Bureau of the Census, p. 3.

21. Gross value of manufactured products — 1929 — $69,960,909,712; 1933 — 31,358,840,392
    Census of Manufactures: 1933, Department of Commerce, Bureau of the Census, p. 1. The 1929 figures have been revised.

LIFE-INSURANCE STATISTICS

22. Aggregate life insurance in force — 1933 — $97,985,043,747
    Ordinary — 71,918,829,182
    Industrial — 17,154,472,848
    Group — 8,911,741,717
    Spectator Co., *Year-Book—Life Insurance*, 1934.

23. Average size of life-insurance policy in force, 1933:
    Ordinary — $2,252
    Industrial — 210
    Computed from Spectator Co. *Year-Book—Life Insurance*, 1934.

24. Surrendered policies and loans, life insurance — 1933 — $4,394,948,987
    Spectator Co., *Year-Book—Life Insurance*, 1934.
    Also letter from Spectator Co.

TABLE 20.—*General economic statistics*—Continued

SAVINGS ESTIMATES

25. Annual savings through life insurance	1933	$2,950,465,899
New premium payments		234,954,196
Renewal premium payments		2,715,511,703
Spectator Co., *Year-Book—Life Insurance*, 1934.		
26. Savings and other time deposits	1929	$28,218,000,000
	1932	24,281,000,000
Data for all reporting banks in United States. *Statistical Abstract of the United States*, 1933, p 242, table 252.		

Dr. WITTE. I want to make one further observation that I think is fundamental in understanding this problem—that the cost of supporting the old people is necessarily very great, whether met by themselves or by someone else.

At present life expectancy, a man who is 65 years old still has, in the average case, 11 or 12 years ahead of him, and a woman 15 years. That is a long period.

To give a pension of only $25 a month to the man 65 years of age for the rest of his life, allowing for 3-percent interest, you have to have a capital sum at the age of 65 of $3,300; for a woman, a capital sum of $3,600.

I am citing these figures to illustrate that necessarily, and regardless of any action that you may take, the cost of supporting the aged in the future generations and those now already old, will require a considerable part of the total current income.

A large percentage of the aged are dependent upon others for support. Estimates prior to the depression, selected studies in different States, indicated that from 30 to 50 percent of the aged were dependent, in whole or in part, upon the support of others.

At this time, as a result of the depression, that percentage has undoubtedly risen. The old people have lost their savings, just like many other people, and for old people that means an irreparable loss.

That does not mean that this number of people are dependent upon the public for support. In a newspaper account which I noted this morning, the Committee's report was so interpreted. The great number of old people who are dependent have been and we expect will continue to be supported by their children. This bill does not contemplate that where children are able to support their parents they should not do so. This bill contemplates that where old people do not have means to support themselves and no children able to support them, they shall be supported by the public in a decent and humane way through a pension system.

At the present time the picture is something of this kind. There are about 100,000 old people in public almshouses; a slightly larger number in private institutions for the aged, many of whom are paying their own way. There are about 140,000 old people, not all of them over 65, who are receiving pensions under industrial pension systems; about 15,000 under trade-union systems. There are about 45,000 pensioners at this time under the United States Employees' Retirement Act, and 3,000 under State retirement acts; about 25,000 under teachers' pension laws, many of whom are under 65; a considerable number which we cannot estimate definitely, are in receipt of firemen's and policemen's pensions; a much larger number are in receipt of veterans' pensions.

At this time about 180,000 people are pensioned under general State old-age-pension laws. There are approximately 700,000 people over 65 years of age who are on Federal emergency relief at this time, mostly as members of families rather than as independent units.

There are, in some parts of the country, a considerable number of old people who are on relief entirely from local sources who are not included within the Federal emergency relief lists.

On relief in one form or another are probably somewhat less than—or somewhere between—eight or nine hundred thousand people. That is the largest group of the aged that are not supported by their own children, who are dependent.

There are State old-age-pension laws at this time in 28 States, in Alaska, and in Hawaii. Eight of these laws are optional, that is, they apply only in counties which have elected to come under the State old-age-pension system.

In 4 of the States with old-age-pension laws no pensions are actually being paid at this time and practically no pensions in another State. There has been a very rapid increase in the old-age-pension laws since the depression set in. In 1933 there were nine new laws. From December 1933 to October 1934 there was an increase in the number of pensioners under State old-age-pension laws from 115,000 to 180,000.

In most of the laws, the counties are required to pay all or a part of the expense. In some States the States pay the entire expense. More commonly, the expense is shared between the States and the counties.

Fourteen of these States have a 70-year age limit at the present time. One has an age limit of 68, and the balance an age limit of 65.

The residence requirements are usually 10 or 15 years in the State, and the latter is the more common. Delaware has a 5-year limit, Arizona a 35-year limit. Those are the extremes.

There are property qualifications in all of the laws. Nowhere are pensions paid where an applicant has more than $3,000 worth of property. That limit is lower in some States.

The maximum pension is commonly $30 a month, sometimes expressed as $1 a day. There are none that are higher. There are some that are lower. For instance, North Dakota has a maximum pension of $150 per year.

The pensions actually granted averaged a little more than $19 in 1933. That was the actual average. That is a low figure, but I call your attention to the fact that for families on emergency relief, the average allowance has been $23 per month. With old people who are on relief included within these families, it is difficult to figure out an allowance for these old people in excess of $5 to $8 a month at the present time. That is about the average that the Federal Government is expending, as near as we can estimate, for the 700,000 people who are on relief.

The averages range from $24.35 in Massachusetts and $22.16 in New York, the two top States, to $6.13 in Indiana, and $8.15 in Colorado, all the way between.

Taking a year up to October 1934, the cost of all States for old-age pensions was $31,000,000.

There are included within the pension laws at the present time considerably more than two-thirds of the total population of the country; that is, the States that have pension laws that are operative have more than two-thirds of the entire population. Under the laws now in operation, they have been expending or are expending at this time $31,000,000 per year.

