The original documents are located in Box 33, folder "Social Security (4)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

May 5, 1976

MEETING ON SOCIAL SECURITY
LONG-RANGE FINANCING (DECOUPLING)

Thursday, May 6, 1976
11:00 a.m. (one hour)
The Cabinet Room

From: Jim Cannon

I. PURPOSE

To review with your senior advisors and with the trustees of the Social Security system (Secretaries of HEW, Labor and Treasury) the issue of "decoupling" the Social Security system.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: You have been provided with a detailed presentation of this issue in a 4/30/76 memorandum which reviewed --

a) Your decision in December to deal with decoupling in a manner described as Option A; and

b) The fact that the issue is being re-examined because --

- There is a belief that a more detailed discussion would be helpful;
- A Congressional sponsored study group has recommended an approach similar to Option B; and
- Revised economic assumptions could generate increased public concern over the fiscal integrity of the Social Security system.

To make this meeting most productive I would suggest that you review the opening six pages of the 4/30/76 memorandum, and the section on staff recommendations.

B. Participants:

White House

Phil Buchen
    Ken Lazarus
Robert T. Hartmann
Jack Marsh
Max Friedersdorf
Bill Seidman
Jim Cannon
    Art Quern
    Allen Moore

OMB

Jim Lynn
Paul O'Neill

CEA

Alan Greenspan
Burt Malkiel

HEW

Secretary Mathews
Bill Morrill
Bruce Cardwell

Labor

Secretary Usery
Henry Perritt

Treasury

Secretary Simon (may be absent)
Deputy Secretary George Dixon
Jim Van Horne
David Ranson

Commerce

Undersecretary Jim Baker

C. Press Plan: The meeting will not be announced.

III. TALKING POINTS

1. The issue of "decoupling" the Social Security system was reviewed in December and at that time I selected Option A. I am interested in hearing the arguments for and against changing that December decision.

CC: Quern
Moore

THE WHITE HOUSE

WASHINGTON

May 6, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CANNON

FROM: JIM CONNOR JEC

SUBJECT: SOCIAL SECURITY: LONG-RANGE FINANCING

The President reviewed your memorandum of April 30 on the above subject and approved the following:

Option A: Decouple -- Index Future Initial Benefits To Growth In Prices and Real Wages (Average benefits grow in direct proportion to average earnings.)

The following notation was also made:

"I approve #A - as rationalized by Jim Lynn."

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

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cc: Dick Cheney

Black complete notebook in JMC's office

DECISION

THE WHITE HOUSE

WASHINGTON

April 30, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Social Security: Long-Range Financing

Complete memo in notebook JMC's office

PURPOSE

The purpose of this memorandum is to respond to new developments and significant new opinions regarding the issue of "decoupling" the Social Security system. The memo includes an expanded presentation of the issue, some new information relevant to the subject, and revised policy alternatives.

Because of the complexity and importance of this matter, the Trustees, OMB, and I recommend that in considering the alternatives, you meet with the Cabinet secretaries and staff advisers most closely involved and concerned with this issue so that views and assumptions may be discussed.

BACKGROUND

In December you addressed three major problems threatening the financial integrity of the Social Security system:

1. The system is experiencing annual deficits.

   Your response to this problem was a proposal to increase revenues through a .6 percent (.3 percent each for employers and employees) Social Security tax increase, effective in 1977. This would solve the problem through the early 1980's, but both the House Ways and Means and Senate Finance Committees have indicated that they will not attempt to enact such an increase this year.

THE WHITE HOUSE

WASHINGTON

ACTION

May 6, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Statement by the President on Social Security Proposal

Attached for your consideration and approval is a proposed statement on Social Security which we would like to release in connection with your meeting this morning.

It has been reviewed and approved by Max Friedersdorf and Paul O'Neill. Doug Smith has approved the text.

RECOMMENDATION

I recommend that you approve the statement.

______Approve

______Disapprove

STATEMENT BY THE PRESIDENT

I have today directed the Secretary of Health, Education and Welfare to seek prompt Congressional action on my legislative proposal to maintain the fiscal integrity of our Social Security trust fund.

Simple arithmetic indicates that the Social Security trust fund is headed for trouble. Unless the Congress acts soon to ensure that the fund takes in as much as it pays out, there will not be adequate security for old or young.

In my State of the Union message in January, I proposed a payroll tax increase of .3% each for employees and employers to increase revenues into the trust fund to ensure that benefits will be available to all who have earned them.

My proposed increase would cost workers with a maximum taxable income less than a dollar a week. This increase will help stabilize trust funds so that current and future recipients can be assured the benefits that they have earned. I urge the Congress to take the earliest possible action on my proposal to preserve the integrity of the Social Security trust fund.

Social Security
cc: Quern
Moore

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

May 11, 1976

Art — For you and Allen Moore — Jim

Mr. Ron Davis
Executive Assistant to
the Commissioner
Social Security Administration
Altmeyer Building
Baltimore, Md. 21235

Dear Ron:

I'm sure you remember the point on which we disagreed at the meeting with the President on May 6. It is important to get this resolved, because otherwise the two decoupling options cannot be correctly understood. Indeed, my point reveals the invalidity of at least two statements that were made to the President at the meeting by proponents of Option A:

1. that Option A is "a step forward" relative to present law even though it isn't enough to get rid of the long-range deficit

2. that Option A is "simple" decoupling, while Option B goes "beyond" decoupling.

These statements are invalid on factual grounds alone, whatever one's philosophy. I think it is vital the options be fully understood before the President makes his decision.

Let me therefore restate more fully what I said. The reasoning gets us into some technicalities, but that is unavoidable. If you will read this letter carefully, I don't see how you can disagree with me.

Statement #1: To say that Option A takes "a step forward" toward solving the long-range financial problem is only part of the truth. In fact Option A unnecessarily interferes with a feature of present law -- namely, the progressivity of the benefit formula -- which helps us financially.

From an actuarial point of view, Option A includes both a step forward and a step back relative to existing law. The step forward more than eliminates the long-range financial deficiency. However, the step backward restores the deficiency to something like half its present size.

Let me elaborate. Existing law has two features which we are talking about changing. First, it contains a superfluous cost-of-living adjustment which enhances the benefits of each cohort of retirees relative to the previous year's cohort. Taken by itself, this feature results in consistently rising wage replacement ratios for successive cohorts, so long as the consumer price index continues to rise over time.

Second, existing law stipulates a "progressive" benefit formula. That is, higher-wage workers do not get as good a deal as lower-wage workers. The higher one's "lifetime" earnings, the lower one's wage replacement ratio. Taken by itself, this feature results in steadily declining wage replacement ratios for successive cohorts, so long as average lifetime nominal earnings continue to rise over time.

These two features of existing law have opposite effects on the behavior of replacement ratios over time and the net result is a competition between the two effects. If the inflation rate were sufficiently low, the progressivity of the benefit formula would prevail, and replacement ratios would decline. Most of us, of course, think it much more likely that the inflation rate will be high enough that the reverse will occur. This is why most of the official projections show average replacement ratios which continually increase into the indefinite future.

Option A makes changes which alter both of these features. First, it eliminates the superfluous cost-of-living adjustment. This provision by itself would ultimately make the system much less expensive in the future. Everyone is in favor of it. But Option A also "indexes" the benefit formula to wages. In other words, it provides that the calculation of benefit awards be conducted not in current dollars as it is now, but in wage-indexed dollars. This has the effect of removing the effect over time of the progressivity of the benefit formula.* This second provision of Option A by itself would make the system more expensive in the future.

In this way, Option A includes a step back as well as a step forward. I would further argue that we should refrain from taking this step back, since under present circumstances we cannot afford its financial consequences. It is a step which could

*Progressivity would be retained with respect to the relative treatment of people within the same cohort, but repealed with respect to the relative treatment of different cohorts.

not possibly be justified in its own right. It remains under consideration only because its adverse effect is masked by the favorable effect of eliminating the superfluous CPI adjustment.

Statement #2: It is also invalid to argue that Option A is "simple" decoupling, while Option B goes "beyond" decoupling. Exactly the reverse is true. Consider again the precise meaning of "coupling." Coupling means the double-counting of inflation -- the undesirable characteristic of present law by which inflation alone changes replacement ratios. It results, as you know, from the improper cost-of-living escalation provisons enacted in 1972.

In present law, inflation affects replacement ratios in two opposite ways:

a) There is the superfluous cost-of-living adjustment

b) There is the fact that the progressive benefit formula is at present expressed in current dollars.

