THE WHITE HOUSE

WASHINGTON

January 16, 1975

MEMORANDUM FOR: VERN LOEN
BILL KENDALL
PAT O'DONNELL
~~CHARLES LEPPERT~~
DOUG BENNETT
BOB WOLTHUIS

FROM: MAX FRIEDERSDORF M. F.

SUBJECT: Social Security and Federal Pay Raise Deficit

While the conservatives - Senator Goldwater, Sam Devine, Jim Buckley, et.al., may be flaying us because of the huge budget deficit, it would seem the 5% cap on federal pay raises and social security would be popular.

Please try to encourage them to speak out on this phase of the President's proposals.

cc: Jack Marsh

EMBARGOED FOR RELEASE
UNTIL 12:00 NOON (EST)

February 9, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S MESSAGE ON OLDER AMERICANS

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THE PRESIDENT's MESSAGE ON OLDER AMERICANS

The President's message to Congress today referred to two proposals dealing with income and health security for the aged and stated his continuing support for programs delivering services to the elderly under the Older Americans Act.

I. SOCIAL SECURITY AMENDMENTS OF 1976

To assist in protecting the financial integrity of the Social Security system, the President is proposing to increase the Social Security Old Age, Survivors and Disability Insurance (OASDI) tax rate by 0.3 percent each for employers and employees, and by 0.9 percent for the self-employed, beginning January 1, 1977. This increase would be divided between the OASI trust fund, which would receive 0.175 percent, and the DI trust fund, which would receive 0.125 percent.

In addition, provisions are included to phase out benefits for 18-22 year old full-time students, to change the Social Security retirement test from a limit on monthly earnings to a limit on annual earnings with no change in the amounts involved, and to eliminate the payment of monthly Social Security benefits for the months before a person files a claim if future monthly benefits would be permanently reduced as a result.

BACKGROUND

The Old Age, Survivors and Disability Insurance (OASDI) trust funds are paying out more in benefits than their current payroll tax receipts. This is largely due to increased benefits in the past few years and payroll tax receipts, which have lagged because of unemployment and slowed wage growth.

In 1975, the expenditures of the OASDI program exceeded income to the program by $1.8 billion. Outgo is expected to exceed income by more than $4 billion in 1976. Under present tax rates, the OASDI funds will continue to pay out more than they take in in all subsequent years until they are exhausted in the 1980's.

At present, it is possible to make up the shortfall in income by spending assets of the trust funds. Additional income is needed within the next few years, however, to prevent the trust fund assets from falling below an acceptable level -- and ultimately being exhausted.

The following table illustrates the projected status of the combined OASDI trust funds under two different sets of economic assumptions if no additional revenue is provided to the funds:

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Status of OASDI Trust Funds--Present Law
(Dollars in billions)

	1977 Budget Assumptions		1975 Social Security Trustees Report Assumptions	
Calendar Year	Income Minus Outgo	Assets beginning of year as % of outgo during year	Income Minus Outgo	Assets beginning of year as % of outgo during year
1977	$-4.1	46%	$-5.0	44%
1978	-4.3	37	-5.8	33
1979	-3.4	29	-6.2	25
1980	-2.6	24	-7.0	18
1981	-2.0	20	-9.0	11

To prevent the rapid decline of the Social Security trust funds over the next few years, the choices are either to restrain increases in retirement and disability benefits or to increase revenues.

DESCRIPTION OF PROGRAM

The President has included a full cost of living increase in Social Security benefits in his FY 1977 budget. To improve the future financial stability of the Social Security system, the President proposed, effective January 1, 1977, a payroll tax increase of 0.3 percent each for employees and employers of covered wages. Also, the OASDI tax rate for the self-employed would be restored to a level equal to 1-1/2 times the employee rate.

The current Social Security tax rate is 5.85% for each employee and employer of covered wages. Under this proposal, the tax rate in 1977 would be 6.15% on a maximum wage base of $16,500. This increase will cost workers with the maximum taxable income less than $1 a week and will help stabilize the trust funds so that current and future recipients can be assured of the benefits that they have earned.

The following table shows the Social Security tax rates for employees and employers each under present law and under the proposal. It includes the Medicare Hospital Insurance (HI) tax in order to show the effect of the proposal on total Social Security tax rates.

Social Security Tax Rates

	Present Law			Proposal		
Calendar Year	OASDI	HI	Total	OASDI	HI	Total
1976	4.95%	.9 %	5.85%	4.95%	.9 %	5.85%
1977	4.95	.9	5.85	5.25	.9	6.15
1978-80	4.95	1.1	6.05	5.25	1.1	6.35
1981-85	4.95	1.35	6.30	5.25	1.35	6.60
1986-2010	4.95	1.50	6.45	5.25	1.50	6.75
2011+	5.95	1.50	7.45	6.25	1.50	7.75

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The following table shows the additional income, over what would be produced by present law tax rates, and the ratios of trust fund assets to outgo that would result from the proposed 0.3% rate increase. For purposes of comparison, the information is shown on the basis of the economic assumptions used in the 1977 budget and also on the basis of the earlier assumptions used in the 1975 Social Security Board of Trustees' Report.

Cost Effect of 0.3% Increase
(Dollars in billions)

Calendar Year	1977 Budget Assumptions: Additional Income	1977 Budget Assumptions: Assets beginning of year as % of outgo during year	1975 Trustees Assumptions: Additional Income	1975 Trustees Assumptions: Assets beginning of year as % of outgo during year
1977	$ 4.4	46%	$ 4.4	44%
1978	5.2	41	5.2	39
1979	5.9	39	5.7	36
1980	6.5	38	6.3	34
1981	7.1	40	6.9	32

The effect of the proposal on taxes paid by employers and employees is at maximum an increase of less than $1.00 per week. The following table shows the taxes paid by employees at various earnings levels in 1976 and the amounts they would pay in 1977 under present law and under the proposal.

Social Security Taxes for Employers and Employees, Each, under Present Law and under the Proposal

Earnings Level	1976	1977: Present Law	1977: Proposal	Year's Increase over Present Law
$ 5,000	$292.50	$292.50	$ 307.50	$15.00
7,500	438.75	438.75	461.25	22.50
10,000	585.00	585.00	615.00	30.00
Maximum 1/	895.05	965.25	1,014.75	49.50

The following table shows the Social Security tax rates for OASDI for employees and employers, each, and for the self-employed under the present law and under the proposal.

Calendar Year	Employees and Employers (Each): Present Law	Employees and Employers (Each): Proposal	Self-Employed: Present Law	Self-Employed: Proposal
1976	4.95%	4.95%	7.0%	7.9%
1977	4.95	5.25	7.0	7.9
1978-80	4.95	5.25	7.0	7.9
1981-85	4.95	5.25	7.0	7.9
1986-2010	4.95	5.25	7.0	7.9
2011 +	5.95	6.25	7.0	9.4

1/ $15,300 for 1976; projected to increase automatically under present law to $16,500 for 1977 under 1977 budget assumptions.

The following table shows present and proposed allocation to the DI trust fund for employees and employers combined and for the self-employed.

Calendar Year	Employees and Employers, Combined: Present Law	Employees and Employers, Combined: Proposal	Self-Employed: Present Law	Self-Employed: Proposal
1977	1.15%	1.40%	0.815%	1.055%
1978-80	1.20	1.45	0.850	1.090
1981-85	1.30	1.55	0.920	1.165
1986-2010	1.40	1.65	0.990	1.240
2011+	1.70	1.95	1.000	1.465

COST EFFECT

The following table shows the additional income, over what would be produced by present law tax rates, that would result from the proposed 0.3% rate increase, on the basis of the economic assumptions used in the 1977 budget.

Calendar Year	Additional Income as a Result of 0.3% Increase (billions)
1977	$ 4.5
1978	5.7
1979	6.3
1980	7.0
1981	7.7
1977-81	31.2

The following table shows the yearly increase under the proposed 0.9 percent rate increase for the self-employed on the basis of the economic assumptions used in the FY 1977 budget.

OASDHI Taxes for the Self-Employed under Present Law and under a Proposal to Increase the Rate to 1.5 Times the Employee Rate

Earnings Level	1976	1977: Present Law	1977: Proposal	1977: Increase Over Present Law
$ 5,000	$ 395.00	$ 395.00	$ 440.00	$ 45.00
7,500	592.50	592.50	660.00	67.50
10,000	790.00	790.00	880.00	90.00
Maximum 2/	1,208.70	1,303.50	1,452.00	148.50

OTHER PROVISIONS INCLUDE:

-- Phasing out Social Security benefits for students aged 18-22 who are in school full time. The phase out would occur over 4 years so that no student now receiving benefits would be eliminated. Federal student grant and loan programs and other student assistance programs enacted since the student benefit was included in the Social Security Act provide and

2/ $15,300 for 1976, projected to increase automatically to $16,500 for 1977 under 1977 Budget assumptions.

make available a wide range of funds for educational support. Savings to the Social Security system from this phase out are approximately $300 million in FY 1977.

--- Changing the Social Security retirement test from a limit on monthly earnings to a limit on annual earnings with no change in the amounts involved. This change would eliminate current inequitable treatment for those who receive earnings in some months but not in others, as opposed to those who receive comparable earnings spread equally in each month.