As for foreign countries, most of the European countries have contributory old-age annuity systems under which annuities are paid, toward which contributions are made by the employers, the employees, and sometimes by the Government. Quite a few countries in addition, have noncontributory pension systems. For instance, England has both a contributory annuity system and a noncontributory pension system. England started with a noncontributory pension system for people in need, just as our American States have started with noncontributory pension systems for people in need. The costs became so great that in 1925 England supplemented the noncontributory pension system with a contributory annuity system.

France has had the same experience. In other English-speaking countries at this time there are only noncontributory systems. For instance, in Canada there is a national old-age pension law under which the national government shares with the provincial governments the cost of noncontributory pensions for people in need. The pensions everywhere in foreign countries are low. In England the noncontributory pension is 10 shillings a week, half a pound, $2.50 a week. In Canada the national pension is $20 per month at this time, shared between the Dominion and the Provincial Governments.

With that, I have finished my introduction, and I shall be glad to answer any questions on this factual data that any member may have, if that procedure is within the motion that you gentlemen passed, or I shall pass on to the subjects in the bill.

Mr. HILL. Are you going to take up the provisions of this bill, with relation to each particular subject?

Dr. WITTE. Right now. I gave a factual background to show the problem that we are trying to meet, and if you have questions on the problem, I should be glad to answer them.

Mr. HILL. The committee has made the rule on that. We want you to proceed with the bill, taking up the first subject, and when you finish that, there will be some questions.

Mr. WITTE. As I stated in the introduction, there are three separate provisions made for old-age security in this bill. Title I deals with Federal grants in aid for noncontributory pensions paid by the State. Title III and section 405 in title IV deal with the compulsory contributory annuity system. Title V deals with voluntary annuities.

Coming now to title I, the Federal grants in aid for noncontributory old-age pensions paid by the States, an appropriation is contemplated in section 1 of $50,000,000 for the first year and $125,000,000 for the second and subsequent years. That is to cover one-half of the cost of the noncontributory pensions paid by cooperating States, and one-half of their costs of administration, with this limitation:

The limitation is that the Federal Government will not pay more than $15 per month toward the pension of any individual, nor will it pay an administrative cost in excess of 5 percent of the amount spent for pensions. The total administrative cost may not exceed 10 percent, or, if it does the State will pay more than the Federal Government. The Federal Government pays one-half, but not more than 5 percent. The total administrative cost may not exceed 10 percent, or, if it does, the State will pay more than the Federal Government. The Federal Government pays one-half, but not more than 5 percent.

The grants in aid are made on conditions specified in section 4, on page 3. The requirement is that the State law must either be State-wide in operation, and if it is to be administered through counties, it must be mandatory on the counties. The present eight laws, which are optional, will have to be changed in that respect.

It is a further requirement that the State itself shall participate in a substantial degree in the costs. Some States now carry the whole cost; the more recent laws generally provide that the States shall carry the whole cost. Many of the older laws provided that the entire cost shall be paid by the counties. Those laws have remained in many counties entirely inoperative, because the counties have not been able to bear the burden.

In the States where there are State-wide financial provisions, the laws have been operative. Where there are not State-wide provisions, they have often been inoperative.

We require, next, that some State authority must be designated with whom the Federal Government can deal—which will have responsibility for the administration—for at least the supervisory administration of the pension laws.

We further provide that the State authority shall make such reports as are required by the Federal administrator.

Then comes the most important provision, that the State laws must meet—the condition that they must, in order to receive any assistance, take care of those who are United States citizens and who have resided for 5 years within the State, but these 5 years must have been within the last 10 years before the application. A person who was born within a State, then moves out, and later comes back, does not necessarily have to be included, but a person who has been a resident within the State for 5 years within the last 10 years before he applies, must be taken care of.

Pensions must be paid to people whose income is insufficient for their support; in the language of the bill, "is inadequate to provide a reasonable subsistence compatible with decency and health." That is the standard of the New York law, and of the Massachusetts law which are in actual operation.

You appreciate, of course, in that connection, that noncontributory old-age pensions will necessarily vary with the need of the individual, for an old couple that owns its own home does not need to be provided with enough for rent, whereas an old couple that does not must also be given rent. It is a question of the circumstances under which they live in each case, and, obviously the needs of the old people will vary in different communities.

These figures that I cited to you are averages. The average in New York State, in 1933, was $22.16, but in New York City the average of all grants was in excess of $40. Obviously in a larger city the cost is greater; very generally in the metropolitan centers, people do not own their own homes, whereas in the rural areas and in the smaller towns, it is very common that an old couple is taken care of as far as shelter is concerned. They may reside with children, if the children are able to support them, and to the degree that they can support them their needs are less than they would be if the children were not able to do anything for them at all.

Then there is an age limit. We say that the State law must at this time grant pensions at least to all people who meet these other qualifications, who are over 70 years of age, and, after 1940, to all people who are over 65 years of age. Just about one-half of the States now have 70-year limits, and the others 65-year limits. We permit the 70-year age limit to be retained in the first 3 years, after which we say we will not give any Federal aid to any State that does not have a limit of at least 65 years of age.

Now, some items as to cost, because I take it that you would like to have a statement of costs.

Obviously costs are to a considerable extent a matter of guess. We cannot tell—we can guess for a future time what will be the ratio of dependency; what will be the tendency, for instance, in this matter of whether children will continue to support their parents to the extent that they do now.

Actuaries that we employed—and actuaries guess high, that is their business, to be on the safe side—estimated on the assumption that if 15 percent of all the aged people would qualify in the very first year—and to date in none of the States is the percentage of those that qualified as high as 15 percent, although it is close to 15 percent in New York State—and on the assumption that the whole country would be covered, and that the grant would average $25 per month, which is far more than they have averaged—they have averaged $19—with these assumptions, the first year you would require $136,000,000.

On the other hand, the States have actually spent $31,000,000, and half of that is $15,500,000. Those States have more than two-thirds of the total population of the United States.

Beyond question there is always lag in getting laws into operation, in getting people on the lists, so that the Committee's estimate was that in the first year the cost would probably be $50,000,000. That estimate some people think is too high. For instance, Mr. Epstein, who, more than any other person in this country, has studied this problem of old-age security, says that $50,000,000 is far beyond what will be needed in the first year. The Dill-Connery bill, which was reported favorably to the House of Representatives in the last Congress, provided for a Federal appropriation of $10,000,000.