As inflation proceeds, the superfluous CPI adjustment leads to higher replacement ratios. But at the same time, inflation pushes workers into higher earnings brackets, thereby lowering their replacement ratios. To counteract precisely these uncalled-for effects of inflation implies:

a) eliminating the superfluous CPI adjustment, and

b) computing benefit awards using dollars corrected for inflation.

If this is done, replacement ratios will be independent of the future rate of inflation.

The above is a prescription for Option B, not Option A. Option A goes beyond it by correcting the benefit calculations not only for inflation, but also for changes in real wages. This extra step beyond Option B has nothing to do with decoupling. It is, in effect, a legislated increase in the future growth rate of benefits.

Since the issue is so important, I am forwarding copies of this letter to Secretary Mathews and Jim Lynn.

Yours sincerely,

Dave

David Ranson
Consultant to
The Secretary

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

file
Welfare -
S.S

THE WHITE HOUSE

WASHINGTON

May 26, 1976

MEMORANDUM FOR: DICK CHENEY

FROM: JIM CANNON

SUBJECT: Wall Street Journal editorial on Social Security, and quoted references to Department of Treasury consultants.

The attached editorial appeared in this morning's Wall Street Journal. It was the anticipated response to the 1976 Social Security Trustee's Report. There are two problems with it:

(1) First, it does not mention the President's announced decision to correct the "flaw" in the system which would eliminate approximately half of the long-range problem. The editorial asks rhetorically why the politicians are "so quiet" about the problem. Citing this potential problem specifically, we incorporated a reference to the President's decoupling decision into the President's California speech to a retirement community. For some unexplained reason, this reference was eliminated in the final draft of the speech, thus exposing the President to this unfair criticism.

(2) Secondly, and more important, the Journal editorial cites statements attributed to David Ranson and Arthur Laffer at the University of Chicago, who are referred to as "the principal advisers to Treasury Secretary Simon on the Social Security problem." Their quoted statements serve to undermine public confidence in the system in a fashion which distorts reality (at least in the opinion of many Social Security observers).

This would be no problem except that Mr. Ranson is a former full-time employee of the Treasury Deparment who still serves one or more days a week in Washington as a paid consultant to Secretary Simon on Social Security. In that capacity, he attended the May 6 Presidential decision meeting on the long-range problem with senior staff and the heads of OMB, HEW, Labor and CEA.

Given his role as Secretary Simon's official representative, his access to all related executive documents, and his active participation in Presidential and senior level deliberations, it seems that his recent actions are totally inappropriate -- and serve to undermine the President's legitimate and defensible position. I strongly urge you to take the matter up with Secretary Simon. Ranson, in talking to the Wall Street Journal (one of the few publications which understands Social Security), has undercut the President and should be directed not to do it again.

$4,000,000,000,000, More or Less

WALL STEET
JOURNAL
5/26/76

That's trillion, $4 trillion, more or less, the amount of the present unfunded liability of the Social Security System. The number is our rough calculation, based on last year's official figure of $2.7 trillion and this week's report of the trustees that the long-run deficit has increased by 50% as a result of new actuarial assumptions about productivity and birth rates.

The trustees now make "optimistic," "intermediate," and "pessimistic" assumptions. Their intermediate projection, the best guess, is that the deficit in the Social Security System now amounts

no serious discussion among the Democratic candidates and only timid, unfocused exchanges by the Republicans. But what are elections about, if not to lay problems of this enormity before the people and compete with political solutions? Presidential hopefuls are outpromising each other on the amount of love and truth they will bring to the Oval Office. But what about the $4 trillion?

The only lively discussion underway in Washington is how to finance the immediate deficits, $4.3 billion this year and growing. President

Social Security

THE WHITE HOUSE

WASHINGTON

Cannon

May 26, 1976

see me

Dick

MEMORANDUM FOR: DICK CHENEY

FROM: JIM CANNON Jim

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(1) First, it does not mention the President's announced decision to correct the "flaw" in the system which would eliminate approximately half of the long-range problem. The editorial asks rhetorically why the politicians are "so quiet" about the problem. Citing this potential problem specifically, we incorporated a reference to the President's decoupling decision into the President's California speech to a retirement community. For some unexplained reason, this reference was eliminated in the final draft of the speech, thus exposing the President to this unfair criticism.

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The trustees now make "optimistic," "intermediate," and "pessimistic" assumptions. Their intermediate projection, the best guess, is that the deficit in the Social Security System now amounts to 8% of taxable payroll. Expressing the deficit with a single digit

no serious discussion among the Democratic candidates and only timid, unfocused exchanges by the Republicans. But what are elections about, if not to lay problems of this enormity before the people and compete with political solutions? Presidential hopefuls are outpromising each other on the amount of love and truth they will bring to the Oval Office. But what about the $4 trillion?

The only lively discussion underway in Washington is how to finance the immediate deficits, $4.3 billion this year and growing. President Ford wants to put the tax rate up, the Democrats want to put the wage base up or use non-existent general

Social Security

THE WHITE HOUSE

WASHINGTON

J —
Give me copy of this to talk w/ Cheney

June 2, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ALLEN MOORE AM

SUBJECT: Weekly Status Report

Social Security

The draft legislation is expected from HEW early next week. It will then go through the internal staffing process. Barring any major difficulties with content (which is unlikely), we could be sending up a bill two weeks later. Social Security Administration is working on a draft message which will probably incorporate the following:

(1) President's budget and legislative proposals incorporated three items reflecting a commitment both to insuring a strong, viable system and to 32 million recipients

A. Cost-of-living increases

B. Payroll tax increase

C. Decoupling proposal

(2) Respond to Trustee's Report findings on long-range financing problems

A. Cite problem of estimating 75 years into the future.

B. Point out problem occurs largely after turn-of-century, thus providing time for careful analysis and corrective action.

C. Indicate the decoupling proposal represents an important first step to solving the problem (describe double-indexing flaw briefly).

(3) Indicate need to prod a hesitant Congress to act.

Very important

Did you hear report of what Rep Jim Burke said? Jim

These points were incorporated into a statement I wrote ten days ago and cleared with OMB and HEW for inclusion in some California speeches. The point on decoupling was ultimately reduced to one paragraph to be inserted in the Orben text. The speech actually given bore only general resemblance to the advance text and the decoupling reference was removed.

I have a note to talk w/ Cheney

When I brought this to your attention last week, you mentioned it to Jim Cavanaugh who had me insert the same point in last Wednesday's speech to the Ohio Governor's Conference on Aging. Once again, the item was left out of the speech given. This leaves us in the vulnerable position of having given no recognition of the 1976 Trustee's Report, its findings, or the editorial comment accompanying it.

Income Assistance Simplification Act

We are waiting for a response from O'Neill on the modest changes sent to him yesterday. We do not yet have a transmittal date. Should I be doing anything more about sponsors?

THE WHITE HOUSE

WASHINGTON

June 16, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ALLEN MOORE AM

SUBJECT: Briefing memo to the President for your signature on tomorrow morning's Social Security session

The attached memo needs your signature.

I have also attached a copy of the "Message on Social Security" and a "Statement on Social Security."

I plan to accompany you to the session.

Still working on clearances.

Attachments

THE WHITE HOUSE

FACT SHEET

SOCIAL SECURITY BENEFIT INDEXING ACT

The President announced that he is today proposing the Social Security Benefit Indexing Act to eliminate a flaw in the current system which, by unintentionally overadjusting for inflation, serves to undermine the underlying principles of the program and is expected to produce intolerable costs to the system over the next seventy-five years.

In a Message to the Congress on February 9, 1976, the President described this proposal:

> . . . to avoid serious future financing problems I will submit later this year a change in the Social Security laws to correct a serious flaw in the current system. The current formula which determines benefits for workers who retire in the future does not properly reflect wage and price fluctuations. This is an [inadvertence] which could lead to unnecessarily inflated benefits.

I. Current Social Security Benefit Formula

Social security benefits are calculated by applying a formula to an individual's average monthly wage (AMW) while covered by Social Security. The formula:

137.77% of first $110 of AMW;
50.11% of next $290 of AMW;
46.83% of next $150 of AMW;
55.04% of next $100 of AMW;
30.61% of next $100 of AMW;
25.51% of next $250 of AMW;
22.98% of next $175 of AMW; and
21.28% of next $100 of AMW.

The computation period for determining the AMW for most people retiring is 19 years, and will extend to 35 years for all retirees by 1994. It should be noted that the formula is weighted in favor of the lower paid employee, i.e. the lower an individual's AMW, the higher the proportion of AMW replaced with benefits.