--- Eliminating the payment of monthly Social Security benefits for the months before a person files a claim if future monthly benefits would be permanently reduced as a result. Faced with a choice between a large lump-sum payment and a reduction of future benefits, beneficiaries in many cases prejudice their longer run income. This result is considered inconsistent with the purposes of the Social Security Act.

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II. MEDICARE IMPROVEMENTS OF 1976

The President is proposing significant modifications in the Federal Medicare program to provide catastrophic health cost protection to Medicare beneficiaries, changes in cost sharing requirements, and limits on the annual cost increases which will be reimbursed by Medicare.

BACKGROUND

The Nation's health care system continues to be one of the most inflationary sectors of the economy. Hospital costs have risen by more than 200 percent since 1965 (from $40/day to $128/day), and physicians' fees have risen more than 85% in the same period. Both rates of increase are significantly higher than the corresponding increases in the consumer price index.

Medicare is a major component of Federal health spending. It provides protection to more than 24 million aged and disabled Americans, and is expected to pay out more than $17 billion for health care in 1976. However, Medicare has several failings -- it does not provide protection against the catastrophic financial burden of extended illness, and it does not include adequate restraints on the increases in the costs of health care.

For hospital care, Medicare currently pays nothing for the first day, 100% of costs from the 2nd through the 60th day, a reduced percentage through the 150th day, and nothing at all after that. This pattern serves to lengthen short-term hospital stays, but can lead to financial ruin for persons suffering serious, extended illness. Medicare also requires a $60 deductible and co-payments of 20% for physicians' services. Since there is no annual maximum, this provision contributes to the financial burden of catastrophic health costs.

An additional problem with Medicare is that it contains inadequate mechanisms to control health inflation. Like most health insurance plans, it reimburses largely on the basis of actual costs or customary charges giving providers insufficient cause to seek to limit cost increases.

DESCRIPTION OF PROGRAM

The major elements of the proposed "Medicare Improvements of 1976" are the following:

A. Catastrophic Cost Protection for Health Care

For the first time, Medicare beneficiaries would be provided protection against catastrophic health costs by limiting the amounts an individual must pay annually to $500 for covered hospital and nursing home care and $250 for covered physicians' services. These limits will be allowed to increase in future years in proportion to increases in cash benefits.

B. Cost Sharing Modifications

-- Hospital Costs (Part A). Part A benefits would be expanded to provide unlimited hospital and skilled nursing facility (SNF) days. Under this proposal, beneficiaries would be required to pay a deductible for the first day of a hospital stay (as under current law), and 10% of additional charges up to an annual maximum of $500 for all covered Part A services.

-- Physicians' Services (Part B). This proposal would increase the current annual deductible of $60 to $77 and maintain the existing co-payment of 20% for physicians' services. However, it would institute a maximum of $250 a year. The deductible would increase with Social Security benefit increases. It would also establish a coinsurance of 10% of all charges above the deductible for all hospital-based physician and Part B home health charges.

C. Reimbursement Limits

Annual Medicare reimbursement increases would be limited to 7% for Part A provided per diem or per visit costs and 4% for physicians' service charges in 1977 and 1978.

Detailed Explanation

A. CATASTROPHIC PROTECTION

Service	Current Law	President's Proposal
Part A	No maximum liability limit on out-of-pocket expenses for covered services.	$500 annual maximum liability limit for all covered services in 1976 and 1977, increased in future years in proportion to increases in cash benefits. All out-of-pocket expenses incurred in the last month of calendar year can be carried forward to next year.
Part B	No maximum liability limit on out-of-pocket expenses for covered services.	$250 annual maximum liability limit for all covered services in 1976 and 1977, increased in future years in proportion to increases in cash benefits. Same one month carry-over as Part A. Out-of-pocket expenses for charges in excess of reasonable charges do not count toward the maximum liability limit.

B. BENEFIT PACKAGE

1. Medicare Part A

Service	Current Law	President's Proposal
a. Hospital days (except in psychiatric hospitals)	90 days per benefit period plus 60 days of life-time reserve.	Unlimited days.

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b. Psychiatric hospital days.	190 lifetime days.	Same as current law.
c. Skilled nursing facility (SNF) days.	100 days per benefit period.	Unlimited days.
d. Post-hospital home health visits.	100 visits per benefit period following hospital or SNF discharge.	100 visits in year following hospital or SNF discharge.

2. Medicare Part B

No change in current coverage which has no upper limits on most covered services.

Home health services would continue to be limited to 100 visits per year and outpatient psychiatric services to no more than $500 of reasonable charges per year and out-patient physical therapy services provided by a self-employed therapist to no more than $100 in reasonable charges per year.

C. COST SHARING

1. Medicare Part A

Service	Current Law	President's Proposal
a. Hospital Services		
Deductible	$104 for initial hospitalization in each benefit period beginning in 1976 (based on average daily hospital costs in 1974) and rising annually to reflect increases in hospital costs.	$104 per admission, and allowed to rise annually. Deductible waived if Medicare covered inpatient services were received within 60 days prior to admission.
Coinsurance	An amount equal to 1/4 of the deductible for days 61-90 in a benefit period and 1/2 of the deductible for the 60 lifetime reserve days.	10% of hospital charges above the deductible.
b. SNF Services		
Deductible	None	None
Coinsurance	None for the first 20 days. An amount equal to 1/8 of the hospital deductible for days 21-100.	10% of charges.

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Service	Current Law	President's Proposal
c. Home Health Services		
Deductible	None.	None.
Coinsurance	None.	10% of charges.
d. Blood		
Deductible	3 pints per benefit period.	3 pints per year.

2. Medicare Part B

Service	Current Law	President's Proposal
a. Physician, outpatient hospital care, outpatient physical therapy and speech pathology, laboratory services, medical supplies and most other covered services.		
Deductible	$60 per calendar year, increased in future years in proportion to increases in cash benefits.	$77 in 1976 and 1977, and increased in future years in proportion to increases in cash benefits.
Coinsurance	20% of reasonable charges above the deductible.	Same.
b. Hospital-based physicians (inpatient pathology and radiology)		
Deductible	None.	None.
Coinsurance	None.	10% of charges.
c. Home Health Services		
Deductible	Included among services subject to $60 per calendar year deductible.	Included among services subject to $77 deductible in 1976 and 1977.
Coinsurance	None.	10% of charges.

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Service	Current Law	President's Proposal
d. Outpatient psychiatric services.	50% of reasonable charges (up to maximum reimbursement of $250).	Same as current law.

D. PROVIDER REIMBURSEMENT

Provider	Current Law	President's Proposal
Hospitals, SNF's and home health agencies.	Reimbursed on the basis of reasonable costs. (Level of reimbursement for hospital per diem routine costs is limited to the 80th percentile of the per diem routine costs of similar hospitals.)	Places a 7% reimbursement limitation on the annual rates of increases in per diem hospital and SNF costs and home health visit costs.*
Physicians and other medical services.	Reimbursed on the basis of customary and prevailing charges. (Rates of increase in prevailing charges are limited by an economic index reflecting practice costs and earnings levels in the economy.)	Limits reimbursable increases in reasonable charges (the lesser of the customary and prevailing charges) to 4 percent per year.*

* Both the 7% cost and 4% charge increase limitations are proposed for two years pending the development of a longer run cost containment policy.

E. COST ESTIMATES

The following are the estimated cost increases attributable to the new catastrophic protection and the cost savings attributable to reforms in cost sharing and limits in reimbursement. The additional costs are estimated to range between $1.1 billion and $1.4 billion. The cost sharing reform is estimated to save about $1.8 billion and the reimbursement limits to save about $900 million. The savings from placing a limit on increases in medicare repayment rates and some of the revenues from increased cost sharing will be used to finance the catastrophic program.

Costs	FY 77 (in millions of dollars)
1. Catastrophic protection	
a. Hospital Insurance	
-- Initial estimate of cost of $500 limit in FY 77 budget.	+330

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Costs	FY 77 (in millions of dollars)
-- Additions based on refinement of cost of $500 limit.	+562 to 862
b. Supplementary Medical Insurance	
-- $250 limit	+208*
Total Cost (in billions)	$1.1 to $1.4

* Shown in President's budget request.

Savings	FY 77 (in millions of dollars)
1. Cost Sharing Reforms	
a. Hospital Insurance	
-- 10% coinsurance	(-)1,730*
b. Supplementary Medical Insurance	
-- Dynamic deductible ($77 for FY 77)	(-) 111*
-- Coinsurance on hospital based physicians and Part B home health services	(-) 19*
Subtotal	(-)1,860*
2. Reimbursement limits	
a. Hospital Insurance	
-- limited to 7% per diem increase	(-)730*
b. Supplementary Medical Insurance	
-- limited to 4% charge increase	(-)179*
Subtotal	(-)909*
Total Savings	(-)$1,591 to (-)$1,741

*Shown in President's budget request.