It is a matter of judgment. If you feel that you will reach the figures that the actuaries regard as the outside possible cost, you would need $136,000,000. If you figure on the past, $50,000,000 would seem to be adequate in the first year, allowing for the expected lag in getting the laws into operation.

In the second year we contemplate that $125,000,000 will probably be needed.

The costs will mount; that has been the experience everywhere. If you start with a pension system, you can expect that gradually people will rely more and more on the pensions.

Likewise, we have to contemplate that this depression has created a tremendous havoc with peoples' savings. The people that are now middle-aged or more, or at least many of them, are completely wiped out. They have only a short period of life in which they can make adequate provision for their old age. The situation that we are facing in the immediate future certainly is a great deal worse because of the depression that we have been in.

Then, again, these figures will mount because you have this constantly growing number of the aged. Actuarial estimates which contemplate that in time 50 percent of all the aged will qualify for pensions, and which contemplate that there will be an average grant of $25 a month, are to the effect that by 1980 the Federal part of the cost of the pensions, if not supplemented by a contributory system will be approximately $1,300,000,000.

Now, again those may be gusses. In European countries the figure of 50 percent is being approximated; 50 percent of the total number of aged depending upon the public for support. In England it is higher than 50 percent, and I think that we can take these figures, which are the best estimates that the most competent actuaries can make, allowing for a margin of safety, but whether we take them as gospel truth or not, I think it is very evident that the cost of the pensions will become a very large cost in years to come.

Let me repeat, too, that whether you enact pension laws or not, that cost is there. This growing number of old people will have to be supported by the generation then living, and whether you do it in the form of pensions or in some other way, there is no way of escaping that cost.

Now, I would like to pass, if I may, to the contributory annuity system, which you will find in title III and in section 405.

Mr. LEWIS. What page?

Dr. WITTE. Title III is on page 15. Section 405 is on page 24.

On the contributory system, the plan provided in the bill, which the report states is one plan that might be considered— we wish to make this quite clear that the Committee's report suggests alternatives and we are prepared to submit other alternatives if you so desire— but the plan outlined in the bill, which on the whole seemed to the Committee the plan that is most desirable, although that is a matter of judgment, is a contributory old-age annuity system which is to apply to all employed persons who will be under 60 years of age when the plan takes effect, excluding nonmanual workers who earn more than $250 a month.

Mr. JENKINS. Where is that?

Dr. WITTE. You will find that in the definition of "employer", on page 20, subsections 4 and 5.

Mr. VINSON. And 6.

Dr. WITTE. This plan is to be supported by what the bill calls an earnings tax and excise tax on pay rolls. It is a contributory system.

Mr. TREADWAY. Where does that appear?

Dr. WITTE. In section 301, on page 15, and section 302, on page 16.

Mr. TREADWAY. You are starting, then, with title III?

Dr. WITTE. Yes, sir.

As to the rates prescribed, the combined rate starts with 1 percent for 5 years. That 1 percent is divided equally between employers and employees, and is increased each 5 years by 1 percent, until it reaches the maximum of 5 percent in 20 years.

Assuming, as the bill does, that the plan is to start in operation January 1, 1937, the full maximum rate will not be reached until January 1, 1957; for 5 years it is 1 percent, then for another 5 years 2 percent, for another 5 years 3 percent, for the fourth 5 years 4 percent, and thereafter 5 percent.

The method of collection is set forth in section 304, and is left to the Secretary of the Treasury. There is provision that he may adopt the European method of collection if he deems it desirable, which is the collection through a stamp system, a system under which each employee has a stamp book in which the employer pastes stamps that may be purchased through the post offices, and this stamp book is deposited annually in a central place. That is not prescribed; that may be adopted; and the Secretary of the Treasury may adopt any other method of collecting this tax, through such rules and regulations as he sees fit.

The annuities payable under this system are set forth in section 405, which starts on page 24. They contemplate an annuity on retirement at the age of 65 or over. If a person retires at the age of 65 or thereafter, he gets precisely the same annuity. There will be a distinct incentive, of course, to retire at the age of 65 under this system, but persons who do not retire at the age of 65 will continue to be taxed, and will receive no higher annuity, with this one exception, that if they should themselves contribute a sum of money sufficient to buy them a larger annuity, they will always get their own money. That is one of the conditions of the plan.

There are two different provisions for determining annuities. One for those that come into the system at the beginning, dealt with in paragraph 1, beginning on page 25 and second for those who come into the system after 5 years, dealt with in paragraph 2 on page 27.

Under the temporary plan, persons who have contributed for 5 years—and no one can draw an annuity who has not contributed for at least 5 years—persons who have contributed for 5 years, and who are 65 or over, will receive an annuity equal to 15 percent of their average wages on which contributions were made. Those that retire after the sixth year will receive, in addition to this 15 percent, an additional 1 percent for each additionl year beyond the first 5 that they have contributed, for the next 5 years; then there is an additional 2 percent for the next 10 years, up to a maximum of 40 percent of the average wages on which contributions were made.

Under the permanent plan, on page 27, the rate is 10 percent after 5 years, plus 1 percent for each additional year, without any upper limit.

Under these two plans, it is theoretically possible that a person who has contributed exactly the same length of time under each plan gets a slightly different pension. That is largely theoretical, because this act will cover all employees. At the beginning it takes in the entire employee group, and people who come in under the permanent plan will start at the beginning of life.

The permanent plan is based on this assumption, that persons who are brought under its provisions will pay for their own pensions. Persons brought under the temporary plan, particularly the people now past middle age, will get a slight gratuity from the Government, because they cannot in the remaining years of their life earn enough of a pension to enable them to make their own provision for old age.

The plan is designed so that people who start contributions after the 5-percent rate is in effect will pay their own pensions. People who are now past middle age will not pay their own pensions entirely. These unearned pensions will in the long run be paid by the United States Government, but the United States Government will not be required to make any contributions for many years to come—for 30 years; not until 1965, according to the actuarial calculations—and for this reason, that in the early years, even at the low rate we propose, the receipts will very considerably exceed the disbursements. There will be relatively few annuities payable, and in these early years you will annually have larger receipts than disbursements, but by 1965 that condition will be reversed. Beginning in 1965, the current receipts from the taxes will be less than the current disbursements.

