

EMBARGOED FOR RELEASE UNTIL  
12:00 NOON, FEBRUARY 9, 1976

FEBRUARY 9, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE  
PRESS CONFERENCE  
OF  
DAVID MATHEWS  
SECRETARY OF THE DEPARTMENT OF  
HEALTH, EDUCATION AND WELFARE  
STANLEY THOMAS, JR.  
ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT  
OF THE DEPARTMENT OF HEALTH, EDUCATION AND WELFARE  
ARTHUR FLEMMING  
UNITED STATES COMMISSIONER ON AGING  
AND  
JAMES BRUCE CARDWELL  
UNITED STATES COMMISSIONER OF SOCIAL SECURITY

THE BRIEFING ROOM

10:15 A.M. EST

MR. NESSEN: Let me just tell you that you have received a copy of the message, I believe. The fact sheets are being collated now and will be ready in 15 minutes, or at the end of the briefing.

The message and the fact sheets and the briefing are embargoed for noon, which is the time that the message goes to Congress.

The briefers for today are primarily HEW Secretary, David Mathews -- and he has brought along with him the U.S. Commissioner of Social Security, Bruce Cardwell; the Assistant Secretary for Human Development at HEW, Stan Thomas; and the U.S. Commissioner on Aging, Dr. Arthur Flemming, who many of you know. He has been in Washington and served under five Presidents and did a great deal of the work on this project.

So, Mr. Secretary, why don't you come and say whatever you want to at the beginning and then can take whatever questions there may be.

SECRETARY MATHEWS: I have no additional statement other than the statement that is here, and I think your time probably will be better used just to go right into the questions.

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MR. NESSEN: The Secretary has to catch a train to Philadelphia at 11 o'clock, so he is going to have to leave in about 15 minutes.

Q Mr. Secretary, how soon is this proposal on decoupling going to go up?

SECRETARY MATHEWS: We are in the process of drafting that legislation. As you might imagine, that is a most complicated piece of legislation. I talked to the man who has the responsibility for doing the drafting. He said at best it would take him about one month to get that completed.

We are hoping that we will have it ready sometime around the 1st of March.

Q Mr. Secretary, several people who represent groups for the elderly have said they don't like those Social Security proposals. Would you like to comment on that? They feel it is going to cost 99 percent of the elderly more in order to give catastrophic benefits to 1 percent of them. Would you comment on this?

SECRETARY MATHEWS: Yes, we keep in mind that this is an insurance program and that it properly has all of the features and characteristics that are axiomatic for an insurance program. The function of insurance is to protect people from the truly disabling, catastrophic, overwhelming kinds of disability, and insurance programs characteristically are those that accommodate individuals' payments for whatever the initial problem and reserve their strength for those major financial claims that would be truly disabling.

This particular program is -- in comparison with other kinds of insurance programs -- really backwards because it protects at the low end of the scale now and affords no protection at the high end. What this proposal would do would be to make the Medicare insurance program consistent with the basic principles of insurance generally, and it has its merits in that it deals with the bills that would be frightfully disabling which would come at the point in time when a person was least able to pay for them.

Q But wouldn't this stop the elderly from going to the doctor at the beginning of an illness because of the payments they would have to make?

SECRETARY MATHEWS: It is not anticipated that the rate of increase that is proposed here would have that effect at all.

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Q Mr. Secretary, could you give me a dollar figure for the cost to employers of the increase of the three-tenths of 1 percent, and since this almost inevitably will be passed on in the way of higher prices, will not this have an inflationary impact on the economy?

SECRETARY MATHEWS: The dollar figures that we have used are for workers, I think.

Q For employers, I am speaking of.

SECRETARY MATHEWS: The \$22 is for the \$7,500 employee.

MR. CARDWELL: It would cost \$2.2 billion.

Q To the employers?

MR. CARDWELL: Yes.

Q Could you also comment on the inflationary impact this would have on the economy?

MR. CARDWELL: It is a relative matter. It is no question that it will increase cost for employers. If anything, it would tend to have a depressing effect rather than stimulatory effect because it would be taking money out of circulation rather than adding money into circulation.

Q I am talking about prices, Mr. Cardwell. The producers will pass on the costs in the form of higher prices, won't they?

MR. CARDWELL: Some of the costs would be passed on in the form of higher prices. That is a correct assumption.

Q So it will have an inflationary impact on the economy?

MR. CARDWELL: That is not my expertise. I cannot speak to that question.

Q Can somebody, please?

SECRETARY MATHEWS: We will furnish you a resident economist. I don't think Mr. Cardwell was denying that to the extent it was passed on it would. That is saying the same thing. I think his quibble was over how much would be passed on.

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Q Can you tell us why it was decided to go to an increase in payroll tax rather than increasing the base?

SECRETARY MATHEWS: Yes, I can.