II. The "Flaw" in the 1972 Social Security Amendments

Prior to 1972, all increases in Social Security benefits required Congressional action. The 1972 Social Security Amendments built into the law automatic cost-of-living escalators. For those already receiving benefits, these provisions guarantee that their benefits would keep pace with growth in the Consumer Price Index. The provisions also aid those still working by increasing the percentages in the benefit formula by CPI increases.

It was not until later that the full implications of this latter "automatic cost-of-living escalator" came to be understood. Inflation not only automatically increases the formula for calculating initial benefits of new retirees, but also it is accompanied by inflationary increases in wages. Rising wages result in higher average earnings, which result in a higher AMW, which in turn bring about higher initial Social Security benefits. Therefore, persons still working benefit from an overadjustment for inflation -- an automatic increase in the benefit calculation formula and inflation-induced wage increases.

The impact of this flaw depends upon the behavior of prices and wages in the future. Different assumptions about wage and price growth produce radically different long-range benefits and costs, thus making the system unstable. Recent projections of the Social Security system's future (based on inflation in 1974 and 1975) indicate a wholly unintended and dangerous trend: initial benefits would grow over time to the point where a great many new retirees would receive benefits in excess of the highest wages they ever earned (See Table 1).

These inflated benefits also would place severe long-term financial pressures on Social Security. Adding to the long-range cost problem is the fact that low U.S. fertility rates are expected to result in a declining ratio of workers (Social Security contributors) to retirees (Social Security beneficiaries).

The 1976 Social Security Trustees Report estimates that the long-range costs of the current system would exceed projected revenues by an average annual amount of 8% of covered payroll (See Tables 2 and 3).

A broad consensus has emerged that these unintentional increases in benefits and their associated costs must be eliminated, and the system stabilized.

III. The Administration Proposal

The Administration proposal would correct the defect in the current system by modifying the formula to ensure that future initial retirement benefits are a constant share of preretirement earnings. This would eliminate half of the estimated long-range financial deficit, and yet continue the system's commitment to increase benefits in accord with inflation.

A. The proposed benefit formula

The proposed method of calculating initial benefits is far more sophisticated and much fairer, than the current formula. Instead of merely adding up prior years' earnings (as with the current formula), an individual's earnings would be adjusted ("indexed") to take account of increases in average wages during a person's working years. From these calculations an average indexed monthly wage (AIME) would be derived. This number would be quite different from the average monthly wage (AMW) calculated currently (AIME's will always be much larger than AMW's). Therefore, a new formula would be applied to the AIME to determine a retiree's initial benefits. The formula is designed to approximate as closely as possible the benefit amounts payable under present law in January, 1978 (the month the revised formula is expected to go into effect). The formula:

91% of the first $175 of AIME;
33% of next $875 of AIME; and
17% of remaining AIME.

In the future, the dollar amounts in the formula would be adjusted automatically each year as average covered wages increase. In effect, future initial benefits will continue to increase with inflation and wage grow th, but the current overadjustment will be eliminated. As under present law, all beneficiaries would receive automatic annual cost-of-living increases in their benefits.

B. Replacement rates

Replacement rates (i.e. benefits as a percent of preretirement earnings) will remain constant through time at approximately the levels that prevail when the new system becomes effective. Table 1 projects replacement rates under the current and proposed formulas for workers with low, average, and maximum wages.

C. Transition period

To ensure fairness, the proposal would incorporate a ten-year transition period during which those persons retiring would be assured that their benefits are no lower under the new formula than they would have been under the old formula at the beginning of the phase-in period.

D. Impact on Long-range Costs

Tables 2 and 3 indicate that the proposed law is estimated to reduce the projected long-range average annual deficit (measured as a percent of taxable payroll) from 8% to 4%.

E. The Remaining Long-range Financial Pressure

Seventy-five year estimates are inherently speculative and quite complex -- dependent upon assumptions of inflation, economic growth, the size and makeup of families, etc. Nevertheless, current projections show a sizeable financing problem after the turn of the century even with the Administration proposal. The Administration proposal would help stabilize the system against variations in the economy, thus providing sufficient time over the next several years to analyze and correct for the remaining financial pressures on the system's future.

DRAFT MESSAGE ON SOCIAL SECURITY

I am today submitting to Congress a legislative proposal that will correct a serious flaw in the Social Security system. It is the last of three components of my 1977 budget and legislative program which stem directly from my strong personal commitment to insure a secure and viable Social Security system. This commitment embraces both my concern for the 32 million persons who currently depend on Social Security benefits for income, and my desire to protect the financial integrity of the system for the millions of workers who will depend on it in the future.

My program to insure the integrity of the Social Security system, as outlined in January of this year, includes:

> First, a full cost-of-living increase for all beneficiaries, scheduled to take effect in checks sent out in July of this year.

> Second, an increase in Social Security payroll contributions by three-tenths of one percent for both employees and employers. This increase would remedy the immediate, short-term financing problem facing Social Security. The drain on the trust funds -- which now pay out about $4 billion more in benefits each year than they take in -- would be stopped. This correction would cost no

employee more than $1 per week in additional contributions.

Third, legislation to correct a potentially serious flaw in the Social Security benefit structure which helps to create severe long-range financial pressures on the system. My proposal would eliminate this flaw and be a major step towards resolving the long-range financial problem. It would help stabilize the system and permit sufficient time for careful and thorough analysis of the remaining future financial pressures.

What is the status of these items?

First of all, the full cost-of-living increase will be included in July Social Security checks, but, unfortunately, the Congress has so far avoided its responsibility to provide a means of paying for the full cost of the system. I view this as a very unfortunate response to a matter touching directly on the financial integrity of the Social Security system.

It is of the utmost importance that the proposal I am sending up today receives more responsible Congressional attention.

In brief, the flaw we are seeking to eliminate was incorporated into the system in the 1972 Amendments to the Social Security Act. Changes in the program made at that time could cause future benefits for persons currently working to increase faster than the growth of wages and inflation.

The effect of this flaw, over time, could be to give to many new retirees Social Security benefits in excess of the highest earnings they ever received. Such a result was never intended and is clearly undesirable, both from the standpoint of the individual and because of excessive costs to the system.

My proposal would correct this defect by insuring that future retirement benefits are a constant share of an individual's preretirement earnings. This produces three important improvements:

- It eliminates the long-term financial deficiency associated with the flaw (about half the projected long-range deficit), and moves more closely to the system which Congress intended to create in 1972;

- It helps to stabilize the system despite variations in the economy -- a factor which facilitates future policymaking; and

- It makes individual benefits more predictable than under the current system, thus aiding individuals in their planning for retirement.

To insure fairness to those approaching retirement as these proposals are implemented, I am suggesting a ten-year phase-in period during which those persons retiring will be assured that their benefits are no lower under the new formula than they would have been under the old formula at the beginning of the phase-in period.

The correction of the flaw will be a major step toward bringing the system back into financial balance over the long-term. But it is not the complete solution and we should not pretend that it is. The Social Security Trustees estimate that even with this legislation, sizeable long-term financial pressures remain.

I should add that this estimation process is inherently speculative and quite complex. Throughout the past few months of careful study, that fact has repeatedly been made more obvious. Projecting such things as inflation, economic growth, and the size and makeup of families far into the future is a difficult task at best. Nevertheless, according to our current projections, we will have a sizeable financing problem after the turn of the century.

There is sufficient time, however, to analyze this situation and to correct it. If action is taken promptly on my proposals the system will not be in jeopardy. But this should not be viewed as reason to delay in our efforts to identify the further steps needed to protect fully the system's future financial integrity. Over the next few years I intend to work with the Congress in resolving these problems.

But the time to begin is now. We should act immediately to solve a considerable portion of the short and long-range problems. Two steps must be taken towards this end. First, the corrected benefit formula that I am submitting today would eliminate more than half of the estimated long-range financial problem. Second, the .3% increase in employee and employer contributions which I proposed earlier this year would bring the system into current balance. Therefore, I strongly urge the Congress to move immediately to enact these two vital proposals into law.

We must act now to protect both those who currently receive benefits, and those who are contributing to the system toward their future retirement.

DRAFT STATEMENT ON SOCIAL SECURITY

I am today submitting to Congress a legislative proposal that will correct a serious flaw in the Social Security system. This proposal is the last of three components of my 1977 budget and legislative program intended to insure a secure and viable Social Security system. My strong personal commitment to Social Security embraces both a genuine concern for the 32 million persons who currently depend on Social Security benefits for income, and an unyielding dedication to protect the financial integrity of the system for the millions of workers who will depend on it in the future.

My program to insure the integrity of the Social Security system, as outlined in January of this year, includes:

First, a full cost-of-living increase for all beneficiaries, scheduled to take effect in checks sent out in July of this year.