As I stated, this is the plan that our committee has considered more than any other plan. It has certain difficulties, but any system of contributory annuities is very essential to reduce the future great cost of supporting the old people without means.

The President, in his message, outlined that he desires a self-sustaining system. This system is not self-sustaining. This system is self-sustaining for a long period of time, but in the next generation the Government will in effect pay the interest on the money which is paid in these next 30 years as an unearned annuity to people who are now middle-aged or beyond. That is what it amounts to. That is the age clause. If you pay that currently, that cost will average, in the next 30 years, half a billion dollars.

Mr. KNUTSON. A year?

Dr. WITTE. A year. If you prefer to finance that currently, you have to raise that amount of money or you will have to pay interest in subsequent generations.

To make this clear, I desire to file, as an exhibit, actuarial estimates which cover this plan and also eight other plans that we have had under consideration, the majority of which are self-sustaining, but which I think will make clear the problems that you will encounter under any of these plans.

The CHAIRMAN. Without objection, that may be done.

(The actuarial estimates referred to are as follows:)

TABLE I.—*Progress of reserve under proposed old-age insurance plan*

[All estimates in millions of dollars]

Year	Net contributions [1]	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937	302.9	0	0	0.7	302.3
1938	306.0	9.1	0	2.0	615.3
1939	308.9	18.4	0	3.3	939.3
1940	312.0	28.1	0	4.8	1,274.7
1945	672.3	122.4	0	268.0	4,606.4
1950	1,073.3	230.3	0	683.6	8,293.9
1955	1,520.0	345.3	0	1,318.9	12,058.0
1960	1,979.2	437.9	0	2,100.4	14,912.4
1965	2,058.3	458.0	165.7	2,682.0	15,266.7
1970	2,137.5	458.0	632.8	3,228.3	15,266.7
1975	2,216.7	458.0	1,034.3	3,708.9	15,266.7
1980	2,216.7	458.0	1,478.7	4,153.3	15,266.7

For footnote see p. 91.

Illustrative annuities under proposed plan payable to persons who enter the system during the first 5 years

Age of worker in 1937	Years to retirement	Monthly annuity at age 65 based on average monthly wage		
		$50	$100	$150
60	5	7.50	15.00	22.50
59	6	8.00	16.00	24.00
58	7	8.50	17.00	25.50
57	8	9.00	18.00	27.00
56	9	9.50	19.00	28.50
55	10	10.00	20.00	30.00
54	11	11.00	22.00	33.00
53	12	12.00	24.00	36.00
52	13	13.00	26.00	39.00
51	14	14.00	28.00	42.00
50	15	15.00	30.00	45.00
49	16	16.00	32.00	48.00
48	17	17.00	34.00	51.00
47	18	18.00	36.00	54.00
46	19	19.00	38.00	57.00
45	20	20.00	40.00	60.00
44	21	20.00	40.00	60.00
43	22	20.00	40.00	60.00
42	23	20.00	40.00	60.00
41	24	20.00	40.00	60.00
40	25	20.00	40.00	60.00
39	26	20.00	40.00	60.00
38	27	20.00	40.00	60.00
37	28	20.00	40.00	60.00
36	29	20.00	40.00	60.00
35	30	20.00	40.00	60.00
34	31	20.00	40.00	60.00
33	32	20.00	40.00	60.00
32	33	20.00	40.00	60.00
31	34	20.00	40.00	60.00
30	35	20.00	40.00	60.00
29	36	20.00	40.00	60.00
28	37	20.00	40.00	60.00
27	38	20.00	40.00	60.00
26	39	20.00	40.00	60.00
25	40	20.00	40.00	60.00
24	41	20.00	40.00	60.00
23	42	20.00	40.00	60.00
22	43	20.00	40.00	60.00
21	44	20.00	40.00	60.00
20	45	20.00	40.00	60.00

[1] Joint contributions less administration expenses as follows:

Year	Joint contributions as percent of pay roll	Expenses a percent of contributions
1937–41	1	10
1942–46	2	8 1/3
1947–51	3	6 2/3
1952–56	4	5
1957–81	5	5

NOTE.—By 1980 maximum costs are reached and no further increase is expected thereafter.

118296—35——7

Illustrative annuities under proposed plan for persons entering after 1942

Years of contribution	Monthly annuity at age 65 based on average monthly wage		
	$50	$100	$150
5	5.00	10.00	15.00
6	5.50	11.00	16.50
7	6.00	12.00	18.00
8	6.50	13.00	19.50
9	7.00	14.00	21.00
10	7.50	15.00	22.50
11	8.00	16.00	24.00
12	8.50	17.00	25.50
13	9.00	18.00	27.00
14	9.50	19.00	28.50
15	10.00	20.00	30.00
16	10.50	21.00	31.50
17	11.00	22.00	33.00
18	11.50	23.00	34.50
19	12.00	24.00	36.00
20	12.50	25.00	37.50
21	13.00	26.00	39.00
22	13.50	27.00	40.50
23	14.00	28.00	42.00
24	14.50	29.00	43.50
25	15.00	30.00	45.00
26	15.50	31.00	46.50
27	16.00	32.00	48.00
28	16.50	33.00	49.50
29	17.00	34.00	51.00
30	17.50	35.00	52.50
31	18.00	36.00	54.00
32	18.50	37.00	55.50
33	19.00	38.00	57.00
34	19.50	39.00	58.50
35	20.00	40.00	60.00
36	20.50	41.00	61.50
37	21.00	42.00	63.00
38	21.50	43.00	64.50
39	22.00	44.00	66.00
40	22.50	45.00	67.50
41	23.00	46.00	69.00
42	23.50	47.00	70.50
43	24.00	48.00	72.00
44	24.50	49.00	73.50
45	25.00	50.00	75.00

ALTERNATIVE PLANS

Plan M1

Contributions: Same as proposed plan; 1 to 5 percent by 5-year intervals.

Benefits: Permanent schedule of proposed plan, 10 percent + (number of years of contributions − 5) × 1 percent; maximum 40 percent.