First, you need to remember that there already is in law provision for increasing the base.

Secondly, if you increase the wage base further rather than achieving what you want to achieve -- namely, the stability of the funds over the long term -- you achieve the opposite effect because you include more people at higher incomes and, therefore, you increase your payout over a longer period of time and you would not have the effect that you wanted to have by proposing the legislation in the first place, which was to correct the long-term deficit or medium range deficit.

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Q Mr. Secretary, how does it protect the middle income group which really seems to carry the burden for everything?

SECRETARY MATHEWS: As I look at this particular proposal in the breakdowns that I have seen by income groups, it seems to me rather favorable to the middle income group, by the figures that I have seen as it is broken out.

Q Mr. Secretary, have you balanced out the cost of the increases and the reductions in this program for the elderly and whether its overall effect will be to reduce the budget or to increase it?

SECRETARY MATHEWS: Let me comment on that. If you look at the overall figures, they are, as the President is recommending them for 1977, lower than the current figures, because there was a decision not to -- it does not affect the service program, but rather the training programs.

The training programs generally are reduced or, in fact, taken out. The service programs, however, propose to continue at the same level -- the nutritional programs, the programs of assistance to States for the operation of various service programs that they provide. So our concentration has been on service aspects. We intend to give priority to those.

Q Do you have a net figure of how much you are going to be saving?

SECRETARY MATHEWS: I do. What we really need to give you is the differential between the President's budget proposal and the total budget.

MR. THOMAS: I think in terms of the Older Americans Act which is the Act the Secretary is speaking to, I think the net reduction from our fiscal 1975 budget request is somewhere around -- it is about the same as the fiscal 1975 budget request. In terms of the overall budget, I expect Mr. Cardwell can speak to that in terms of Social Security.

MR. CARDWELL: I would guess the question is driven toward the matter of what happens under the catastrophic, the cost of that coverage as an offset to the additional cost to the consumer, to the beneficiary of the co-insurance. The current estimates -- the best estimates we have on the cost of catastrophic is, when it is all over, it will probably add up to between \$1.1 billion and \$1.4 billion.

Remember when the budget was filed several weeks ago, that estimate stood at \$503 million and we, since then, have doubled the potential cost of that particular provision. Offset against that are gross additional costs to consumers of about \$2 billion.

Could I come back to the question about the impact on the economy of the \$2.2 billion?

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Q I wish you would.

MR. CARDWELL: I cannot answer the economic theory of it, but I would point out some facts that would let you draw your own conclusions. We are talking about \$2.2 billion as against annual payroll in excess of \$600 billion, so we are really talking about one-third of one percent impact. Although I am not an economist, my assumption is that could be absorbed by the economy without distorting it one way or the other, but that is a matter for economic judgment.

Q Would you clarify -- did you say the cost on catastrophic would be \$1.1 to \$1.4 billion?

MR. CARDWELL: Somewhere between \$1.1 and \$1.4 billion.

Q I still don't have a net figure. Were you able to arrive at one?

MR. CARDWELL: In the fact sheet, if you would turn to it --

MR. NESSEN: They don't have the fact sheet yet.

MR. CARDWELL: You can do your own arithmetic. It shows gross reductions of \$1.860 billion for the cost sharing reforms. Another \$909 million reduction on reimbursements. The \$1.8 billion would represent additional cost to the consumer offset against that \$1.8 is a figure of somewhere between \$1.1 and \$1.4 billion in additional Medicare costs.

Q Mr. Secretary, would you talk about Page 2, Number 3, lack of incentives to encourage efficiency and economical use of hospital and medical services? Will you talk about this specifically in language that somebody like myself can understand? Did you promise the hospital people when they were in town recently you would give them any help? I believe some of them said they were waiting for 19 months and another six months to get the money back from the Government and there were oppressive regulations that added to their costs.

SECRETARY MATHEWS: I generally said some things about regulations, none of them favorable, that would apply in this situation. However, I did inquire about the differential, or the difference, rather, in time, and I understand that we are required by law to complete certain audits before we can make reimbursements, and I believe we have to allow a year to pass, as I remember that legislation, before we can reimburse.

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So part of the time involved in the 19 months is a requirement in the law that an audit must be completed before we can reimburse, but in general I have said to this group and to other groups that I think we should do everything we can to speed up time.

As to your first question about the initial cost, that is what I was talking about when I said that this program is really, as it now stands, the insurance program, is backwards when compared to all other insurance programs. That is if it affords protection for the initial cost, but no protection for the catastrophic costs at the far end or the truly problematic cost.

What this proposal would do would essentially turn that around and it would, by our candid admissions, cost more initially, but its virtue would be it would protect you against the cost -- not you but the persons in the program -- for costs over \$500 for hospital care, \$250 for covered services, physicians fees.