Second, an increase in Social Security payroll contributions by three-tenths of one percent for both employees and employers. This increase would remedy the immediate, short-term financing problem facing Social Security. It would stop the drain on the trust funds -- which are now expected to pay out about $4 billion more in benefits each year than they take in. This correction would cost no employee more than $1 per week in additional contributions.

Third, the legislation I am transmitting today to correct a potentially serious flaw in the Social Security benefit structure which, if left unchanged, is now expected to undermine the underlying principles of Social Security and to help create severe long-range financial pressures on the system. My proposal would eliminate this flaw and be a major step towards resolving the long-range financial problem. It would help stabilize the system and permit sufficient time for careful and thorough analysis of the remaining future financial pressures.

What is the status of these items?

First of all, the full cost-of-living increase will be included in July Social Security checks, but, unfortunately, the Congress has so far avoided its responsibility to provide a means of paying for the full cost of the system. I view this as a very unfortunate response to a matter touching directly on the financial integrity of the Social Security system.

If we are successfully to preserve the system's financial integrity, we need prompt action on both of my proposals -- the increase in payroll contributions, and the flaw-correcting proposal I am transmitting today.

I strongly urge the Congress to move immediately to enact these vital proposals into law.

file
Welfare - S.S.

THE WHITE HOUSE

WASHINGTON

SIGNING CEREMONY
MESSAGE TO THE CONGRESS ON
SOCIAL SECURITY (DECOUPLING) LEGISLATION

Thursday, June 17, 1976
10:15 a.m. (10 minutes)
The Oval Office

From: Jim Cannon Jim

I. PURPOSE

To sign your "Message on Social Security" in connection with HEW transmittal of Social Security Decoupling Legislation.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This legislation incorporates your decision to "decouple" the Social Security system. Congressman Burke's Ways and Means Subcommittee on Social Security has scheduled hearings for Friday, June 18, on this issue.

B. Participants: Secretary David Mathews
J. Bruce Cardwell, Commissioner, Social Security Administration

C. Press Plan: To be announced. Press and photo opportunity.

III. TALKING POINTS

To be provided by Robert T. Hartmann

Soc Sec.

FOR IMMEDIATE RELEASE JUNE 17, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I am today submitting to the Congress a proposal which will correct a serious flaw in the Social Security system's formula for determining benefits. The new benefit formula contained in my proposal will prevent Social Security payment levels from being distorted by unusually high periods of inflation while helping to protect the financial integrity of the system itself.

This proposal is the last of three components of my 1977 budget and legislative programs intended to insure a secure and viable Social Security system. My program calls for a full cost-of-living increase for all beneficiaries, scheduled to take effect in checks sent out in July of this year.

It calls for an increase in Social Security payroll contributions by three-tenths of one percent for both employees and employers. This increase would remedy the immediate, short-term financing problem facing Social Security. It would stop the drain on the trust funds--which are now expected to pay out about four billion dollars more in benefits each year than they take in. This correction would cost no employee more than one dollar per week in additional contributions.

The third component of my program is the legislation I am transmitting today to correct a serious flaw in the Social Security benefit structure. If left unchanged, this flaw could damage the underlying principles of Social Security and help create severe long-range financial pressures on the system. My proposal would eliminate this flaw and be a major step towards resolving the long-range financial problem. It would help stabilize the system and permit sufficient time for careful and thorough analysis of the remaining future financial pressures.

Both of these proposals are vital. While I am happy that a full cost-of-living increase will be included in July Social Security checks, I regret to say that the Congress has avoided its responsibility to provide a means of paying for the full cost of the system.

If we are successfully to preserve the financial integrity of the Social Security system, we need prompt action on both of my proposals. I strongly urge the Congress to move immediately and without further delay to enact them into law.

# # #

Soc Sec.

EMBARGOED FOR RELEASE UNTIL 12:00 NOON (EDT) JUNE 17, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

SOCIAL SECURITY BENEFIT INDEXING ACT

The President announced today that he is proposing the Social Security Benefit Indexing Act to correct a flaw which has existed in the Social Security system since 1972. While eliminating half of the estimated long-range financial deficit facing the system, his proposal would continue to increase benefits in accord with inflation.

If his proposal is not enacted, the flaw, an unintended over-adjustment for inflation, will undermine the sound principles upon which Social Security has been built. This will produce intolerable costs over the next seventy-five years and threaten the ability of the system to pay retirees the benefits they have earned.

In a Message to the Congress on February 9, 1976, the President described this proposal:

> . . . to avoid serious future financing problems I will submit later this year a change in the Social Security laws to correct a serious flaw in the current system. The current formula which determines benefits for workers who retire in the future does not properly reflect wage and price fluctuations. This is an [inadvertence] which could lead to unnecessarily inflated benefits.

I. The "Flaw" in the Current System

Prior to 1972, all increases in Social Security benefits required Congressional action. The 1972 Social Security Amendments built into the law automatic cost-of-living escalators. For those already receiving benefits, these provisions guarantee that their benefits will keep pace with growth in the Consumer Price Index.

The provisions were also intended to protect current workers against inflation through annual modifications in the formula used to compute initial benefits. Only recently have the full implications of these modifications been recognized. They result in a significant overadjustment for inflation, causing initial benefits to grow over time to the point where a great many new retirees would receive benefits in excess of the highest wages they ever earned.

These inflated benefits would place severe long-term financial pressures on Social Security. Adding to the long-range cost problem is the fact that, as currently estimated, U.S. fertility rates are expected to result in a declining ratio of workers (Social Security contributors) to retirees (Social Security beneficiaries).

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The 1976 Social Security Trustees Report estimates that the long-range costs of the current system would exceed projected revenues by an average annual amount of 8% of covered payroll.

II. The Administration Proposal

The Administration proposal would eliminate half of the estimated long-range financial deficit, and yet continue the system's commitment to increase benefits in accord with inflation. The formula is designed to approximate as closely as possible the benefit amounts payable under present law in January, 1978 (the month the revised formula is expected to go into effect).

A. Benefits

A useful tool for comparing the proposed formula with current law is "replacement rates" (i.e., initial benefits as a percent of preretirement earnings). Table 1 illustrates how the proposed law stabilizes replacement rates at current levels, and prevents the unnecessary escalation caused by the flaw in existing law. For example, a low wage earner would continue through time to receive benefits replacing approximately 62% of preretirement earnings. This compares to benefits under current law which would, if unchecked, grow to 100% of preretirement earnings by 2020 and to 119% by 2050. (See Table 1 for additional comparisons of persons with average and maximum wages).

B. Long-Range Costs

The proposed law would eliminate approximately half of the estimated long-range deficit projected for the system under current law. Tables 2 and 3 illustrate how this occurs over the next seventy-five years.

C. Annual Cost-of-Living Increases

As under present law, all beneficiaries would receive automatic cost-of-living increases in their benefits.

D. Remaining Long-Range Financial Pressures

Seventy-five year estimates are inherently speculative and quite complex --- dependent upon assumptions of inflation, economic growth, the size and makeup of families, etc. Nevertheless, current projections show a sizeable financing problem after the turn of the century even with the Administration proposal (See Tables 2 and 3). The Administration proposal would help stabilize the system against variations in the economy, thus providing sufficient time over the next several years to analyze and correct for the remaining financial pressures on the system's future.

TABLE 1

Projected Replacement Rates
for Illustrative Cases of Regular Workers with Earnings
at Low, Average, and Maximum Levels 1/

Initial Benefits as a Percent of Final Year Earnings

Year of Entitlement at Age 65	Low Earnings		Average Earnings		Maximum Earnings	
	Present Law	Proposal	Present Law	Proposal	Present Law	Proposal
1976	63%	63%	44%	44%	33%	33%
1980	62	61	44	43	34	33
1990	66	62	47	44	34	33
2000	78	62	51	44	37	34
2010	92	62	55	44	40	35
2020	100	62	59	44	43	36
2030	108	62	62	44	44	36
2040	114	62	64	44	46	36
2050	119	62	66	44	47	36

1/ The 1975 earnings levels of $3,400 for low earners, $8,600 for average earners, and $14,100 for maximum earners are adjusted annually according to the intermediate set of assumptions used in the 1976 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds.

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TABLE 2

Comparison of OASDI Long-Range Cost
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(in Percent)

	Expenditures as Percent of Taxable Payroll 1/		
Year	Present Law	Bill	Difference
1980	10.68	10.70	-.02
1990	12.06	11.82	.24
2000	13.41	12.38	1.03
2010	15.99	13.41	2.58
2020	21.29	16.46	4.83
2030	26.03	18.92	7.11
2040	27.45	18.87	8.58
2050	28.59	18.77	9.82
25-year average:			
1976-2000	11.81	11.53	.28
2001-2025	17.95	14.60	3.35
2026-2050	27.04	18.82	8.22
75-year average:			
1976-2050	18.93	14.98	3.95

1/ Based on the assumptions of alternative II in the 1976 OASDI Trustees Report.