Progesss of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937	306.0	0	0	0.7	305.3
1938	308.9	9.2	0	2.0	621.5
1939	312.0	18.7	0	3.3	948.8
1940	314.9	28.4	0	4.8	1,287.3
1945	672.3	108.4	0	141.9	4,254.1
1950	1,073.3	228.3	0	410.5	8,501.6
1955	1,520.0	388.5	0	757.5	14,100.7
1960	1,979.2	578.1	0	1,377.5	20,450.4
1965	2,058.3	722.1	0	2,114.1	24,737.2
1970	2,137.5	778.7	95.2	2,966.1	26,000.0
1975	2,216.7	780.0	614.5	3,611.2	26,000.0
1980	2,216.7	780.0	1,075.9	4,072.5	26,000.0

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of— $50	$100	$150 and over
5	$5.00	$10	$15.00
10	7.50	15	22.50
15	10.00	20	30.00
20	12.50	25	37.50
25	15.00	30	45.00
30	17.50	35	52.50
35	20.00	40	60.00
40	20.00	40	60.00
45	20.00	40	60.00

Plan M2

Contributions: Same as proposed plan; 1 to 5 percent by 5-year intervals.
Benefits: On earned basis.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937	306.0	0	0	0.7	305.3
1938	308.9	9.2	0	2.0	621.5
1939	312.0	18.7	0	3.3	948.8
1940	314.9	28.4	0	4.8	1,287.3
1945	672.3	113.5	0	26.8	4,541.5
1950	1,073.3	266.5	0	91.5	10,134.7
1955	1,520.0	497.2	0	227.6	18,364.7
1960	1,979.2	807.5	0	488.7	29,214.1
1965	2,058.3	1,155.7	0	863.9	40,874.3
1970	2,137.5	1,505.2	0	1,372.7	52,444.3
1975	2,216.7	1,830.4	0	2,087.3	62,974.5
1980	2,216.7	2,086.7	0	3,038.1	70,822.5

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of— $50	$100	$150
5	$0.24	$0.48	$0.72
10	.78	1.55	2.33
15	1.68	3.35	5.03
20	3.02	6.03	9.05
25	4.88	9.75	14.63
30	7.12	14.23	21.35
35	9.79	19.57	29.36
40	12.95	25.90	38.85
45	16.69	33.37	50.06

PLAN M3

Contributions: 4 to 6 percent by 3-year intervals; worker's contribution level at 3 percent.

Benefits: Same as proposed plan, 15 percent+(number of years of contributions−5)×1 percent; maximum, 40 percent.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contributions	Benefit payments	Reserve end of year
1937	1,292.0	0.0	0	4.0	1,288.0
1938	1,304.7	38.7	0	12.0	2,619.3
1939	1,317.3	78.5	0	20.0	3,995.2
1940	1,662.5	119.9	0	28.8	5,748.8
1945	2,090.0	414.9	0	241.5	16,095.5
1950	2,185.1	754.9	0	674.0	27,430.7
1955	2,280.0	1,085.6	0	1,275.7	38,278.7
1960	2,375.1	1,374.3	0	2,066.3	47,493.2
1965	2,470.0	1,604.5	0	2,672.8	54,885.6
1970	2,565.1	1,795.3	0	3,239.1	60,963.6
1975	2,660.0	1,947.5	0	3,745.2	65,777.9
1980	2,660.0	2,055.9	0	4,208.5	69,034.9

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of—		
	$50	$100	$150 and over
5	$7.50	$15	$22.50
10	10.00	20	30.00
15	12.50	25	37.50
20	15.00	30	45.00
25	17.50	35	52.50
30	20.00	40	60.00
35	20.00	40	60.00
40	20.00	40	60.00
45	20.00	40	60.00

PLAN M4

Contributions: 4 to 6 percent by the 3-year intervals; worker's contribution level at 3 percent.

Benefits: Permanent schedule of purposed plan, 10 percent+(numbers of years of contributions−5)×1 percent; maximum, 40 percent.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contributions	Benefit payments	Reserve end of year
1937	1,292.0	0	0	4.0	1,288.0
1938	1,304.7	38.7	0	12.0	2,619.3
1939	1,317.3	78.5	0	20.0	3,995.2
1940	1,662.5	119.9	0	28.8	5,748.8
1945	2,090.0	417.3	0	193.2	16,225.7
1950	2,185.1	771.7	0	500.8	28,180.9
1955	2,280.0	1,146.2	0	872.1	40,762.6
1960	2,375.1	1,524.4	0	1,508.4	53,204.0
1965	2,470.0	1,862.2	0	2,250.1	64,156.7
1970	2,565.1	2,146.3	0	3,092.5	73,163.1
1975	2,660.0	2,361.9	0	3,745.1	80,008.0
1980	2,660.0	2,536.2	0	4,208.4	85,529.3

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of—		
	$50	$100	$150 and over
5	$5.00	$10	$15.00
10	7.50	15	22.50
15	10.00	20	30.00
20	12.50	25	37.50
25	15.00	30	45.00
30	17.50	35	52.50
35	20.00	40	60.00
40	20.00	40	60.00
45	20.00	40	60.00

Plan M5

Contributions: 4 to 6 percent by 3-year intervals.
Benefits: On earned basis.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937	1,292.0	0	0	4.0	1,288.0
1938	1,304.7	38.7	0	12.0	2,619.3
1939	1,317.3	78.5	0	20.0	3,995.2
1940	1,662.5	119.9	0	28.8	5,748.8
1945	2,090.0	420.9	0	117.5	16,423.6
1950	2,185.1	798.0	0	304.3	29,280.7
1955	2,280.0	1,213.9	0	605.9	43,354.8
1960	2,375.1	1,650.8	0	1,096.7	57,963.3
1965	2,470.0	2,086.9	0	1,700.3	72,421.1
1970	2,565.1	2,499.7	0	2,521.6	85,870.7
1975	2,660.0	2,843.6	0	3,682.1	96,606.0
1980	2,660.0	3,043.7	0	5,210.3	101,951.2

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of—		
	$50	$100	$150
5	$1.08	$2.16	$3.24
10	2.75	5.50	8.25
15	4.86	9.72	14.58
20	7.40	14.80	22.20
25	10.43	20.85	31.28
30	14.03	28.06	42.09
35	18.28	36.55	54.83
40	23.28	46.55	69.83
45	29.16	58.31	87.47