Q Are you going to recommend that Congress change the part in the law that requires a year for an audit?

SECRETARY MATHEWS: I have no plans to at the present time.

Bruce, do you want to talk to that?

MR. CARDWELL: I have nothing to add.

Q Is that a result of Congress' actions or a result of your past recommendations?

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SECRETARY MATHEWS: Since I did not make the past recommendations, I don't know. Bruce will speak to that point and, as the line goes, I have to catch a train to Philadelphia.

Bruce, why don't you elaborate on that?

Q The hospital people, when they were in, complained that it would be unfair to hold their increases down if you are not holding their expenses down, if inflation drives up the cost of the things they have to purchase. Can you answer that?

MR. CARDWELL: The number one problem in medical care today is the rapid rise in prices, whether those prices be charged against Medicare or against the public at large.

The Congress itself decided several years ago they wanted to put pressure on the Medicare portion of the delivery system and they require the Secretary of HEW and the Commissioner of the Social Security to put limits on the rate at which Medicare reimbursements can increase in a given year, and that is designed to put pressure on the system.

True, it puts the manager, operator, of the hospital in between an inflationary spiral for labor and for material, but it also says to him, "You have to take some action of your own, improve your efficiency of your operations. You have to absorb some of the shock. You can't continue to pass it on to Medicare."

That concept would probably be more effective. It would affect the entire delivery system. But, as the law now stands, it affects Medicare only.

Q In other words, we are not going to get anywhere? We are not going to get any relief at all? We are just going to have continuation of this problem?

MR. CARDWELL: I think the entire system will continue to reflect higher inflationary rates than general consumer index cost. In other words, hospital and medical prices are going to go up faster than other prices. That has been the history of the entire American system now for several years.

Q Why don't you ask them to change the law to put the pressure on the entire system?

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MR. CARDWELL: That is entirely another matter. We are administering the Medicare program, and this provision deals with Medicare. We are going to try to take care of our own costs.

Q What portion of the hospitals and doctors refuse to take Medicare assignments, and won't this make it worse?

MR. CARDWELL: About 55 percent last year of the bills processed by Medicare were processed under assignment. Seven or eight years ago that figure was as high as 60 percent. It has been declining actually rather slowly.

There is an assumption that most people make that any pressures you put from the top will cause the physicians or the hospital to pass the cost on to the consumer. Under the Medicare law, anyone who takes assignment must settle for our reimbursement level.

Our estimate is, however, that this will not be a dramatic downward shift. We do think, though, there is a downward pressure in place, and it has been in place for several years, and it is the result of the Federal Government trying to resist prices more than the private sector generally.

Q Mr. Cardwell, in view of the stepped-up activity in the Congress, is there any possibility that you will change your strategy and send a national health insurance bill to the Hill this year?

MR. CARDWELL: I do not think so.

Could I go back to an earlier question I was asked about the impact of the Social Security tax rate on the middle income worker. The statement was made the middle income worker carries the brunt of the rising cost of the system.

Really, the policy-making here has to choose between the effect on increased cost on various classes of earners. Most of our experience so far in the last ten days in Congress has been that they seem more concerned about the impact of the tax rate on the lower wage earner and less concerned about the middle wage earner.

We think our proposal is an attempt to spread the cost between the two. For example, the person at the so-called wage base -- a person who will be making \$16,500 in 1977 -- will be paying additional Social Security tax burden of about \$119.

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His brethren at the low end of the scale, say working for the minimum wage, will be paying a net additional burden of about \$15. Now, that \$119 is split for the middle income worker into two parts.

The first part is the result of an increase in the wage base that is already in law and will take place automatically in 1977. That adds \$70 to his bill. The three-tenths of 1 percent adds \$49 to his bill, in round figures.

So, the wage base is already driving up the cost at a faster rate for the middle income worker than is the President's tax proposal. But, in sum, our attempt is to spread the load over the two extremes, the low wage earner and the middle wage earner.

The middle wage earner is suffering fairly big bites as the result of the automatic provisions already in law to increase the wage base and increase the tax rate applied to that wage base.

Q Mr. Cardwell, wouldn't your Social Security plan have an adverse impact on recovery from a recession inasmuch as you are increasing withholding so there would be less spending?

MR. CARDWELL: Yes, your question centers on impact on the economy. Economists have examined the question of Social Security impact on capital formation, on stimulation or depressing effects on the economy. We think at this stage that these figures, the three-tenths of 1 percent, is relatively modest when compared to the gross figures the system works against, and they should not be so significant as to distort the economy one way or the other. That is the only answer we have.

Q In expanding the tax rate -- you were talking about spreading it more equitably -- implicit in your remarks is the feeling that low income wage earners were not carrying enough of the burden. Is that correct?