F. NUMBER OF PERSONS COVERED, FY 77

Service	Current Law	President's Proposal
Part A		
Enrollees	24,900,000	Same
Users	5,900,000	Same
Users Assisted by $500 limit	NA	1,200,000
Part B		
Enrollees	24,600,000	Same
Users meeting the deductible	14,200,000	12,200,000
Users Assisted by $250 limit	NA	2,000,000

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III. OLDER AMERICANS ACT

The Older Americans Act was initially enacted in 1965 and has been subsequently amended in 1967, 1969, 1972, 1973, 1974, and the most recent amendments were signed into law by the President in November, 1975.

BACKGROUND

The major objective of the Older Americans Act is to bring into being a system of coordinated comprehensive services at the community level designed to enable older persons to live independent lives in their own homes or other places of residence and to participate in the life of their community. To achieve this objective, the Older Americans Act provides authorization for a national network on aging. This national network is composed of a State Agency on Aging in each State and Territory and the District of Columbia, 489 Area Agencies on Aging, 700 nutrition projects and the advisory committees to the State and Area Agencies on Aging and the nutrition projects.

DESCRIPTION OF ACT

Major sections of the Act designed to achieve the Act's overall objective include:

Title III: Provides support to State Agencies on Aging and through them, Area Agencies on Aging for the development of coordinated comprehensive service systems designed to enable older persons to live in their own homes or other places of residence.

This Title provides funds (1) for the support of State Agencies on Aging and (2) for the support of Area Agencies on Aging and social services provided by those agencies.

States receive funds under Title III on a formula basis based upon approval by the Commissioner on Aging of an annual State Plan submitted by the Governor.

Primary emphasis is placed on meeting the needs of low income and minority older persons. Prior to submitting the annual State Plan, the State must hold a public hearing on it. The State Plan designates within the State planning and service areas and identifies those areas in which Area Agencies on Aging will be established. Currently, States have identified 585 such planning and service areas and indicated that 489 Area Agencies will be in operation.

The Area Agencies, which may be public or private organizations receive their funds from the State Agencies on Aging based on an annual area plan approved by the State Agency. A public hearing must be held on this plan before it can be submitted to the State.

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The States must utilize at least 20% of their Title III funds for four national priority services: transportation, home care, legal services, and home repair. In addition, as additional resources become available under Title III States must use 50% of the new funds for the priority services. This requirement will no longer be operative when the States reach the point where they are utilizing 33-1/3% of their funds for these four priority services.

Section 308 of Title III provides for a model projects program designed to demonstrate new or innovative means of meeting the needs of older persons. This section of the law is administered directly by the Administration on Aging.

Title VII: Provides funds to the States for the operation of nutrition programs designed to provide hot, nutritious meals in congregate settings to older persons.

States receive funds for this program on a formula basis after the Commissioner on Aging has approved their annual State Plan submitted by the Governor. Primary emphasis is placed on meeting the needs of low income and minority older persons. Currently this program provides support for 700 nutrition projects that serve approximately 300,000 means a day, five days a week, at over 4900 community sites located in churches, senior centers, and schools.

Eighty seven percent of these meals are provided in congregate settings; 13% are home delivered. More than 60,000 volunteers provide their assistance to this program.

Surplus commodities are contributed to the program at the rate of fifteen cents a meal during this Fiscal Year. This rate will increase to 25¢ a meal in Fiscal Year 1977.

An important provision in the 1975 amendments to the Act authorizes State or Area Agencies on Aging to enter into agreements for the purpose of meeting the common needs for <u>transportation services</u> of older persons and other segments of the population.

Several other recent actions have taken place designed to help meet these transportation needs.

-- The Administration on Aging and the Department of Transportation have entered into a working agreement which has resulted and will continue to result in improved coordination of transportation services for older persons.

-- $20.8 million of Fiscal Year 1975 Urban Mass Transportation Administration funds were allotted for capital assistance grants to nonprofit corporations and organizations to serve the transportation needs of older persons and the handicapped. The Department of Transportation will release $22 million for this purpose in Fiscal Year 1976.

-- Approximately 45 projects in 31 States have been selected under the Rural Highway Public Transportation Demonstration Program in Fiscal Year 1975. A major criterion for project selection is that the projects be adaptable to the needs of older persons and the handicapped.

-- The first formula allotments have been made to the States under the Section 5 Capital Assistance Formula Grant Program of the National Mass Transportation Act of 1974. A section of the Act specifies that recipients of funds must provide for reduced fares for the elderly and the handicapped.

The Administration on Aging has made awards to 47 State Agencies on Aging for the purpose of promoting and developing ombudsman services for residents of nursing homes. The objective of these services is to establish a process at the community level which will be responsive to complaints from residents or relatives of older persons in Skilled Nursing Facilities and Intermediate Care Facilities. Activities are now underway at the State and local levels to achieve this purpose. The 1975 amendments to the Act authorize the Administration on Aging to continue such programs.

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N E W S   C O N F E R E N C E   #434

AT THE WHITE HOUSE

WITH RON NESSEN

AT 12:10 P.M. EST

FEBRUARY 9, 1976

MONDAY

MR. NESSEN: The President is going to announce at 12:30 that there will be a Bicentennial exhibition on space and technology developments, with the main part of it at the Kennedy Space Center in Cape Canaveral. He will be announcing that at 12:30, and then there will be briefings for the President to give him more details by Jim Fletcher of NASA and Guyford Stever, Director of the National Science Foundation and John Warner, the Administrator of the Bicentennial. So, we want to hurry and get to that.

Q It is going to be where?

MR. NESSEN: The Cabinet Room.

Q No, no --

MR. NESSEN: At Cape Canaveral.

Q Why should you have to finish your briefing in a hurry for that?

MR. NESSEN: I don't think we have much stuff anyhow today. I think I said the Kennedy Space Center at Cape Canaveral, which is the correct name of it.

As you know, this afternoon at two o'clock there will be the presentation of diplomatic credentials by the Ambassadors of Thailand, Barbados, the Central African Republic and Peru.

I wanted to point out one thing to you because I think there was a misimpression given in a New York Times story on Saturday, reporting on Secretary Kissinger's testimony about the uranium enrichment program.

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The story seemed to indicate Secretary Kissinger was not behind the Administration proposal, which is to have the enriched uranium produced by private companies so we can keep up with the demand from countries around the world, as well as our own.

I have reviewed the Secretary's testimony, and the State Department has, and the Secretary was there for the purpose of testifying in behalf of the Administration's program and is supporting the Administration's program.

I want to tell you, too, that we have now completed a small reorganization of the Press Office.

Jack Hushen has submitted his resignation on Friday and will be announcing himself a job that he has secured in private industry.

Larry Speakes is being promoted to Assistant Press Secretary to the President. The President is announcing that today. As you know, that is a job which is commissioned by the President, and it reflects the President's confidence, as well as our own, in Larry. This is Larry's biography.

Q Is there a salary increase?

MR. NESSEN: Larry, as you know, worked for daily and weekly newspapers and wire services in Mississippi and then came to Washington in 1968, working at the Capitol before coming here in 1974.

So, Larry will move into the front office here and will be really running the front Press Office. He has some definite ideas of improvements, some of which he has already carried out, and the others which he plans to carry out.

Bill Roberts will have an expanded role, an expanded responsibility in the lower Press Office, and I think many of you know Bill and respect him. He has been here for 18 years in Washington as a newsman, serving in the press staff of Vice President Ford and in the Press Office since the President took office. His title is Assistant Press Secretary, and, as I say, he will take on added responsibility.

Thym Smith, who will continue to serve in the lower Press Office, came as an intern and is now a Staff Assistant.

Gail Campbell, a new secretary in the lower Press Office, who many of you have had an opportunity to meet, she formally worked in the EOB, Margita White's office. She is now in the lower Press Office, along with Gay and Carol.

Q Is that a formal designation, lower Press Office?

MR. NESSEN: We call it the front Press Office--out front, also known as the trenches.

Q As opposed to the back room?

MR. NESSEN: Yes, the smoke-filled back room.

One of the things we have tried to do, and I hope you will see continued improvement in it, is the people in the front Press Office will be much more closely involved in policy decisions and other important news matters so that they will have more information to give you, and Larry and Bill and Thym are now and will continue to be more closely plugged into more information so that they can help you.

Now, also we are announcing today that the President is announcing his intention to nominate George H. Dixon of Minneapolis to be Deputy Secretary of the Treasury. He succeeds Steve Gardner, who has become a member of the Board of Governors of the Federal Reserve System.

Mr. Dixon is Chairman and President of the First National Bank of Minneapolis. His salary is $44,600 a year, and the biography will give you the rest of the details.

Q He is a Republican?

MR. NESSEN: Yes. he is.

That is all I have.

Q Has the President said he wants Secretary Kissinger to stay on if he, Ford, is elected in 1976?

MR. NESSEN: I think that is what he told an interviewer.

Q Did he say that?

MR. NESSEN: I have to check the transcript, but that is my memory.

Q When did that come about?

MR. NESSEN: I think that was the Christian Science Monitor, if I am not mistaken.

Q When was that published?

MR. NESSEN: This morning.

Q Has he said the same thing about his other Cabinet people?

MR. NESSEN: I have to check the record on what he said about other Cabinet people.

Q Has he said this to Kissinger, and has Kissinger said, "Yes, I will," or what was Kissinger's response?