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Comparison of OASDI Actuarial Balance
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1st 25-year period (1976-2000)			
Expenditures	11.81	11.53	.28
Tax Rate	9.90	9.90	--
Difference	-1.91	-1.63	.28
2nd 25-year period (2001-2025)			
Expenditures	17.95	14.60	3.35
Tax Rate	11.10	11.10	--
Difference	-6.85	-3.50	3.35
3rd 25-year period (2026-2050)			
Expenditures	27.04	18.82	8.22
Tax Rate	11.90	11.90	--
Difference	-15.14	-6.92	8.22
Total 75-year period (1976-2050)			
Expenditures	18.93	14.98	3.95
Tax Rate	10.97	10.97	--
Difference	-7.96	-4.01	3.95

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THE WHITE HOUSE

WASHINGTON

SIGNING CEREMONY
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B. Participants: Secretary David Mathews
J. Bruce Cardwell, Commissioner, Social Security Administration

C. Press Plan: To be announced. Press and photo opportunity.

III. TALKING POINTS

To be provided by Robert T. Hartmann

[6/17/76]

TO THE CONGRESS OF THE UNITED STATES:

I am today submitting to the Congress a legislative proposal that will correct a serious flaw in the Social Security system. This proposal is one of three components of my 1977 budget and legislative program intended to insure a secure and viable Social Security system. My strong personal commitment to Social Security embraces both a genuine concern for the 32 million persons who currently depend on Social Security benefits for income, and an unyielding dedication to protect the financial integrity of the system for the millions of workers who will depend on it in the future.

My program to insure the integrity of the Social Security system, as outlined in January of this year, includes:

First, a full cost-of-living increase for all beneficiaries, scheduled to take effect in checks sent out in July of this year.

Second, an increase in Social Security payroll contributions by three-tenths of one percent for both employees and employers. This increase would remedy the immediate, short-term financing problem facing Social Security. It would stop the drain on the trust funds -- which are now expected to pay out about $4 billion more in benefits each year than they take in. This correction would cost no employee more than $1 per week in additional contributions.

Third, legislation to correct a serious flaw in the Social Security benefit structure which, if left unchanged, would undermine the principles of Social Security and create severe long-range financial pressures on the system.

My proposal would eliminate this flaw and be a major step towards resolving the long-range financial problem. It would help stabilize the system and permit sufficient time for careful and thorough analysis of the remaining future financial pressures.

What is the status of these items?

I am happy to report that the full cost-of-living increase will be included in July Social Security checks. Unfortunately, the Congress has so far avoided its responsibility to provide a means of paying for the full cost of the system.

The proposal I am submitting today corrects an inadequate method of adjusting benefit payments which, over time, could mean that many new retirees would receive Social Security benefits in excess of the highest earnings they ever received. Such a result was never intended and is clearly undesirable, both from the standpoint of the individual and the excessive costs to the system.

My proposal would correct this defect by ensuring that future retirement benefits are a constant share of preretirement earnings. This produces three important improvements:

-- It eliminates the long-term financial deficiency associated with the flaw (about half the projected long-range deficit), and moves more closely to the system which Congress intended to create in 1972;

-- It helps to stabilize the system despite variations in the economy; and

-- It makes individual benefits more predictable than under the current system.

To insure fairness to those approaching retirement as these proposals are implemented, I am suggesting a ten-year phase-in period during which those persons retiring will be assured that their benefits are no lower under the new formula than they would have been under the old formula at the time the law goes into effect.

The correction of the flaw will be a major step toward bringing the system back into financial balance over the long-term. But it is not the complete solution and we should not pretend that it is. The Social Security Trustees estimate that even with this legislation, sizeable long-term financial pressures remain.

There is sufficient time, however, to analyze this situation and to correct it. If action is taken promptly on my proposals the system will not be in jeopardy. But this should not delay our efforts to identify the further steps needed to protect the system's permanent financial integrity.

Over the next few years I intend to work with the Congress in resolving these problems. But the time to begin is now. We must begin immediately to solve both the short and long-range problems. The corrected benefit formula that I am submitting today would eliminate more than half of the estimated long-range financial problem. The .3% increase in employee and employer contributions which I proposed earlier this year would bring the system into current balance.

In order to protect both those who currently receive benefits and those who are contributing to the system towards their future retirement, I urge the Congress to move immediately to enact these two vital proposals into law.

THE WHITE HOUSE,

Press

STATEMENT ON SOCIAL SECURITY

THURSDAY, JUNE 17, 1976

I AM TODAY SUBMITTING TO THE CONGRESS A PROPOSAL WHICH WILL CORRECT A SERIOUS FLAW IN THE SOCIAL SECURITY SYSTEM'S FORMULA FOR DETERMINING BENEFITS. THE NEW BENEFIT FORMULA CONTAINED IN MY PROPOSAL WILL PREVENT SOCIAL SECURITY PAYMENT LEVELS FROM BEING DISTORTED BY UNUSUALLY HIGH PERIODS OF INFLATION WHILE HELPING TO PROTECT THE FINANCIAL INTEGRITY OF THE SYSTEM ITSELF.

THIS PROPOSAL IS THE LAST OF THREE COMPONENTS OF MY 1977 BUDGET AND LEGISLATIVE PROGRAMS INTENDED TO INSURE A SECURE AND VIABLE SOCIAL SECURITY SYSTEM.

MY PROGRAM CALLS FOR A FULL COST-OF-LIVING INCREASE FOR ALL BENEFICIARIES, SCHEDULED TO TAKE EFFECT IN CHECKS SENT OUT IN JULY OF THIS YEAR.

IT CALLS FOR AN INCREASE IN SOCIAL SECURITY PAYROLL CONTRIBUTIONS BY THREE-TENTHS OF ONE PERCENT FOR BOTH EMPLOYEES AND EMPLOYERS. THIS INCREASE WOULD REMEDY THE IMMEDIATE, SHORT-TERM FINANCING PROBLEM FACING SOCIAL SECURITY. IT WOULD STOP THE DRAIN ON THE TRUST FUNDS -- WHICH ARE NOW EXPECTED TO PAY OUT ABOUT FOUR BILLION DOLLARS MORE IN BENEFITS EACH YEAR THAN THEY TAKE IN. THIS CORRECTION WOULD COST NO EMPLOYEE MORE THAN ONE DOLLAR PER WEEK IN ADDITIONAL CONTRIBUTIONS.

THE THIRD COMPONENT OF MY PROGRAM IS THE LEGISLATIO I AM TRANSMITTING TODAY TO CORRECT A SERIOUS FLAW IN THE SOCIAL SECURITY BENEFIT STRUCTURE. IF LEFT UNCHANGED, THIS FLAW COULD DAMAGE THE UNDERLYING PRINCIPLES OF SOCIAL SECURITY AND HELP CREATE SEVERE LONG-RANGE FINANCIAL PRESSURES ON THE SYSTEM. MY PROPOSAL WOULD ELIMINATE THIS FLAW AND BE A MAJOR STEP TOWARDS RESOLVING THE LONG-RANGE FINANCIAL PROBLEM. IT WOULD HELP STABILIZE THE SYSTEM AND PERMIT SUFFICIENT TIME FOR CAREFUL AND THOROUGH ANALYSIS OF THE REMAINING FUTURE FINANCIAL PRESSURES.

BOTH OF THESE PROPOSALS ARE VITAL. WHILE I AM HAPPY THAT A FULL COST-OF-LIVING INCREASE WILL BE INCLUDED IN JULY SOCIAL SECURITY CHECKS, I REGRET TO SAY THAT THE CONGRESS HAS AVOIDED ITS RESPONSIBILITY TO PROVIDE A MEANS OF PAYING FOR THE FULL COST OF THE SYSTEM.

IF WE ARE SUCCESSFULLY TO PRESERVE THE FINANCIAL INTEGRITY OF THE SOCIAL SECURITY SYSTEM, WE NEED PROMPT ACTIO ON BOTH OF MY PROPOSALS.

I STRONGLY URGE THE CONGRESS TO MOVE IMMEDIATELY AND WITHOUT FURTHER DELAY TO ENACT THEM INTO LAW.

END OF TEXT

Jim

I am going over to the West Wing lobby to meet Mathews and Cardwell. Where should we meet you?