PLAN M6

Contributions: 2 to 5 percent by 3-year intervals.
Benefits: Permanent schedule of proposed plan; 10 percent + (number of years of contribution −5) × 1 percent; maximum 40 percent.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937	623.3	0	0	1.3	622.0
1938	629.5	18.7	0	4.0	1,266.1
1939	635.6	38.0	0	6.7	1,933.0
1940	980.0	58.0	0	10.8	2,960.2
1945	1,393.3	239.9	0	159.3	9,469.2
1950	1,820.8	504.4	0	450.9	18,688.5
1955	1,900.0	785.8	0	814.0	28,066.5
1960	1,979.2	1,054.0	0	1,448.1	36,719.2
1965	2,058.2	1,263.2	0	2,180.5	43,245.2
1970	2,137.4	1,396.9	0	3,014.3	47,082.7
1975	2,216.6	1,436.9	[1] 0	3,659.2	47,892.7
1980	2,216.6	1,436.0	466.1	4,118.7	47,865.5

[1] Starts in 1976 at 57.4.

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of—		
	$50	$100	$150 and over
5	$5.00	$10	$15.00
10	7.50	15	22.50
15	10 00	20	30.00
20	12.50	25	37.50
25	15.00	30	45.00
30	17.50	35	52.50
35	20.00	40	60.00
40	20.00	40	60.00
45	20.00	40	60.00

PLAN M7

Contributions: 2 to 5 percent by 3-year intervals.
Benefits: On earned basis.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937	623.3	0	0	1.3	622.0
1938	629.5	18.7	0	4.0	1,266.1
1939	635.6	38.0	0	6.7	1,933.1
1940	980.0	58.0	0	10.8	2,960.3
1945	1,393.3	244.4	0	62.9	9,722.8
1950	1,820.8	537.2	0	194.8	20,067.9
1955	1,900.0	874.1	0	420.8	31,492.9
1960	1,979.2	1,232.4	0	797.2	43,492.6
1965	2,058.3	1,593.6	0	1,263.7	55,508.1
1970	2,137.5	1,941.7	0	1,900.4	66,902.2
1975	2,216.7	2,241.5	0	2,801.3	76,372.1
1980	2,216.7	2,435.3	0	3,990.0	81,841.2

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of—		
	$50	$100	$150
5	$0.59	$1.18	$1.77
10	1.66	3.31	4.97
15	3.34	6.67	10.01
20	5.32	10.64	15.96
25	7.70	15.39	23.09
30	10.52	21.04	31.56
35	13.85	27.69	41.54
40	17.77	35.53	53.30
45	22.37	44.74	67.11

PLAN M8

Contributions: Flat 5 percent.
Benefits: On earned basis.

Progress of reserve

[All estimates in millions of dollars]

Year	Net contributions	Interest on reserve	Federal contributions	Benefits payments	Reserve end of year
1937	1,615.1	0	0	3.3	1,611.7
1938	1,630.8	48.4	0	10.0	1,280.9
1939	1,646.7	98.4	0	16.7	5,009.3
1940	1,662.5	150.3	0	23.9	6,798.3
1945	1,741.7	436.1	0	108.3	16,609.1
1950	1,820.8	762.0	0	279.1	27,704.5
1955	1,900.0	1,118.8	0	550.4	39,761.7
1960	1,979.2	1,491.9	0	989.3	52,210.5
1965	2,058.3	1,859.9	0	1,522.3	64,390.9
1970	2,137.5	2,204.0	0	2,246.1	75,564.0
1975	2,216.7	2,483.5	0	3,261.1	84,222.7
1980	2,216.7	2,632.8	0	4,611.3	87,999.3

Illustrative annuities

Years of contribution	Monthly annuity based on level monthly wage of—		
	$50	$100	$150
5	$1.20	$2.39	$3.59
10	2.69	5.37	8.06
15	4.51	9.01	13.52
20	6.70	13.39	20.09
25	9.30	18.60	27.90
30	12.40	24.79	37.19
35	16.04	32.08	48.12
40	20.33	40.66	60.99
45	25.37	50.74	76.11

Dr. WITTE. The first point that I wish to make in that connection is that if you pay no unearned annuities whatsoever, your annuities will be very small for many years to come to the people that are now past middle age. The annuities will be extremely small to them. It takes a long time to build up an annuity. Interest counts, because it compounds, and it counts heavily after a period of years. It does not count much in the first years. I think you all appreciate that.

If you pay no unearned pensions, under the plan presented in the bill, a person who has an average monthly wage of $50 will get, at age of 65, an annuity of 24 cents per month; that is after 5 years of contribution. After 10 years, he will get 78 cents a month, and after 15 years $1.68, and so forth. A man whose wage is $100, gets just double that, 48 cents after 5 years, $1,55 after 10 years, and $3.35 after 15 years.

I am citing those figures to illustrate that if you have no unearned annuities, you will have very small annuities for many years to come. The younger people will get a substantial annuity, but the older man who only pays for a few years, cannot build up much of an annuity.

Even if you start with a 5-percent rate at the outset, instead of the gradual step-up in the bill, your annuities to a man that has been earning only $50 a month will, after 5 years, average $1.20 per month; after 15 years, $4.51 per month. To a man who has been earning $100, they will average after 5 years $2.39, and after 15 years $9.01.

Mr. LEWIS. Per month?

Dr. WITTE. Per month.

Another problem arises in the creation of large reserves if no unearned annuities are paid. If you pay nothing more than the person himself and his matched contributions will buy, you will create a reserve, on the 1-to-5-percent rate of contributions in the bill which in time—by about 1975 or so—will amount to $70,000,000,000. That would be the reserve.

If you charge 5 percent from the beginning, and pay no unearned annuities, that reserve may be over $100,000,000,000.

That, of course, raises the question whether on any such amount you would dare to include 3-percent interest, and the entire system is based on an assumption that the earnings will be at the rate of 3 percent.