MR. NESSEN: I don't know what it was, Jim.

Q Has he said it to Kissinger?

MR. NESSEN: I think Dr. Kissinger knows his feelings, yes. I don't know they sit around and talk about it --

Q What is all this "I think" business? You know what the President said to the Christian Science Monitor.

MR. NESSEN: I know what the President said publicly. I don't know all the private conversations --

Q You did not sit in on the interview?

MR. NESSEN: I did.

Q Then you know what he said?

MR. NESSEN: My memory is that he did say that, right.

Q Has the President now included John Connally in the Vice Presidential candidate list who will be acceptable?

MR. NESSEN: What he said is -- he mentioned some and he said there are others, and what he said is former Governors certainly would merit consideration.

Q Including John Connally?

MR. NESSEN: I don't think he mentioned specifically.

Q You said he conveyed his views to Kissinger. Do you know what Kissinger's response is?

MR. NESSEN: I don't know that they sit around and talk all the time, Helen, about how long he is going to stay or not stay.

Q I did not say that. I said maybe it is a one-shot deal. Did he tell Secretary Kissinger what he had in mind?

MR. NESSEN: I don't sit in on all their private conversations, but I feel sure that Secretary Kissinger knows his feeling.

Q Does the President know Secretary Kissinger's feeling?

Q Do you mean to say that the President would tell an interviewer that he wants Secretary Kissinger to stay on in 1976 but he has not discussed the matter with Secretary Kissinger?

MR. NESSEN: I said I am sure Dr. Kissinger knows his views.

Q Does the President know Dr. Kissinger's views?

MR. NESSEN: I don't know. I assume he does.

Q Did I understand you to say that the President did specifically name John Connally as one of those that he would accept as Vice President?

MR. NESSEN: I don't recall that it was a name on the list.

Q The ticker shows that he named, I think, John Connally and Rockefeller, and Reagan as possible Vice Presidents.

MR. NESSEN: I think what he said was that certainly former Governors would merit consideration. I don't know that he did it by name.

Q In order to straighten this out, are you going to give us a transcript?

MR. NESSEN: No.

Q How are we going to get this straightened out?

MR. NESSEN: What is it we need to straighten out? The Dr. Kissinger thing?

Q I just read on the ticker that he specifically named Connally and several others --

MR. NESSEN: In the interview?

Q He named four people specifically in the write-up on the ticker.

MR. NESSEN: Is that from the Christian Science Monitor interview or from the New Hampshire news conference?

Q This is from the Christian Science Monitor interview, as I understand it.

MR. NESSEN: Why don't you search the transcript and see what it says, John.

Q Ron, did Mrs. Ford or any of the children plan to be campaigning with the President in Florida, and do you have any more details on that trip?

MR. NESSEN: I don't have any more details at the moment. It is not really decided yet whether Mrs. Ford will go on the trip.

Q Is that because that kid insulted her last night by saying she looked old fashioned?

MR. NESSEN: Maybe that is not an insult.

I think I mentioned to you the cities that he would be going to.

Q Could you mention them again?

MR. NESSEN: The cities, again, are Orlando, Fort Lauderdale, St. Petersburg, Fort Myer and Miami, and I think before the week is very old we will have a more detailed schedule for you.

Q We understand he may go back up to New Hampshire the weekend of the 21st.

MR. NESSEN: It is possible, and the real point that will have to be decided is whether there is time on his schedule for him to go. That will be the determining factor.

Q Did you read them in order of arrival there or not?

MR. NESSEN: If the order was Orlando, Fort Lauderdale, St. Petersburg, Fort Myer and Miami, that is the order.

Q Is the overnight Ford Lauderdale?

MR. NESSEN: The overnight is Fort Lauderdale.

Q Do you expect him to go anywhere on Lincoln's Birthday, the 12th?

MR. NESSEN: I expect him to be in Washington on Lincoln's Birthday.

Q Ron, when are we going to get that promised veto of the public works bill?

MR. NESSEN: The deadline for vetoing it is Friday, so you will get it between now and Friday.

Q And also in that connection, since you did mention even before the House voted on that bill that the President was going to veto it, tomorrow the House is going to be voting on a $6 billion public service jobs bill.

Are you also prepared at this time to give the President's intention on that one?

MR. NESSEN: On which one?

Q Tomorrow they are voting on a $6 billion public jobs bill.

MR. NESSEN: I would have to look that one up. I am not all that familiar with the details of that one.

Q Isn't that the one he said he would veto when he was talking to the mayors?

Q This is another one.

MR. NESSEN: There is another bill. I have to take a look at that one.

What the President said to the Christian Science Monitor -- the question was, "Would John Connally be on your list or Ronald Reagan?" Before he had a chance to answer, somebody referred back to a previous question about would a woman be a good Vice Presidential candidate, and the questioner said, "As a woman," and then there was laughter.

Then the questioner said, "No, on the long list," and the President said, "Let me say any ex-Governor has qualifications for it."

So, that is how it went.

Q So, he did not say, then, that a woman might be a possible Vice President, that it might be Carla Hills as one of many. That was not true?

MR. NESSEN: On the Carla Hills question -- what was that, Sarah?

Q The ticker shows that he said there might be a possibility of a woman for Vice President and that Carla Hills might be one of many.

MR. NESSEN: The question was, "You did not mention any women. Is that an oversight?" and the President said, "This is only an illustrative list, not a definitive one."

The questionner said, "Well, you would not exclude women," and he said, "No, not at all." "Could you perhaps mention a few that might be qualified?" "Again, if I list one or two, I will get clobbered by not mentioning all of them."

Question: "You could mention a woman office-holder, couldn't you?" "Obviously, we have a very qualified person in my Cabinet in Carla Hills, but I want to emphasize I am not, under any circumstances, saying that there are not many others."

Q Ron, I think this only brings out the fact that if we don't have that transcript the President is going to be misconstrued here, and there is another question of the transcript here that is very vital on the question of the Supreme Court decision on abortion.

His words shouldn't be rewritten by the correspondent. They should be the exact words.

MR. NESSEN: I thought we gave that one out.

Q What he said to the Christian Science Monitor correspondent on the Supreme Court decision on abortion?

MR. NESSEN: You know the President's stand on abortion, Sarah. You do have his words --

Q It is in addition to what you gave out the other day -- it is not the same thing. This is what he thinks about the Supreme Court decision.

Q He said the court would modify its stand, or he thought it would.

MR. NESSEN: Come on, now. Let's not go into the whole transcript issue again.

Q If you don't do it, the words that the President said here are going to be misconstrued and they are not going to be covered.

MR. NESSEN: His views on abortion have not really changed since he was in Congress.

Q I didn't say they had changed, Ron.

MR. NESSEN: They are the same as the views that Jerry terHorst passed on to you, and I think everyone knows his views.

Q I didn't say they were changed. That is not the issue. The point is, there was a very interesting comment.

MR. NESSEN: I am not going to get into the whole transcript matter again, Sarah, because I think that is resolved.

Q Whether you do or do not, do you want your President not to be correctly quoted or do you want him not to have the full benefit of what he said?

MR. NESSEN: The full benefit of what he said was given out in transcript form last week.

Q Over the weekend there were news stories that Governor Reagan had suggested that part of the Social Security trust fund could perhaps be invested in the stock market.

MR. NESSEN: Yes.

Q Did he have any comment on it?

MR. NESSEN: He is aware of it and did not have any comment on it.

Q Did he like the idea?

MR. NESSEN: I think the President's own views on how to make the Social Security financing system sound again are spelled out actually in the very message you got this morning.

Q Does the President feel the Supreme Court will shortly modify its decision on abortion.

MR. NESSEN: Why don't you ask him at his next news conference, Sarah?

Q Because he said this at the Christian Science Monitor interview already, Ron. I am trying to tell you this.

MR. NESSEN: Then he would not say it if he didn't believe it, I guess.

Q I don't know whether he did it right or not. I don't have a transcript.

Q When is a press conference? Is there one scheduled?

MR. NESSEN: I don't have a press conference schedule to give you.

Q Is ex-Governor Landon of Kansas on this list, too? (Laughter)

Q Averill Harriman?

Q At the risk of belaboring it, since it has already been raised, can you just tell us, apart from what the President may have said in the Christian Science Monitor, when did the President ask Secretary Kissinger --

MR. NESSEN: I just said, Dick, that I don't sit in on all their private conversations, but I feel sure that the President has conveyed his views to the Secretary.

Q Can you give us any indication when that might have been?

MR. NESSEN: No, I can't.

Q Ron, let's put it this way. If President Ford is elected to a full term in November, do you expect -- do you personally expect -- Henry Kissinger to continue as Secretary of State into that full term?

MR. NESSEN: I have no way of knowing Jim. I only have the President's own words.

Aren't we going to get on to some news questions?

Q You don't call that news?

Q Is the President going to submit a proposal to revive the Federal Election Commission and, if so, when?

MR. NESSEN: He already has, I think, last week it was, Bill, indicated the course that he wanted to follow, which was a two-part course: one to reconstitute the commission in accordance with the ruling of the court, which means that he wants Congress to pass a bill for a commission appointed by the President and confirmed by Congress, and the second part ofhis proposal would be to set a terminal date for the commission and/or the law after this election, sometime next year, so that Congress would then have a chance to review the entire law in light of the experience gained from one election.