Outside Oval Office

[6/17/76]

Office of the White House Press Secretary

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FACT SHEET

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If his proposal is not enacted, the flaw, an unintended over-adjustment for inflation, will undermine the sound principles upon which Social Security has been built. This will produce intolerable costs over the next seventy-five years and threaten the ability of the system to pay retirees the benefits they have earned.

In a Message to the Congress on February 9, 1976, the President described this proposal:

> . . . to avoid serious future financing problems I will submit later this year a change in the Social Security laws to correct a serious flaw in the current system. The current formula which determines benefits for workers who retire in the future does not properly reflect wage and price fluctuations. This is an [inadvertence] which could lead to unnecessarily inflated benefits.

I. The "Flaw" in the Current System

Prior to 1972, all increases in Social Security benefits required Congressional action. The 1972 Social Security Amendments built into the law automatic cost-of-living escalators. For those already receiving benefits, these provisions guarantee that their benefits will keep pace with growth in the Consumer Price Index.

The provisions were also intended to protect current workers against inflation through annual modifications in the formula used to compute initial benefits. Only recently have the full implications of these modifications been recognized. They result in a significant overadjustment for inflation, causing initial benefits to grow over time to the point where a great many new retirees would receive benefits in excess of the highest wages they ever earned.

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II. The Administration Proposal

The Administration proposal would eliminate half of the estimated long-range financial deficit, and yet continue the system's commitment to increase benefits in accord with inflation. The formula is designed to approximate as closely as possible the benefit amounts payable under present law in January, 1978 (the month the revised formula is expected to go into effect).

A. Benefits

A useful tool for comparing the proposed formula with current law is "replacement rates" (i.e., initial benefits as a percent of preretirement earnings). Table 1 illustrates how the proposed law stabilizes replacement rates at current levels, and prevents the unnecessary escalation caused by the flaw in existing law. For example, a low wage earner would continue through time to receive benefits replacing approximately 62% of preretirement earnings. This compares to benefits under current law which would, if unchecked, grow to 100% of preretirement earnings by 2020 and to 119% by 2050. (See Table 1 for additional comparisons of persons with average and maximum wages).

B. Long-Range Costs

The proposed law would eliminate approximately half of the estimated long-range deficit projected for the system under current law. Tables 2 and 3 illustrate how this occurs over the next seventy-five years.

C. Annual Cost-of-Living Increases

As under present law, all beneficiaries would receive automatic cost-of-living increases in their benefits.

D. Remaining Long-Range Financial Pressures

Seventy-five year estimates are inherently speculative and quite complex -- dependent upon assumptions of inflation, economic growth, the size and makeup of families, etc. Nevertheless, current projections show a sizeable financing problem after the turn of the century even with the Administration proposal (See Tables 2 and 3). The Administration proposal would help stabilize the system against variations in the economy, thus providing sufficient time over the next several years to analyze and correct for the remaining financial pressures on the system's future.

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SSI

WASHINGTON REPORT ON Children's Services

Published by the Child Welfare League of America
67 Irving Place, New York, N.Y. 10003

Volume 1, Number 7 - October 1976

SSI AND CHILDREN'S SERVICES: PART I

Just prior to its adjournment, the 94th Congress passed four child-related amendments to the Supplemental Security Income (SSI) Act (Title XVI of the Social Security Act). Two of these amendments attempt to resolve the problems facing SSI blind and disabled children: the Mikva-Hathaway amendment and the Keys amendment; the other two include technical improvements in the SSI program.

Many observers feel that these amendments are inadequate. Specifically, there is concern that the Mikva-Hathaway amendment does not deal adequately with the SSI program as it affects blind and disabled children.

Despite the improvements voted this year in the SSI program, many observers are convinced children's needs will be met only when Congress undertakes a comprehensive review of the SSI program as it affects eligible children.

WHAT IS SSI?

The SSI program was enacted as Title XVI of the Social Security Act (PL 92-603) in 1972 to replace existing State operated grant-in-aid public assistance programs for needy aged, blind, and disabled adults and children. Under the former State programs, Federal matching funds were available to the States according to formulas specified in the law and administered by the State, and benefit levels varied widely from State to State.

The SSI program is administered by the Social Security Administration and Federally financed with uniform eligibility and benefit payments. It is geared to assist individuals who cannot be self-sufficient and are unable to engage in "substantial gainful" activities.

The SSI benefit is not intended to meet all the financial needs of blind and disabled children; Medicaid is available for medical care. In some cases, however, a

The potential impact of the SSI program on children is so large in terms of expanded services and funding that two issues of Washington Report on Children's Services are being devoted to the SSI legislation. Part II, concluding the discussion of the SSI program, will be published and mailed early in November so subscribers will have the full discussion as soon as possible. The Editors.

child's eligibility for other benefits, such as Medicaid, may depend on being eligible for SSI.

Title XVI of the Social Security Act reflects the adult welfare origin of the legislation. Disability criteria is based primarily on the ability to work. An eligible individual is (emphasis added):

> considered to be disabled for purposes of this title if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental 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 twelve months (or, in the case of a child under the age of 18, if he suffers from any medically determinable physical or mental impairment of comparable severity).
>
> ....an individual shall be determined to be under a disability only if his physical or mental impairment or impairments are of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work which exists in the immediate area in which he lives, or whether a specific vacancy exists for him, or whether he would be hired if he applied for work. For purposes of the preceding sentence (with respect to any individual), "work which exists in the national economy" means work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

NEW CHILD-RELATED SSI AMENDMENTS

The 94th Congress attached four child-related SSI amendments to three separate and unrelated pieces of legislation. Originally, the substance of these amendments has been included in HR 8911, a House-passed measure which would have made over 20 changes in the current SSI program but the Senate never considered HR 8911 as a whole.

Two of the four amendments were added to the Unemployment Compensation Amendments of 1976 (HR 10210) which President Ford signed on Oct. 20:

1. Rep. Abner Mikva (D-Ill.) introduced an amendment which would have provided full Federal reimbursement for the referral of blind and disabled children under age six receiving SSI benefits for appropriate rehabilitation services. This section of Mikva's bill was amended by Sen. William Hathaway (D-Me.) to provide $30 million annually through Fiscal Year 1979 for the referral and provision of services to preschool children under age seven. In addition, the Mikva-Hathaway amendment, as passed by the Senate, requires HEW to promulgate child-related disability criteria within 120 days of enactment;

2. An amendment sponsored by Rep. Martha Keys (D-Kan.) now allows SSI payments to individuals living in publicly supported non-medical group homes for 16 and fewer residents.

A third amendment extending presumptive eligibility to the blind was attached to HR 7228 which was also signed by President Ford on Oct. 20.

The fourth SSI amendment affecting children was attached to HR 13500 and signed into law Oct. 21. This amendment mandates that States supplementing the basic SSI payment pass through all Federal cost-of-living increases.

MIKVA-HATHAWAY AMENDMENT

This amendment attempts to resolve three basic problems in the SSI program adversely affecting SSI children:

1. The lack of mechanisms permitting SSI eligible children to receive benefits;

2. The referral of disabled children under age 13 to State vocational rehabilitation agencies which often do not offer services helpful to these children;

3. The lack of requirements that mandate referral of these children to the appropriate services they need.

The Mikva-Hathaway amendment requires HEW to implement provisions of the original SSI law that have essentially gone unnoticed since the law went into effect in January, 1974. Within four months HEW is required to develop child-related criteria to determine SSI eligibility on the basis of disability. This part of the amendment is intended to resolve the problems plaguing eligibility determination of disabled children for SSI payments and benefits.

In addition, the Mikva-Hathaway amendment requires that disabled children under 16 be referred to the State agency administering Crippled Children's Services under Title V of the Social Security Act, or to an equivalent State agency. These agencies are required to establish individual service plans for each child and to refer each child to appropriate medical, educational, and social services. The State service plan must include a description of how it will coordinate with other appropriate State agencies. This section of the amendment will be implemented by the authorization of $30 million annually through Fiscal Year 1979.

Nina Solarz, Project Director of an SSI study being conducted for HEW by the National Council of Organizations for Children and Youth (NCOCY), raised some questions concerning the efficacy of this section of the Mikva-Hathaway amendment. The HEW-funded study examines the reasons why the number of SSI children nationwide is so small. Only 141,000 children are currently receiving SSI benefits although there are over 500,000 eligible children.

Solarz expects that the bulk of the $30 million will be spent on the cost of developing the State service plan rather than on referral or provision of services to disabled children. Both Solarz and Amy Hirschhorn, her assistant on the project, expressed concern that the money authorized under the Mikva-Hathaway amendment will benefit the Crippled Children's Agency or its equivalent rather than disabled children.