Then, again, there is the question of the desirability of lower rates at the beginning, not only for the reasons that have been stated, but for the reason that we are at the same time starting an unemployment compensation system, and that industry still is not certain of its future. Probably that consideration alone would not necessitate a very slow stepping up of the rates that we have in the bill, but it does argue for a lower rate at the beginning. The slow step-up is primarily designed to keep reserves within manageable limits.

As stated, this plan does have this very distinct difficulty, that it is not self-sustaining, and that in future generations there will be a considerable cost in connection with the plan. That is substantially the situation, of course, that we find at the present time. Each generation supports the old of its own generation, and this would in substance amount to that, the next generation supporting the old of its generation, just as this generation must support the old of the present generation.

If the committee prefers, it can work out a plan which is self-sustaining, as the President indicated in his message he would like to see. That will mean a higher rate of contributions in the early years and larger reserves and annuities to people that are now past middle age that are very small. We are submitting the entire story in the actuarial calculations, in the tables that you have accepted as an exhibit, which will explain to you what the problem is.

It is possible to have a self-sustaining system. It is possible to have a self-sustaining system even with payment of a small partially unearned annuity to people now past middle age, but you do not get larger reserves if you do that; and the large reserve may or may not, as you view the problem, be an objection.

Mr. LEWIS. Those tables are based on 3 percent?

Dr. WITTE. Three-percent computations; yes, sir.

Mr. LEWIS. Would it be asking too much to have similar tables prepared on a 4-percent basis, compounded annually?

Dr. WITTE. We could have tables prepared on a 4-percent basis. The committee has felt that a 3-percent basis is a conservative basis and is about all that you can figure, probably, but we will be glad to prepare them. It may take some time.

The CHAIRMAN. Those tables, when prepared, may be inserted in the record.

Dr. WITTE. Now, for the voluntary annuities. Title V, beginning on page 32 relates to the voluntary annuities.

The intent of voluntary annuties is to make available to people who cannot be brought under the compulsory system the opportunity to make their own provisions for old age. The compulsory system as conceived, takes in all employees, substantially all people who are employed, but that still leaves 40 percent of the gainfully employed people outside of the annuity system; it leaves the housewives, the farmers, and the tradesmen—large numbers of our people, outside entirely of the compulsory annuity system.

Following the example of Canada, which has had a voluntary annuity system for some years, this bill proposes that a voluntary annuity system shall be started simultaneously, without governmental subsidies whatsoever, and the only limitation shall be that the annuity shall not exceed $100 per month.

Title V follows the War Savings Certificate Act. The provisions are substantially the same as those which were found to be workable in the War Savings Act of war time.

The voluntary annuities contemplated can be in any amounts that the social insurance board prescribes. The intent is to make them available in small sums, on something like the same plan as the war savings certificates. There is no governmental contribution.

This has to be frankly stated, that the cost probably will not be appreciably less than insurance company annuities. There may be a saving in operation costs. On the other hand, the insurance companies figure higher interest earnings than 3 percent, which is all that we feel safe to figure on a governmental basis.

On the other hand, this will be a system adaptable to people of small means, just as the war-savings certificates were. Insurance companies are not in the field of selling annuities to the people that are buying their annuities by contributions of $1 a month or less; they are not in that field at all, and it is in that field that we believe there is a place for voluntary annuities by the Government, to enable people of small means who can not be brought under the compulsory system to come in and create their own provisions for old age.

Now, I have concluded the discussion of old-age security, and I take it that under your action questions are in order.

Mr. HILL. Mr. Chairman——

The CHAIRMAN. Mr. Hill.

Mr. HILL. I was going to inquire how long you intend to sit?

The CHAIRMAN. The committee has not been given any authority by the House to sit during its sessions. It is the purpose of the chairman to endeavor to get that permission during the recess, and I hope that we will come back at 2 o'clock.

Mr. COOPER. Mr. Chairman——

The CHAIRMAN. Mr. Cooper.

Mr. COOPER. In view of the fact that the House has not granted permission to the committee to sit during its sessions, I move that we now adjourn until 2 o'clock, and that the chairman endeavor to secure that permission.

(The question was put and the motion agreed to.)

The CHAIRMAN. The committee stands adjourned until 2 o'clock.

(Thereupon, at 12:03 p. m., a recess was taken until 2 o'clock.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

The committee will resume its consideration of the bill we had under consideration this morning, with Dr. Witte testifying.

Dr. Witte, you will proceed.

STATEMENT OF E. E. WITTE, EXECUTIVE DIRECTOR, COMMITTEE ON ECONOMIC SECURITY—RESUMED

Mr. WITTE. I concluded discussion of old-age security, but my attention has been called to the fact that I did not make two points clear. I would like to develop them at this time, if I may.

I cited the cost of old-age pensions, according to the actuarial estimates, as reaching a total of $1,300,000,000, by 1980. That figure assumes that a contributory annuity system is not started. The cost of pensions will be materially reduced if a contributory annuity system is started. If this is done the cost by 1980, according to the outside estimates of the actuaries, will be not $1,300,000,000, but $500,000,000. That five hundred million will remain because the contributory system will not reach large groups in our population. If we can devise a method by which we can bring into the contributory system the groups in the population who are not now covered, the self-employed groups, then that cost can be further reduced. One primary purpose of the contributory system is to reduce the cost of pensions. If the contributory system suggested in this bill is adopted, your ultimate cost will be very much less than if you do not adopt it.

Another point on which I fear I did not make myself entirely clear is in citing the very small earned pensions to people that have contributed for only a short time. The bill does not contemplate only an earned pension to people that are past middle age. It does not propose to pay people 24 cents a month; instead, it proposes that the people who are first retired shall be given a pension of 15 percent of their annual wage, which, of course, means that if their average wage has been $100 a month, they get a $15 a month pension—which is still small, but is quite different from the 48 cents that you get under that plan if you paid no unearned pensions.

The plan contemplated is, for those who retire at the beginning, 15 percent plus 1 percent for each additional year up to ten, then 2 percent thereafter, reaching a maximum of 40 percent.

For those who are brought into the system after the first 5 years, the pension is 10 percent for the first 5 years' service, and 1 percent for each additional year thereafter; which means that a young man who starts contributing at age 20 and retires at age 65 will receive a pension of 50 percent of his average earnings during his period of contributions.