Q Did he say he would reappoint the same six members if Congress passed such a law?

MR. NESSEN: He never really said flat out he would, but he commented that these six members have had experience and it might be helpful to keep their experience on the commission.

Q Would he or would he not?

MR. NESSEN: He did not say.

Q Ron, did he say anything about whether he would support public financing if that was extended to either Senate races or both Houses and Senate races?

MR. NESSEN: It was discussed, but not definitively, and he did not offer a view.

Q Ron, is there any date on the State of the World Message yet?

MR. NESSEN: I don't have a date on that one, no.

Q A month?

MR. NESSEN: I just don't even have a time frame to give you.

Q Last week several times we asked you about a Presidential press conference, and you said there was nothing scheduled last week. You already said today you have nothing in mind. Things are piling up. Is the President going to spend so much time in weekend campaigning that he will not be able to hold a press conference in the near future?

MR. NESSEN: I don't think a weekend campaigning interferes with having a news conference.

Q When then do you expect there would be one?

MR. NESSEN: I can't give you a date for the next news conference.

Q Do you expect one this week?

MR. NESSEN: No, I don't anticipate one this week.

Q What was this you said, the President going to New Hampshire, would depend whether he could break away. Is there some major project going on or is this just day-to-day business?

MR. NESSEN: Just day-to-day business.

Q Ron, when is the President going to provide his financial disclosure?

MR. NESSEN: I don't have the date on that. I know material is being pulled together, but I don't have the date when it will be in.

Q Might it be this week?

MR. NESSEN: I doubt if it will be this week.

Q How about the final medical?

MR. NESSEN: I have the final medical report, and I think the best way to do it would just be to have anyone who wants it come around and pick it up in the Press Office or look at this copy in the Press Office. This is the actual standard Government form filed by Lukash. So, I think the thing to do is just to put it over here in the press room and have people look at it.

Q Why can't we have a copy of it? That is going to be mayhem.

MR. NESSEN: We will Xerox a bunch of copies. It is seven pages.

Q Has the President asked for a study of arms sales to the Persian Gulf nations, or an analysis?

MR. NESSEN: I think that is fairly constantly reviewed, but I don't know of any specific study.

Q There were stories over the weekend that he has asked for a review and may ask Congress to look into the question.

MR. NESSEN: I don't know the answer to that because I have not heard it before.

Q What is the status of the intelligence reform proposals?

MR. NESSEN: I think we are pretty close.

Q Ron, has President Ford sent a message to the new Chinese Premier in Peking?

MR. NESSEN: Not that I know of.

Q Does he plan to?

MR. NESSEN: I am not sure what the procedure is on that, but I will check for you.

Q Do you know if he met with him when he was in China?

MR. NESSEN: We know the President did not meet with him in a normal conference or negotiating setting. He was not in on those meetings. Right now, people are checking back to see if perhaps the President met him in a less formal setting, receiving line or reception or something like that.

Q This appointment is announced as a temporary or acting appointment. What is going to be the drill? Is the President, as the representative of the American Government, going to wait until the Party Congress or the Central Committee meets and acts and actually chooses a permanent Premier or will he send something to this man?

MR. NESSEN: I said I will check on that because I don't know what the proper diplomatic procedure is. I will check.

Q Is there any more on the U.N. appointment to replace Moynihan?

MR. NESSEN: No. I don't have a name to give you today.

Q Was the Government caught by surprise with this appointment -- in view of all the things we have in China -- who the obvious successor was?

MR. NESSEN: The President knew about it in a timely way. I would rather not go into it.

Q Before the announcement?

MR. NESSEN: I don't know when the public announcement was but he knew about it.

Q Before?

MR. NESSEN: I don't know when the public announcement was.

Q Why did you say in a timely way? Can you explain that?

MR. NESSEN: His morning intelligence report on Saturday contained the information of the appointment.

Q On Saturday, but wasn't it done the night before?

Q Ron, do you expect a new Ambassador-designate -- representative-designate to Peking prior to Mr. Nixon's trip?

MR. NESSEN: When is Mr. Nixon's trip?

Q Three days before the New Hampshire primary.

MR. NESSEN: No. I don't know what the timetable is for appointing one. There is not one to announce now.

Q Ron, speaking of that, I think Secretary Kissinger was quoted as saying he learned about Mr. Nixon's travel plans on last Monday.

MR. NESSEN: I don't think so. I think what he said was they had discussed China and traveling to China in a general way, but never discussed a specific trip or specific date. My understanding is that is what transpired out there -- general discussion of travel to China.

Q You did not answer my question as to whether the President was surprised or whether the experts in the White House or State Department were surprised at the developments, or have they analyzed them in any way?

MR. NESSEN: Have they analyzed it?

Q Or are they surprised?

Q What is the meaning of it all, Ron?

MR. NESSEN: It will not have, as far as we know, any effect on America's current relations with China.

Q How do you know that?

MR. NESSEN: That is what the analysis leads to.

Q Before we finish here and since the former President's name has been mentioned, Senator Cranston of California is quoting Nixon as saying that at one point he could go into the Oval Office, press a button and 60 million people would be dead in 25 minutes, or words to that effect. Several questions about it. First, is the President aware of the former President ever saying this? Number two, what is his general reaction to the quote, and three, does he favor these various fail-safe or precautionary measures pending in Congress?

MR. NESSEN: I don't see how I can or should answer any of those, Jim.

Q What about the third one anyway?

MR. NESSEN: I don't know what the measures are. Let me look into them.

Q Is he aware of the quote? Does he know about it?

MR. NESSEN: If it was in the paper, I guess he read it.

END (AT 12:30 P.M. EST)

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

FEBRUARY 9, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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.

MORE

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.

MORE

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.

MORE

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.

MORE

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?

MORE

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.

MORE

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?

MORE

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?

MORE

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.

MORE

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.

MORE

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, oftentime, to enlarge the system and to increase its long-term costs rather than stabilize them.

MORE

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.

MORE

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 Ameircans 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 slightlyunder $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 financer 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.

MORE

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.

END (AT 10:45 A.M. EST)

THE WHITE HOUSE MAY 6, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
AT THE
MEETING ON SOCIAL SECURITY

THE CABINET ROOM

11:10 A.M. EDT

While the press is here I think it might be appropriate to point out to them the reason for this meeting.

As everybody knows, I submitted to the Congress a very constructive proposal for the purpose of maintaining the financial integrity of the Social Security Trust Fund. This was submitted at the time of our budget or economic program at the time of the State of the Union, and unfortunately it appears that the Congress is going to fail to recognize the problem and tragically fail to do anything to solve the problem.

This concerns me very greatly because we have 32 million individuals, most of them older, who are depending upon the financial soundness of the Trust Fund, and we have literally millions and millions more who are paying into the Trust Fund who are counting on the financial integrity of that Fund.

This Administration feels an obligation to protect the investment of those who are retired and those who are counting on retirement. The purpose of this meeting is for me to get the up-to-date information from the responsible people in the Executive Branch who, I am sure, are likewise concerned, as I am, about the current situation.

The Congress cannot fail the older people and others who are either on retirement or about to retire. We expect some action. They cannot fail to respond to this very important, I think, matter of critical need.

END (AT 11:12 A.M. EDT)

EMBARGOED FOR RELEASE UNTIL JUNE 17, 1976

12:00 NOON (EDT)

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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(OVER)

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.

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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
Present Law and Administration Bill
(in Percent)

Year	Expenditures as Percent of Taxable Payroll 1/ 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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TABLE 3

Comparison of OASDI Actuarial Balance
Present Law and Administration Bill
(in Percent of Taxable Payroll)

Item	Average for Period 1/		
	Present Law	Bill	Difference
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

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

# # #

EMBARGOED FOR RELEASE
UNTIL 12 NOON, EDT

JUNE 17, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

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.

more

(OVER)

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.

GERALD R. FORD

THE WHITE HOUSE,
JUNE 17, 1976

# # # #

FOR IMMEDIATE RELEASE JUNE 17, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
JAMES B. CARDWELL, COMMISSIONER,
SOCIAL SECURITY ADMINISTRATION

THE BRIEFING ROOM

12:25 P.M. EDT

MR. CARDWELL: I am Bruce Cardwell, the Commissioner of Social Security, for what that may be worth.

The President has made in effect since January of this year a number of proposals on Social Security, the two most significant of which were enunciated in his Budget Message in January. He indicated he would send to the Congress a proposal for a tax rate increase designed to relieve the current short-term deficit that the System is experiencing.

This year it will fall short of income by about $4 billion. In the winter the President sent a specific proposal to Congress to raise the tax rate for both employers and employees three-tenths of one percent each and that was designed to bring the System into balance beginning in 1977 and holding it in balance into the 1980s.

He also indicated to Congress that he would present them at a later time a proposal to correct a flaw that came into the System in 1972. In 1972, the Congress changed the Social Security Act to provide automatic cost of living benefit increases for persons who were retired, persons who were on the retirement rolls. Every time the cost of living goes up by 3 percent or more, the law automatically requires the Commissioner of Social Security to increase the benefit amounts for persons who are retired.

