

inflation has forced up the cost of living at the rate of 3 percent per year for the past 2 years, and we know from experience that the prices of things needed most by older people are going up at an even faster rate.

In our civil service retirement system, we have a provision for an automatic annuity increase to match increases of 3 percent or more in the consumer price index, but by the time we get one increase, we are almost due for the next.

The annuity increase is always about a year later than the increase in the cost of living.

Furthermore, the Consumer Price Index was designed to cover average prices paid by a "worker" and his family whose needs are somewhat different from those of a retired individual and his family.

One item will illustrate the difference. Drugs, medicines, and medical services and supplies are more necessary for elderly persons than for workers' families, and costs of medical care have shown the greatest increases in recent years. As a result, our people find that annuity adjustments to compensate for increases in the cost of living are both too little and too late.

DISCRIMINATION IN INCOME TAX LAWS

For these reasons our people are for any down-to-earth program that will halt inflation. At the same time, many of our people are burdened by the present discrimination against retired Federal employees, retired municipal employees, retired teachers and others by the present Federal income tax laws.

We have pointed out to this committee on numerous occasions that it is manifestly unfair to exempt retirement income under some systems from Federal income taxes while refusing to exempt retirement income under other systems.

The most striking example is the exemption of social security and railroad retirement annuities from tax while imposing the tax on the annuities of retired Federal workers, retired municipal employees, and retired schoolteachers.

In 1954, this discrimination was partially alleviated by a retirement income credit of \$1,200, which was the amount of the maximum tax-free individual benefit under social security, although less than the corresponding amount under railroad retirement. Later, when the maximum annual individual benefit under social security was increased to \$1,524, the retirement income credit was promptly increased to \$1,524.

Furthermore, in 1964, the retirement income credit was extended to married couples over 65 years of age to compare with the combined tax-free social security income of a similar couple. This gave a couple over 65 years of age a retirement income credit of \$2,286.

RETIREMENT INCOME CREDIT

Social security benefits were increased substantially in 1965, but there was no corresponding increase in the retirement income credit. Still greater increases are pending as the result of the House approval of H.R. 12080, now pending in the Senate.