MR. CARDWELL: No, it is not. One of the most controversial issues about Social Security throughout its 40-year history has been this issue of the tax rate and whether it should not be made more progressive, whether it should be graduated more so that everyone pays proportionate to his income.

It is true that on the tax side of the system the low wage earner does pay proportionately more than the higher income worker. On the other hand, the benefits structure of the system from its origin have been deliberately designed with a weighted benefit in favor of the low wage earner.

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One of the propositions to deal with this controversy, of course, is to put in general revenues. We opposed that for two reasons.

First, we believe that general revenues will eventually erode the basic concept that every worker, regardless of his earnings, participates in the system by reason of having paid in, and the only ones who can participate are those who paid in.

We think general revenues invite an erosion of that principle.

Secondly, it is our belief that general revenues invite the Congress, oftentimes, to enlarge the system and to increase its long-term costs rather than stabilize them.

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Q Sir, I'm sorry. It seems to me you can't have it both ways. If you are saying you are trying to spread this tax rate -- instead of spreading the base and going to the rate instead -- you are trying to spread this more equitably -- it seems you must be saying the low income wage earner --

MR. CARDWELL: Let me try one more time. We are not dealing with the tax progressivity question which is a long-term question. We are saying for this one time increase, we tried to spread the load as it would land on different classes of workers at this point in time. We are not denying that the low wage earner is proportionately paying more than the high wage earner, but he always has been.

Q And?

MR. CARDWELL: We are not taking any steps at this time, in this one time short-term financing move to deal with that. The Congress in the past has not either.

Q Sir, how would you compare the commitment by the Federal Government to the elderly embodied in this program of the 1960's? Is there a retreat in the Federal commitment to the elderly here?

MR. FLEMMING: Definitely there is not. I would like to respond in part to that question by coming back to the issue that has been under discussion. As all of us know, the Social Security system has been under attack over a period of the last few months in terms of its integrity, in terms of its stability. Older persons have been concerned about this attack. As I have gone out and met with them, they asked me many, many questions about it and I have assured them that this Government, the Executive Branch and the Legislative Branch, would see to it that the Social Security system was maintained on a sound basis.

The recommendations that the President is making to the Congress indicate very clearly his commitment to the Social Security system, to the maintenance and the soundness of the system, and because of developments, it is clear that in order to get additional revenue, in order to maintain the soundness of the system, it is going to be necessary for some people to carry a heavier load.

But I think the main thing about this is that it says to the older people of this Nation, the Executive Branch -- and I am sure in one way or another the Legislative Branch will respond also -- is going to see to it that the soundness of this system is maintained.

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Personally, to take the second part of your question, in the sixties, we did not have any such thing as the Older Americans Act. We now have got in place a new national network on aging that involves 50 States' agencies on aging, close to 500 areas' agencies on aging, 700 nutrition projects, and all of that has been put in place in the last year and one-half or two years. Whereas in the sixties we were talking about a few million dollars we made available to States and communities to help them on the delivery of services to older persons, we are now up over the \$250 million mark.

In other words, the Government is really implementing the objective of the Older Americans Act; namely, to step up services for older persons to be given or to be made available to them, oftentimes in their own homes, but to step up the kind of service that will enable older persons to continue to live in their own homes rather than going into institutions.

The President's Message gives strong backing to that network and to the development and evolution of the network. We did not have anything like that in the sixties. This represents substantial progress in responding to the needs of older persons.

Q What is the maximum that a single person and a couple can get under Social Security now?

MR. CARDWELL: For a couple, it would be something slightly under \$400 a month, and for a single person, something under \$250 a month.

Q Does this affect just the people in hospitals or would it also help people who go to nursing homes or stay at home?

MR. CARDWELL: It would help people in hospitals, the catastrophic coverage. It would benefit people who go to hospitals, people who obtain services from physicians without hospitalization. It would also affect long-term care, including nursing homes and home health care.

I would point out, however, that Medicare is not a heavy financier of extended health care -- Medicaid is.

Q So what does a person do if they don't have Medicaid?

MR. CARDWELL: He would be eligible for Medicare and the Medicare, now under these provisions, would have an open-ended catastrophic coverage.

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Q Would that apply to nursing homes?

MR. CARDWELL: Nursing homes and home health.

Q I had a question for Dr. Flemming. You mentioned going around the country talking to older people. Did you see any signs of increased political activity on the part of older groups this year, say than four years ago?

MR. FLEMMING: Sure. I had the responsibility for the first White House Conference on Aging in 1961 when I was Secretary. At that time the number of older persons that belonged to organizations of older persons was about 250,000. Today it is about 11 million and they are organized at the local level, the State level, and they are in a position to put pressure on in order to achieve some of their objectives. So there is not any question at all but that they are playing a more significant role in the political system than they did a few years ago.

THE PRESS: Thank you.

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(AT 10:45 A.M. EST)