The language of that particular provision, however, produced an unintended effect because it required the Commissioner to recompute the benefit formula for persons who would retire in the future -- is now seen in the face of long-term predictions that suggest that we are going to continue to have rises in both wages and prices on into the long-term future.

It suggests, and quite clearly, this has been known now for several years, that the System would increase in cost as a result of this formula. The reason it would increase in cost is that it would increase the benefit amounts for future retirees, persons who are now working but who would retire later every time the cost of living increase is invoked for current retirees.

MORE

This is called double indexing, and one way to illustrate it is to look at what happens in the future, when a person retires, reaches, say, age 65 and elects to draw Social Security. Today if he is in the lower income bracket, he could expect that his earnings at the time of retirement would be replaced by Social Security to an extent of about 63 percent of his last earnings.

In other words, he would get 63 cents on every dollar earned he would receive in a Social Security benefit. Well, this particular flaw in the formula would, around the turn of the century and thereafter, result in that same employee drawing over 100 percent of what he was earning at the time of retirement.

Q Are you talking about the 100 percent of the total salary?

MR. CARDWELL: 100 percent of his gross salary.

Q Does that include inflation or not?

MR. CARDWELL: Well, the reason it happens is that salaries automatically correct themselves for inflation without any action on the part of the Social Security System.

Q But if I could understand this, if the person retires at, say, $5,000 a year and he would be getting 63 percent of that on retirement, years hence might not 101 percent of that former amount be worth in real dollars 63 percent?

MR. CARDWELL: We are talking about corrected for inflation in effect.

Q You are talking about real dollars?

MR. CARDWELL: In other words, the System would run away with itself. It would start paying higher and higher benefits to more and more people without ever having intended to do so.

Q Are you talking about the total salary or the salary for tax purposes in Social Security?

MR. CARDWELL: No, it is the gross salary, the earnings of the employed, not those that are taxed or not taxed by Social Security.

Q To go back to Mort's thing a minute on the 63 percent, you are saying it will be the corrected for inflation figure of over 100 percent?

MR. CARDWELL: Yes. Look, if I am making $5,000 today and I retire, I would expect to draw about $3,300 in Social Security benefits.

MORE

Q Right.

MR. CARDWELL: If I happen to be making $5,000 in the year 2000, I could expect to draw about $6,000 in Social Security benefits. It is that simple.

Q I see what you mean.

Q Wait.

MR. CARDWELL: Now if inflation during that period would cause a man making $5,000 today to be earning $10,000 in the year 2000, he would be drawing $12,000 in benefits.

Q What you are saying when you are talking about the turn of the century figure, you are talking about a current worker.

MR. CARDWELL: Current worker, turn of the century.

Q Not a man who retires now.

MR. CARDWELL: No. This affects future workers. It is a flaw in the System, it has nothing to do with people who are already retired. It was an unintended effect of the law.

Q Future workers can in effect, then, under the present System, retire at a higher rate?

MR. CARDWELL: Than their brethren who retire today.

Q When will that begin to take hold?

MR. CARDWELL: It begins to take hold around the turn of the century. It shows up in a gradual way in the late '90s.

Q What happens under your proposal to the man who retires now at $5,000 a year and gets --

MR. CARDWELL: Very simply stated, the President's proposal is intended to stabilize these replacement rates under a Social Security System that is indexed, as the present one is, for the cost of living for retired persons.

In other words, you continue in effect the idea of an automatic cost of living index for persons who have retired. Once they are retired their benefits would be kept up to date with the cost of living but it stabilizes the retirement rights for future workers, it fixes them essentially as they are today.

MORE

Now it permits those retirements rights, though, to improve if the standard of living improves. The present law does the same thing.

The worker who is making $5,000 today -- $5,000 may be worth $10,000 at the turn of the century. The System would take that into account but its primary objective is to stabilize replacement rates.

Q Are you saying these cost of living increases will not be computed for people who are not in the System yet? Is that what you mean?

MR. CARDWELL: Yes, that is right. That is one way of saying it.

Q If I understand this, to put it another way, if the cost of living increases affect only those who are already retired --

MR. CARDWELL: Already retired?

Q -- the flaw in the System now is, according to the language, that even people that are years from retirement --

MR. CARDWELL: As you sit there, your retirement rights are improving under the present law.

Q If the law is changed the way the President wants, the people who are working now would enter the System at whatever --

MR. CARDWELL: At a par.

Q Okay. Then they start to get automatic cost of living increases.

MR. CARDWELL: Yes.

Q Commissioner, it looks like, according to the tally on Page 3 of the fact sheet, that the only people who would really wind up with more than 100 percent --

MR. CARDWELL: Are the low wage earners.

Q Yes, the lower income people.

MR. CARDWELL: If you take a single worker, that is essentially true, but if you take a middle income worker with a family, because benefits automatically increase if you have a family, and you take the gross earnings of the Social Security covered employee, the family income could also get close to 100 percent. It would rise dramatically and in some cases could exceed 100 percent for the family unit.

MORE

Q One other thing. In the President's message, he reiterated his proposal for the three-tenths hike for employers and employees which he put forth in the State of the Union.

MR. CARDWELL: Yes.

Q It seems evident that the Congress is not going to adopt that this year because the Senate Finance Committee and House Ways and Means have already rejected it. Why is he still sticking by that even though --

MR. CARDWELL: I think he is attempting to call to the attention of the public and the Congress the fact that we are just sitting here doing nothing while the System experiences deficits, and I agree with him, I think that it is appropriate to continue to call their attention to the fact.

MORE

Q You don't have any expectation of that being passed this year?

MR. CARDWELL: You will have to make your own judgment about that. I don't predict what Congress will or will not do. Most people agree with you.

Q Commissioner, is that not the alternative of raising the base?

MR. CARDWELL: All right. I think that is a good question.

In effect, we looked at the wage base and the tax rate and tried to kind of pull the two along together. I think the thing that most people do not realize or appreciate is the fact that the wage base is increasing under existing law literally every year and that also stems from the 1972 amendments which requires the wage base to be increased every time the cost of living rises enough to trigger an increase in benefits.

For example, in 1977, the first year in which the President's tax proposal would be effective, the wage base will increase from the 1976 level of $15,300 to $16,500. Now for a worker at the $15,300 level this year -- or, let's say, at the $16,500 level this year -- that would cost him $70 automatically in 1977. It is a hidden tax increase that is already sitting there waiting for him.

So in effect we said we recognize that that increase was already occurring and the three-tenths of one percent would apply to him and all workers. The three-tenths means for that particular worker, the person at the top of the rung, that he would have to pay about another $49 for the three-tenths of one percent. His gross increase in Social Security taxation in 1977 would be about $119, so we have already taken that into account. In other words, we recognize that he is going to pay $70 under existing law.

Q But if you raised the base more than somebody making $35,000 a year, he would pay more on this $65,000 --

MR. CARDWELL: And something else happens. We are trying to rethink and set the stage for a reconsideration of the long-term functioning of the system. We know that if you increase the wage base dramatically--as a jump to, say, $25,000 or $35,000 would do--not only would it have, we think, the undesirable effect of impacting too abruptly on the middle wage earner but it would also increase in his benefit rights in the long term and increase the long-term cost of the system, because your benefit rights are determined by how much you paid in; and if you pay in more because we raised the wage base, you can also be entitled to draw out more.

Q If you write the law that way.

MORE

MR. CARDWELL: That is the way the law is written.

Q On the cost of living, does that go in at over 3 percent?

MR. CARDWELL: Three percent is the threshold. It is triggered. If the CPI goes up by more than 3 percent in the period specified in the law, then we sit and calculate what it actually was. It will be 6.4 percent for this July.

Q Are you going to match the CPI increase over 3 percent?

MR. CARDWELL: No. You will actually increase the benefit by whatever the CPI was providing the CPI for a given year exceeding 3 percent.

Q In other words, if the CPI goes up 6 percent --

MR. CARDWELL: It is 6 percent. But, if it is up 2 percent, it is zero.

Q Oh, I see. Over 3 you get --

MR. CARDWELL: Three is the trigger, the threshold.

Q But you don't wait until the end of the year. When it goes up 3 percent, you increase it, right?

MR. CARDWELL: No, it is calculated once a year under the law and the next one would be effective this coming July.

Q So, these are annual adjustments?

MR. CARDWELL: Right, annual adjustments.

Q In years when the cost of living exceeds the price index?

MR. CARDWELL: Would you let me summarize the proposal the President sent up today?

Q Yes.

MR. CARDWELL: Maybe that would help. I will do it in very brief and general terms.

The first corrects the flaw and essentially places the benefit structure where it would have been had the flaw not occurred in 1972 in the first place. It just says we will take the system and keep it in place and just make this one change. We will set the stage for reconsideration of such things as to whether the wage base is adequate, whether the long-term financing generally is adequate, where the benefits for men and women are adequate.

MORE

This device deliberately avoids those issues. It says they are major issues that deserve careful consideration over time, but meanwhile we have got to know what the long-term financial picture is going to be.

Next, and most important, this provision would cut the long-term 75-year deficit in half. So it has a significant cost effect.