Solarz said, when questioned about the use made of her study findings, that the impact was yet to be felt. There were no attempts to utilize the unpublished study findings in developing the Mikva-Hathaway amendment, Solarz said. Those findings will be released at a symposium in Washington, D.C., Nov. 18-20. Solarz ackowledged having reservations about the Mikva-Hathaway amendment.

Allen Jensen, staff director of the House Ways and Means Subcommittee on Public Assistance, sees the problem of amendments related to SSI and services to disabled children as part of "an absence of public policy concerning who and for what purposes you are providing cash benefits to kids through SSI." Jensen also said many shared Solarz' concern that Congress had enacted the amendment without sufficient supporting data. Many believed there was no data as yet to support limiting the amendment to children six and under, Jensen reported. In addition, he said some questioned the wisdom of using the Crippled Children's agency given the fact that "a significant number of these agencies have not concentrated on anything other than orthopedic disabilities."

Susan Weiss of the National Association for Retarded Citizens described the Mikva-Hathaway amendment as a "pot of money for vaguely defined program services and a departure from the general revenue perspective" which the SSI program reflects. She echoed the concern of Solarz stating that she was unsure whether the funds were for the agencies dispensing the services or for the children receiving them.

Liz Robbins, Director of Governmental Affairs, Agency for Child Development, Human Resources Administration (New York City), said she expects that the number of preschool children assisted by the SSI program will increase greatly through the availability of Federal financing of rehabilitative, developmental, and medical services.

(To be concluded in the next issue) - Judith Paris

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INFORMATION

8

DOMESTIC COUNCIL

FROM: DAVID MATHEWS
(thru Bob Linder)

SUBJECT: Memo to the President informing him of increase in Social Security wage base.

Date: 10/7/76

COMMENTS:

The level of wages which are subject to Social Security "taxation" will rise in 1977 to $16,500 from $15,300. This increase, determined by law, must be announced on or before November 1. Mathews memo indicates this fact.

Mathews and O'Neill had discussed the matter independently this week, and O'Neill (with Cavanaugh concurrence) decided the announcement of the increase should be made immediately. This was done on Wednesday, October 6, and was covered in Thursday's papers. Therefore, I see no reason to send the Mathews letter on to the President.

A.M.

Allen

ACTION:

Date:

ACTION

DOMESTIC COUNCIL

FROM:
Secretary Mathews

SUBJECT:
Increase in Social Security Taxable Wage Base

Date: 10/12

COMMENTS:

I prepared this cover memo to the President per your request.

A.M.

ACTION:

Date:

Sn Sec

THE WHITE HOUSE

WASHINGTON

October 12, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON Jim

SUBJECT: Increase in Social Security Wage Base

The attached memorandum from Secretary Mathews informs you of a scheduled increase in the Social Security wage base (i.e. the level of earnings against which Social Security taxes are assessed). The wage base will increase from $15,300 to $16,500 in 1977. For persons earning $16,500 or more, the change will result in increased contributions of $70.20.

Secretary Mathews also points out that the amount of earnings a Social Security beneficiary may receive with no reduction in benefits increases from $2,760 to $3,000.

These changes are calculated from legislated formulas and were announced on Wednesday, October 6. (The law requires that these changes be announced by November 1 of each year.)

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

OCT 7 1976

MEMORANDUM FOR THE PRESIDENT

This is to inform you that on or before November 1, I am required by law to have published in the Federal Register the following changes that will be applicable during calendar year 1977 under the automatic provisions of the social security program.

1. The contribution and benefit base will increase from $15,300 in 1976 to $16,500 in 1977.

2. The monthly exempt amount under the retirement test will increase from $230 in 1976 to $250 in 1977. The corresponding annual exempt amount will increase from $2,760 in 1976 to $3,000 in 1977.

The contribution and benefit base is the maximum annual amount of earnings on which an employee or a self-employed person must pay social security tax contributions. It is also the maximum annual amount which may be credited toward benefits payable under the social security program.

The retirement test monthly exempt amount is the maximum amount that a social security beneficiary who is subject to the retirement test may earn in a month and still receive the entire amount of his benefit for the month. The corresponding annual exempt amount, equal to 12 times the monthly amount, is the maximum amount a beneficiary may earn in a year and still receive all of his benefits for the year.

Each of the 1977 amounts is determined on the basis of a formula, specified in the law, which automatically produces a mathematical result based upon reported statistics. The formula is designed to keep both the contribution and benefit base and the retirement test exempt amount up to date as average wage levels increase. The formula requires that to obtain each of the 1977 amounts the corresponding 1976 amount be multiplied by the ratio of the average amount, per employee, of the taxable wages of all employees reported under the program for the first calendar quarter of 1975 to the average amount of such wages reported for the first calendar quarter of 1974. Based on tabulated data derived from 100 percent of the processed reports of taxable wages for each of the two quarters, the required ratio is 1.074733.

Multiplying the 1976 contribution and benefit base of $15,300 by the above ratio produces the amount of $16,443.41. The law requires that this result must be rounded to the nearest multiple of $300, thus making the 1977 amount $16,500.

Multiplying the 1976 retirement test monthly exempt amount of $230 by the above ratio produces the amount of $247.19. The law requires that this result must be rounded to the nearest multiple of $10, thus making the 1977 amount $250.

Automatic increases in the contribution and benefit base play an important part in financing automatic cost-of-living increases in social security benefits. The increase in the base from $15,300 to $16,500 will result in an estimated increase of $2.3 billion in the social security tax liability on calendar year 1977 earnings, over and above the tax liability on calendar year 1977 earnings that would result if the contribution and benefit base in 1977 were to remain at the 1976 level of $15,300. The increase in taxes payable on 1977 earnings by the estimated 19 million workers with earnings of more than $15,300 will range up to a maximum of $70.20, each, for a wage earner and his employer or $94.80 for a self-employed person. In return, these higher paid workers will have greater benefit protection resulting from the increase in the maximum annual amount of earnings that are creditable toward benefits.

About 1.3 million beneficiaries will receive additional benefits as a result of the increase in the retirement test exempt amount in 1977. Additional benefit payments for months in calendar year 1977 will amount to an estimated $150 million, over and above the amount of benefits that would be paid for months in calendar year 1977 if the retirement test exempt amount for 1977 were to remain at $2,760.

Since these increases under the automatic provisions have been anticipated for some time, the resulting additional tax revenues and additional benefit payments have already been reflected in the planning of the Federal budget.

/s/David Mathews

Secretary

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

OCT 7 1976

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About 1.3 million beneficiaries will receive additional benefits as a result of the increase in the retirement test exempt amount in 1977. Additional benefit payments for months in calendar year 1977 will amount to an estimated $130 million, over and above the amount of benefits that would be paid for months in calendar year 1977 if the retirement test exempt amount for 1977 were to remain at $2,760.

Since these increases under the automatic provisions have been anticipated for some time, the resulting additional tax revenues and additional benefit payments have already been reflected in the planning of the Federal budget.

/s/David Mathews

Secretary

Social Security File

THE WHITE HOUSE

WASHINGTON

August 9, 1976

MEMORANDUM TO: DICK CHENEY

FROM: JIM CANNON

SUBJECT: Proposal of Social Security Reform

You asked for a comment on a proposal by Arthur Laffer and David Ranson for reforming Social Security.

Their most important proposal was discussed in a Cabinet Room meeting on May 6, 1976, at which Ranson participated as a representative of Secretary Simon. During the meeting Ranson advocated his ideas to the President, but the President chose another course of action.

Subsequently, and unfortunately, Laffer and Ranson were quoted in a Wall Street Journal editorial which seemed to undercut the President's position. I have no way of knowing whether they sought out the press, but it is my impression that Laffer and Ranson are ardent advocates for a particular point of view and will continue to push their case.

Attached is a summary of the merits of their proposals.

THE WHITE HOUSE

WASHINGTON

July 20, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ALLEN MOORE AM

SUBJECT: Proposal for Social Security Reform

The proposals advanced in the paper by Messrs. Art Laffer and Dave Ranson touch on several of the major issues which currently confront the Social Security system. The proposals did not originate with Laffer/Ranson and are fairly well known by most Social Security "watchers." They were, when relevant, incorporated in the materials used in the President's deliberation (and decision) in May on how to "decouple" Social Security's benefit formula.

The proposals are not without merit, but the discussion of them strikes me as somewhat strident in tone and leaves out a number of important factors which should not be ignored in a pragmatic consideration of alternatives. The arguments advanced tend to be based purely on economic rationale, and very little attention is given to important questions of political feasibility, public perception, and subjective value judgments about the purposes and goals of Social Security.