With that, Mr. Chairman, I think I have completed my initial statement on this subject. I think the committee can now ask questions.

The CHAIRMAN. Are there any questions? Mr. Hill?

Mr. HILL. Right in this connection, Mr. Witte, suppose a man aged 59 years at the time this contributory plan goes into operation, earning an average wage of $40 a month; when he reaches the age of 65 years, he would then be, under this contributory annuity plan, entitled to about $6 a month for the annuity.

Mr. WITTE. That is it.

Mr. HILL. Unless he had other means, or other income, that would not be sufficient to support him. Could he participate under the noncontributory pension plan to supplement this $6 a month annuity that he received under the contributory plan?

Mr. WITTE. Certainly. The noncontributory pension is intended to provide for the support of people in need; $6 a month is, of course, not sufficient for support.

Under this plan there will be people who will draw contributory pensions who will still need noncontributory pensions under State laws. That is inevitable.

Mr. HILL. Under the case used for illustration, the annuitant is the beneficiary of contributions made by other employees in the whole plan. In other words, you are taking from the money they pay in to make up the annuity to a point of 15 percent of the average wage of the annuitant who starts in at a rather old age.

Mr. WITTE. That is the plan.

Mr. HILL. What is the advantage of that from the standpoint of the cost to the Government? Is there an advantage in following that particular plan rather than putting that man under the noncontributory pension scheme wholly?

Mr. WITTE. The advantage is that if you do not give him an unearned annuity of some sort, then you have pensions of the amounts that I cited. This man at $40 will get a pension of around 20 cents a month after 5 years of contributions, which is such a small amount that it certainly would not be satisfactory.

There is an additional cost to the Government through this plan rather than to put him on to the noncontributory pensions entirely, but there is also a great advantage in that it does stimulate saving, it does stimulate making provision for old age. After this man has contributed 5 years, although the actuaries compute that his contributions would buy a monthly annuity of only 20 cents, he is apt to think that he has earned a pension of $10 or $15 at least. It is that psychological factor you have to take into account. A pension of such a small amount as people who are in the sytem only a short time can buy, will never be satisfactory to them. It will seem to them that they are being cheated.

Mr. HILL. The alternate plan would be that if you should not pay him an unearned annuity, you would pay him back the amount he has contributed, plus 3-percent interest compounded annually.

Mr. WITTE. Yes.

Mr. HILL. And in addition to that, if his necessity requires it, give him an old-age pension.

Mr. WITTE. You could eliminate any part of an unearned pension.

Mr. HILL. You speak about the cost to the Government. You say that this noncontributory old-age pension on the basis outlined in this bill would cost the Government about $1,300,000,000 a year after about 1965; is that the date?

Mr. WITTE. 1980. That is the maximum figure.

Mr. HILL. Now, what would be the cost to the Government of the contributory system of annuities beginning with about 1975 or 1980, over and above what is paid in by the contributor?

Mr. WITTE. By 1980, the combined cost under both plans on the actuarial estimates will be approximately $1,900,000,000; $600,000,000 more than if you do not start the contributory system at the same time. However, if you step up the rates in the earlier stages, you can make the contributory system entirely self-supporting, if you deem that wise, and still pay larger pensions than the earned amounts. Several of the plans we have outlined contemplate that.

It is a question of weighing these complicated factors. If you make it on a strictly earned basis, the small pension that you have to pay to people that are not in the system long, the large reserves you build up if you do not pay unearned annuities at the beginning, and especially if you step up the rates, and finally, the ultimate cost over future generations—all those factors enter into it, and it is a question of your judgment which is the wisest course.

If you eliminate partially unearned annuities, if you pay annuities only on an earned basis, then your reserves will grow very rapidly and, of course, your pension costs in the long run will equal out; but at the beginning they will be slightly larger than they would be with an annuity system.

If you step up the rates you can make this plan self-supporting, but you build up reserves very rapidly, which creates another problem.

Mr. HILL. If it costs the Government more to have a combined contributory annuity plan and an old age noncontributory pension plan, what is the advantage in having the contributory annuity plan? Why not just put it on a straight old-age-pension proposition?

Mr. WITTE. That is a question of social policy.

Mr. VINSON. You do not mean to say that it would cost the Government more by the injection of the contributory annuity plan? It would thereby cost the Government less. That is correct, is it not?

Mr. WITTE. It depends on at what date you look at it.

Mr. VINSON. What date are you looking at that will cost the Government more?

Mr. WITTE. 1980. In the interim it costs very much less. By 1980, it would cost more than if you did not have the system, that is, assuming that you keep these rates and the provisions as in the bill. You can make it cost less by 1980, by stepping up your rates now, that is, in the first 20 years.

Mr. HILL. And creating a larger reserve?

Mr. WITTE. That is it.

Mr. HILL. But you suggested the problem in connection with this larger reserve that it could become so large that it would be impracticable for the Government to find proper investments for, say, a 75 billion dollar fund that would return the 3-percent income. Is not that true?

Mr. WITTE. That is true, if we assume that conditions in 1935 will still exist in 1980. If, on the other hand, there is expansion in Government, in production, and in governmental costs by 1980, 75 billion dollars may look as small as the amounts that we are now considering would have looked large to the people 35 years back. We do not know. We cannot predict what will be the conditions in 1980.

Mr. VINSON. Mr. Witte, I thought you said this morning that the cost in 1980 would be $1,300,000,000 without the contributory annuities included, and you corrected that statement immediately after we met here after recess by saying that if the contributory annuities were included it would reduce the cost to 500 million dollars.

Mr. HILL. That is the cost of the old-age pension but not of the whole security scheme.

Mr. VINSON. If it reduces it from $1,300,000,000 to 500 million dollars, it seems to me that it has reduced it 800 million dollars.

Mr. HILL. I understand from Dr. Witte that while it reduces the old-age-pension cost from $1,300,000,000 to 500 million dollars, it entails that additional cost of $1,400,000,000 for the contributory plan as of that date.

Mr. VINSON. That is based upon the payment upon unearned annuities.

Mr. WITTE. Yes.

Mr. VINSON. Consequently, I do not think we ought to confuse the payment of unearned annuities with the old-age-pension plan. I do not think there would be any question but what that $1,400,-