Q What is the amount of the 75-year deficit?

MR. CARDWELL: The 1976 Trustees Report was issued to the Congress in May and it said that over 75 years the system will have a long-term 75-year average deficit of 7.96 percent. This would cut that by 3.95 percent. Say, it would leave a deficit of about 4 percent.

Q 7.9 percent of what?

MR. CARDWELL: Of the payroll that is taxable under the law, the total national payroll that is taxable under the law.

Q Do you have a dollar figure for that?

MR. CARDWELL: If you read the Wall Street Journal, they say it is $4 trillion. No one has ever stopped to calculate it. If you look at it, there is a better way to measure it. There is a gross payroll subject to the wage base in the tax. That is the source of revenue to finance the system. You measure your financing capacity in terms of whether that tax rate and that wage base, when applied, will produce enough money to cover costs. And we fall short.

In other words, look at yourselves. You are paying today 5.85 percent for Social Security. If the actuaries and the trustees are right, in the year 2030, averaged over that period between now and then, you would have had to have paid in roughly 13 or 14 percent, so that is the difference. It says the tax rate falls short by that much in taxes and this would cut that difference roughly in half.

MORE

Q Is the remainder of the deficit due to demographic changes?

MR. CARDWELL: There are really three causes for the deficit. Two have to do with inflation. Both prices and wages on the near term have risen much more sharply than anyone ever anticipated for this period. That kicks the cost of the program up into a higher orbit and that orbit would continue in the future.

The second feature is the fact that we have revised upward -- and "we" represents a very large group of people -- the economists generally in this country agree that on the long term, looking out over the next 75 years, both wages and prices are going to be higher than anticipated when this System was last examined in 1972. So that has another long-term inflationary effect. That is the second long-term cost feature.

The third one -- well, I guess there are really four. The third one is that under those circumstances this particular provision that we are trying to correct compounds the effects of inflation.

The final long-term problem is the result of a revision in the prediction of how the population will mix over the next 75 years. We are predicting now that we will not even replace ourselves in terms of the fertility or birth rate. We are predicting a low replacement rate level. That means fewer workers over the long term paying into the System, it means more proportionately older people drawing out of the System.

Now this particular provision will recognize the long-term inflation and attempts to avoid the double indexing that would have caused that phenomenon to increase the cost of the system.

Q One of the criticisms a number of the Democratic candidates have made this year is that some of the current problems of the Social Security System are attributable to high unemployment. What would half the current rate of unemployment do to the current stability of the System?

MR. CARDWELL: If you could do it, you could not make up now for the deficit that is immediate on hand by sudden improvement in employment. A high rate of employment over the long term would offset some of the effect of the demographic predictions. In other words, you would have a larger share of your work force working. The long range estimates that we are talking about assume a long-term average unemployment rate of about 5 percent. So you can reach your own judgment for the 75 years.

MORE

Q What would 4 percent do to that? Would it make much difference?

MR. CARDWELL: It would make a difference but it would not swing the System by any means.

Q Has any consideration been given in the matter of inquity to fixing up the situation under which the people who run the Social Security System have got a better retirement set-up than the retirement set-up --

MR. CARDWELL: Could I take that question and then just finish my review of what the President did today?

The proposal which stabilized the so-called replacement rates, the share of a person's earnings that are replaced by Social Security upon retirement, at the levels essentially as they exist today literally that effect would take place in the year in which the law is changed. We are assuming this would not be before 1978 so, in effect, it would freeze the replacement rates, if I can use that term, as they would exist in 1978.

Q You don't think the Congress is going to act today on the President's proposal?

MR. CARDWELL: Well, they could act on it today. We are saying it would not be effective until 1978 and you move some lead time to rearrange all the machinery to carry out a new formula. It does not disturb and leaves in place the concept of an automatic cost of living increase for retirees.

Q But it confines it to that?

MR. CARDWELL: But it confines it to that. However, it does have as one of its basic features the idea that future benefits for future retirees would be based on wage levels at the time of retirement, the real wage question that we had earlier, and that they would recognize any inflation or deflation for that matter that would have occurred in the society during the period of the workers' work life.

The provision also has a transition provision. It says that any individual over the next ten years -- ten years following enactment -- would have the right to the benefit computed by this new formula or the benefit computed by the old formula, whichever was higher for his particular circumstance.

Now you want to go then to your question?

MORE

Q Yes. The point I had in mind was that the government workers -- say, the Social Security staff -- when they retire they can retire on immediate full benefits and work in addition.

MR. CARDWELL: Yes.

Q Now the Social Security retiree has to wait seven years if he wants to work.

MR. CARDWELL: That is an issue that has surfaced more and more of late. My personal opinion as someone who is eligible for Federal retirement--who will be if I behave myself, I think it is inequitable but I think as with the question of State and local Government employees who have a right that the average worker does not have -- namely, to either opt in the System optionally or opt out once they come in -- both of those are anomalous situations. The 1975 Social Security Advisory Council took note of both of those situations and recommended that eventually for that matter, assuming public policymakers could agree to it, they should put the System on a universal coverage basis. That means they merge Federal workers and State and local Government workers into the System.

Most people assume that that means that the Government worker would have to give up something, and you can assume what the consequence of that might be.

Q Another criticism heard by Presidential candidates is the fact that the working spouse, the working wife, gets short-changed -- the one who works all the time -- because she is limited, she can go only up to about, I think, half of what her husband gets.

MR. CARDWELL: No, not really, she can get her benefit right or the two of them together can get his right and the spouse's right, whichever produces the best effect for the two of them.

However, her right combined singularly with his right could perhaps produce a better effect, and the law does not allow that. The law says, I think really --

Q That is the point.

MR. CARDWELL: More often than not the issue raised by single women and by working women comes in the form of a concern that the housewife, the non-working married woman -- non-working married man even -- has a right to draw in effect a 50 percent benefit without ever having paid in.

MORE

The married worker also will find herself often in a situation where she will have worked for a short while prior to marriage and will have paid in, will not have worked long enough to earn a full right, she will go back into employment in her later years in married life and again will perhaps only work for a short period -- the two periods combined not being sufficient to earn a benefit. The single woman has sometimes the same complaint.

This is, I think, a very complex issue and it really comes into contest in part with the matter of how you look at the family unit, single people versus married people. The solutions to that problem turn out to be very expensive, if you try to round everybody upward. If you leave the wife's benefit in place and if you try to also give the working wife an equivalent benefit opportunity, that increases the cost of the System.

Another advocacy on the part of women these days is that housewives should get a full benefit, and even though they directly do not pay into the System.

You have all these points and counterpoints flooding in for consideration at a time when we see the long-term cost of the System rising at a very rapid rate. We think that by putting the System on a firm footing -- which we think the President's proposal would do -- you improve the opportunity for policymakers to later rationally approach these kinds of questions. The answers are not going to be easy to come by.

THE PRESS: Thank you.

END (AT 12:50 P.M. EDT)

FOR IMMEDIATE RELEASE JUNE 17, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
UPON SIGNING OF A MESSAGE TO CONGRESS
REGARDING SOCIAL SECURITY DECOUPLING LEGISLATION

THE OVAL OFFICE

10:24 A.M. EDT

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 employers and employees. This increase would remedy the immediate short-term financing problems 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.

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 very happy that a full cost of living increase will be included in July's 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 both of them into law.

END (AT 10:27 A.M. EDT)

EMBARGOED FOR RELEASE UNTIL JUNE 17, 1976

12:00 NOON (EDT)

Five

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 overadjustment 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.

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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
Present Law and Administration Bill
(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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TABLE 3

Comparison of OASDI Actuarial Balance
Present Law and Administration Bill
(in Percent of Taxable Payroll)

Item	Average for Period 1/ Present Law	Bill	Difference
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

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

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FICE

FOR IMMEDIATE RELEASE JUNE 17, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
UPON SIGNING OF A MESSAGE TO CONGRESS
REGARDING SOCIAL SECURITY DECOUPLING LEGISLATION

THE OVAL OFFICE

10:24 A.M. EDT

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 employers and employees. This increase would remedy the immediate short-term financing problems 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.

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 very happy that a full cost of living increase will be included in July's 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 both of them into law.

END (AT 10:27 A.M. EDT)

EMBARGOED FOR RELEASE
UNTIL 12 NOON, EDT

JUNE 17, 1976

Fi.

Office of the White House Press Secretary

THE WHITE HOUSE

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.

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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.

GERALD R. FORD

THE WHITE HOUSE,
JUNE 17, 1976

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FOR IMMEDIATE RELEASE JUNE 17, 1976

File

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.

# # #

FOR IMMEDIATE RELEASE JUNE 17, 1976

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
JAMES B. CARDWELL, COMMISSIONER,
SOCIAL SECURITY ADMINISTRATION

THE BRIEFING ROOM

12:25 P.M. EDT

MR. CARDWELL: I am Bruce Cardwell, the Commissioner of Social Security, for what that may be worth.

The President has made in effect since January of this year a number of proposals on Social Security, the two most significant of which were enunciated in his Budget Message in January. He indicated he would send to the Congress a proposal for a tax rate increase designed to relieve the current short-term deficit that the System is experiencing.