The five proposals will be examined in turn:

1. "Decouple" the Social Security benefit formula and replace it with a price-indexed system.

   In the extensive debate which led to the President's May decision on decoupling, this proposal was one of two principal alternatives considered. You will recall that its merits were thoroughly presented and discussed at that time, but the President decided on a different course of action. (Incidentally, the editorial response to the President's position has been quite good -- giving him credit for taking the initiative.)

2. Eliminate the Retirement Test.

This proposal would strike the current provisions in law that limit the amounts an individual can earn between the ages of 65 and 72 without experiencing a reduction in benefits. This proposal has appeared many times through the years and has strong surface appeal for both economics and equity reasons, i.e. it would eliminate a disincentive to work and would treat earned and unearned income in like fashion for the purposes of calculating benefits.

The problems with this proposal are:

- It would probably cost between $4 and $7 billion depending on how it was implemented. At a time of fiscal strain on the system, this makes little sense given our lack of knowledge on the behavioral impact of the retirement test. Even if an increase in outflow of this magnitude were going to be considered, it would be prudent to examine alternative uses for such funds, economics notwithstanding.

- It would conflict with the "earnings replacement" rationale which underlies the system.

- It would reward an additional class of persons with benefits which are, to some degree, unearned and untaxed. (If the Laffer/Ranson proposals to tax benefits and to convert Social Security to a pure "insurance purchase" plan were instituted, then the elimination of the retirement test would be a necessity. However, it is more likely that the retirement test proposal would be accepted without such compensating modifications.)

The discussion of the "retirement test" fails to mention another course of action which could improve the equity and economic efficiency of current law -- modification of the current "test." Such changes as a higher cut-off point for exempted earnings, a lower "tax rate" on excess earnings, higher benefits for those who make Social Security contributions beyond age 65, etc., are alternatives to the Laffer/Ranson proposals which have similar objectives at lower cost to the system.

3. Tax one-half of Social Security benefits.

This proposal has been advanced many times and receives fairly broad support from pension experts and economists. The logic is appealing -- Social Security benefits should be treated like other retirement income. Therefore, since no one pays taxes on one-half of all Social Security contributions (i.e. that portion paid by the employer), the beneficiary should be subject to income taxation on the portion of benefits attributable to the untaxed contributions. This is the way most individual and corporate pension and profit sharing plans work.

The principal problem with this proposal is political. The thing to be gained -- greater economic efficiency and equity through consistent tax treatment of retirement income -- comes at a cost of reduced disposable income for millions of Social Security beneficiaries. Logical as the proposal may be, it would be politically disastrous.

4. Increase the Social Security retirement age for persons below age 55 who are now in the work force.

   This proposal receives fairly broad support in the Social Security and economic community, but not for the reasons cited by Laffer/Ranson. Whereas these two cite the need for eliminating projected future deficits which will result in "reneged upon" promises, others cite the desirability of providing additional work incentives to an increasingly "healthy" aging population which does not want forced retirement at 65.

   The Laffer/Ranson "phase-in" approach seems sensible. Once again, the problem becomes a political one of "taking away" something that people feel they are entitled to.

5. Convert Social Security to an individual insurance program where benefits are based solely on contributions.

   This proposal is not new, but receives support from very few experts. It suffers from a fundamental conflict with Social Security's dual goals of social adequacy and social insurance.

   The Laffer/Ranson proposal would eliminate the social adequacy role of Social Security (i.e. the provision of benefits to most beneficiaries which reflect both contributions paid into the system and a minimum "adequate" payment standard). These dual goals give rise to a benefit structure skewed in favor of persons who have contributed least to the system (generally those with lower incomes).

Presumably, Laffer and Ranson would replace these unfunded benefits (i.e. the extent to which benefits paid out exceed the actuarial value of benefits paid in) with an expanded cash assistance program for the poor. Higher earners who benefit under current law (Federal civil servants, for example) would lose their current windfall. Although some net savings would result (at the expense of very vocal middle and upper wage earners), this proposal would force the replacement of the "welfare" component of the system with cash assistance paid from general revenues.

Similar logic is often used as an argument for introducing general revenues directly into the financing of the Social Security system. Without regard to the merits of this idea, it is somewhat ironic that the Laffer/Ranson proposal would indirectly re-finance the system with general revenues.

The overall direction of the Laffer/Ranson proposals is clear -- and is discussed in the concluding section of their paper. They believe that at some future point "it might well be worthwhile to make voluntary some aspects of Social Security participation." They also cite their preference for soliciting bids from outside the government for managing trust fund portfolios as assets accumulate.

Once again, in a political vacuum these ideas have some (though not necessarily persuasive) merit. However, past experience tells us that voluntary Social Security participation and the investment of Trust Funds in non-Federal debt instruments are politically volatile issues.

I still believe that the President's current position is the best one. He has advanced two specific proposals for dealing with the short and long-range financing problems of the Social Security system, and has received credit for facing up to those issues. In his Social Security message, he said that these proposals did not solve all of Social Security's problems, but would provide a degree of stability and predictability which permitted careful analysis of how best to eliminate remaining problems in the system. The issues and recommendations in the Laffer/Ranson paper will be part of that analysis, which we are currently seeking to structure with the participation of OMB, Treasury, HEW, Labor, and CEA.

INFORMATION

DOMESTIC COUNCIL

SS

FROM:

Marsh

SUBJECT:

Reply to query about closing of Social Security's DC office of Public Inquiries

Date: 11/30/76

COMMENTS:

Marsh requests handling by our staff.

Sent to Spence J. for appropriate handling.

ACTION:

Date:

cc: Johnson

THE WHITE HOUSE

WASHINGTON

976 NOV 1 PM 12 24

November 30, 1976

MEMORANDUM FOR: JIM CANNON

FROM: JACK MARSH

Jack

I would greatly appreciate your arranging to have the attached letter handled by your office.

Many thanks.

12-02-83

THE WHITE HOUSE

WASHINGTON

November 30, 1976

Dear Mr. Lewis:

Many thanks for your recent letter concerning the proposed closing of the Office of Public Inquiries and transferring the functions of this office to the Social Security Administration Headquarters office in Baltimore, Maryland.

I have forwarded your letter to the office here at the White House under whose jurisdiction this agency comes. I am sure your letter will receive careful consideration and you should be hearing further from the White House shortly.

Sincerely,

Jack Marsh

John O. Marsh, Jr.
Counsellor to the President

Mr. Lawrence Lewis
343 O Street, Northwest
Washington, D. C. 20024

-NOV 22 1976

343 O St. S.W.
Washington, D.C. 20024
Nov. 19, 1976

Mr. John O. Marsh, Jr.
Counsellor to the President
The White House Office
Washington, D.C. 20500

Dear Mr. Marsh:

I am making a highly presumptuous request for your assistance in a matter of little importance except to my co-worker and myself. I have nothing more substantial to justify this contact other than the fact that I spoke with you several times while I was employed in the Social Security District Office in Winchester, Va. many years ago.

I am still employed by the Social Security Administration, now with the Washington Inquiries Section of the Office of Public Inquiries. This office is now located in the HEW Building at 330 Independence Ave. S.W., Washington, D.C. and has been operating at this location for the past 20 years. I have been notified that this office is to be closed in the near future and our functions transferred to the Social Security Headquarters in Baltimore, Md.

Entirely apart from personal considerations, I do not believe this decision is justified as it will not increase the economy or efficiency of our present work. The chief function of this office is to provide non-routine infirmation by telephone regarding all aspects of the Social Security programs primarily to Congressional offices, national organizations, and other government agencies. We also have a great deal of background historical materials available for prompt personal reference. We provide, I believe, an essential presence here in Washington of the Social Security Administration's national headquarters which, as you know, is located in Baltimore, Md. Further, the Washington location of our office enables us to expedite handling of many types of priority requests received from Congressional as well as other offices.

I would appreciate any assistance you may care to make in this situation. If your present respondsibilities preclude any efforts in this matter, I will fully understand. My office phone number is 245-7075; home phone number is 554-4136 should you need further information. Best wishes.

Sincerely yours,

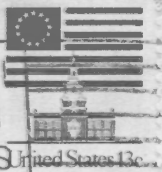
Lawrence Lewis

Lawrence Lewis

Lawrence Lewis
343 O St. S.W.
Washington, D.C. 20024

WASHINGTON, D.C. 200
PM
19 NOV
1976

PLEASE MAIL
EARLY FOR
CHRISTMAS



~~OFFICIAL BUSINESS~~

Mr. John O. Marsh, Jr.
Counsellor to the President
The White House Office
1600 Pennsylvania Ave. N.W.
Washington, D.C. 20500