This year it will fall short of income by about $4 billion. In the winter the President sent a specific proposal to Congress to raise the tax rate for both employers and employees three-tenths of one percent each and that was designed to bring the System into balance beginning in 1977 and holding it in balance into the 1980s.

He also indicated to Congress that he would present them at a later time a proposal to correct a flaw that came into the System in 1972. In 1972, the Congress changed the Social Security Act to provide automatic cost of living benefit increases for persons who were retired, persons who were on the retirement rolls. Every time the cost of living goes up by 3 percent or more, the law automatically requires the Commissioner of Social Security to increase the benefit amounts for persons who are retired.

The language of that particular provision, however, produced an unintended effect because it required the Commissioner to recompute the benefit formula for persons who would retire in the future -- is now seen in the face of long-term predictions that suggest that we are going to continue to have rises in both wages and prices on into the long-term future.

It suggests, and quite clearly, this has been known now for several years, that the System would increase in cost as a result of this formula. The reason it would increase in cost is that it would increase the benefit amounts for future retirees, persons who are now working but who would retire later every time the cost of living increase is invoked for current retirees.

MORE

This is called double indexing, and one way to illustrate it is to look at what happens in the future, when a person retires, reaches, say, age 65 and elects to draw Social Security. Today if he is in the lower income bracket, he could expect that his earnings at the time of retirement would be replaced by Social Security to an extent of about 63 percent of his last earnings.

In other words, he would get 63 cents on every dollar earned he would receive in a Social Security benefit. Well, this particular flaw in the formula would, around the turn of the century and thereafter, result in that same employee drawing over 100 percent of what he was earning at the time of retirement.

Q Are you talking about the 100 percent of the total salary?

MR. CARDWELL: 100 percent of his gross salary.

Q Does that include inflation or not?

MR. CARDWELL: Well, the reason it happens is that salaries automatically correct themselves for inflation without any action on the part of the Social Security System.

Q But if I could understand this, if the person retires at, say, $5,000 a year and he would be getting 63 percent of that on retirement, years hence might not 101 percent of that former amount be worth in real dollars 63 percent?

MR. CARDWELL: We are talking about corrected for inflation in effect.

Q You are talking about real dollars?

MR. CARDWELL: In other words, the System would run away with itself. It would start paying higher and higher benefits to more and more people without ever having intended to do so.

Q Are you talking about the total salary or the salary for tax purposes in Social Security?

MR. CARDWELL: No, it is the gross salary, the earnings of the employed, not those that are taxed or not taxed by Social Security.

Q To go back to Mort's thing a minute on the 63 percent, you are saying it will be the corrected for inflation figure of over 100 percent?

MR. CARDWELL: Yes. Look, if I am making $5,000 today and I retire, I would expect to draw about $3,300 in Social Security benefits.

MORE

Q Right.

MR. CARDWELL: If I happen to be making $5,000 in the year 2000, I could expect to draw about $6,000 in Social Security benefits. It is that simple.

Q I see what you mean.

Q Wait.

MR. CARDWELL: Now if inflation during that period would cause a man making $5,000 today to be earning $10,000 in the year 2000, he would be drawing $12,000 in benefits.

Q What you are saying when you are talking about the turn of the century figure, you are talking about a current worker.

MR. CARDWELL: Current worker, turn of the century.

Q Not a man who retires now.

MR. CARDWELL: No. This affects future workers. It is a flaw in the System, it has nothing to do with people who are already retired. It was an unintended effect of the law.

Q Future workers can in effect, then, under the present System, retire at a higher rate?

MR. CARDWELL: Than their brethren who retire today.

Q When will that begin to take hold?

MR. CARDWELL: It begins to take hold around the turn of the century. It shows up in a gradual way in the late '90s.

Q What happens under your proposal to the man who retires now at $5,000 a year and gets --

MR. CARDWELL: Very simply stated, the President's proposal is intended to stabilize these replacement rates under a Social Security System that is indexed, as the present one is, for the cost of living for retired persons.

In other words, you continue in effect the idea of an automatic cost of living index for persons who have retired. Once they are retired their benefits would be kept up to date with the cost of living but it stabilizes the retirement rights for future workers, it fixes them essentially as they are today.

MORE

Now it permits those retirements rights, though, to improve if the standard of living improves. The present law does the same thing.

The worker who is making $5,000 today -- $5,000 may be worth $10,000 at the turn of the century. The System would take that into account but its primary objective is to stabilize replacement rates.

Q Are you saying these cost of living increases will not be computed for people who are not in the System yet? Is that what you mean?

MR. CARDWELL: Yes, that is right. That is one way of saying it.

Q If I understand this, to put it another way, if the cost of living increases affect only those who are already retired --

MR. CARDWELL: Already retired?

Q -- the flaw in the System now is, according to the language, that even people that are years from retirement --

MR. CARDWELL: As you sit there, your retirement rights are improving under the present law.

Q If the law is changed the way the President wants, the people who are working now would enter the System at whatever --

MR. CARDWELL: At a par.

Q Okay. Then they start to get automatic cost of living increases.

MR. CARDWELL: Yes.

Q Commissioner, it looks like, according to the tally on Page 3 of the fact sheet, that the only people who would really wind up with more than 100 percent --

MR. CARDWELL: Are the low wage earners.

Q Yes, the lower income people.

MR. CARDWELL: If you take a single worker, that is essentially true, but if you take a middle income worker with a family, because benefits automatically increase if you have a family, and you take the gross earnings of the Social Security covered employee, the family income could also get close to 100 percent. It would rise dramatically and in some cases could exceed 100 percent for the family unit.

Q One other thing. In the President's message, he reiterated his proposal for the three-tenths hike for employers and employees which he put forth in the State of the Union.

MR. CARDWELL: Yes.

Q It seems evident that the Congress is not going to adopt that this year because the Senate Finance Committee and House Ways and Means have already rejected it. Why is he still sticking by that even though --

MR. CARDWELL: I think he is attempting to call to the attention of the public and the Congress the fact that we are just sitting here doing nothing while the System experiences deficits, and I agree with him, I think that it is appropriate to continue to call their attention to the fact.

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Q You don't have any expectation of that being passed this year?

MR. CARDWELL: You will have to make your own judgment about that. I don't predict what Congress will or will not do. Most people agree with you.

Q Commissioner, is that not the alternative of raising the base?

MR. CARDWELL: All right. I think that is a good question.

In effect, we looked at the wage base and the tax rate and tried to kind of pull the two along together. I think the thing that most people do not realize or appreciate is the fact that the wage base is increasing under existing law literally every year and that also stems from the 1972 amendments which requires the wage base to be increased every time the cost of living rises enough to trigger an increase in benefits.

For example, in 1977, the first year in which the President's tax proposal would be effective, the wage base will increase from the 1976 level of $15,300 to $16,500. Now for a worker at the $15,300 level this year -- or, let's say, at the $16,500 level this year -- that would cost him $70 automatically in 1977. It is a hidden tax increase that is already sitting there waiting for him.

So in effect we said we recognize that that increase was already occurring and the three-tenths of one percent would apply to him and all workers. The three-tenths means for that particular worker, the person at the top of the rung, that he would have to pay about another $49 for the three-tenths of one percent. His gross increase in Social Security taxation in 1977 would be about $119, so we have already taken that into account. In other words, we recognize that he is going to pay $70 under existing law.

Q But if you raised the base more than somebody making $35,000 a year, he would pay more on this $65,000 --

MR. CARDWELL: And something else happens. We are trying to rethink and set the stage for a reconsideration of the long-term functioning of the system. We know that if you increase the wage base dramatically--as a jump to, say, $25,000 or $35,000 would do--not only would it have, we think, the undesirable effect of impacting too abruptly on the middle wage earner but it would also increase in his benefit rights in the long term and increase the long-term cost of the system, because your benefit rights are determined by how much you paid in; and if you pay in more because we raised the wage base, you can also be entitled to draw out more.

Q If you write the law that way.

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MR. CARDWELL: That is the way the law is written.

Q On the cost of living, does that go in at over 3 percent?

MR. CARDWELL: Three percent is the threshold. It is triggered. If the CPI goes up by more than 3 percent in the period specified in the law, then we sit and calculate what it actually was. It will be 6.4 percent for this July.

Q Are you going to match the CPI increase over 3 percent?

MR. CARDWELL: No. You will actually increase the benefit by whatever the CPI was providing the CPI for a given year exceeding 3 percent.

Q In other words, if the CPI goes up 6 percent --

MR. CARDWELL: It is 6 percent. But, if it is up 2 percent, it is zero.

Q Oh, I see. Over 3 you get --

MR. CARDWELL: Three is the trigger, the threshold.

Q But you don't wait until the end of the year. When it goes up 3 percent, you increase it, right?

MR. CARDWELL: No, it is calculated once a year under the law and the next one would be effective this coming July.

Q So, these are annual adjustments?

MR. CARDWELL: Right, annual adjustments.

Q In years when the cost of living exceeds the price index?

MR. CARDWELL: Would you let me summarize the proposal the President sent up today?

Q Yes.

MR. CARDWELL: Maybe that would help. I will do it in very brief and general terms.

The first corrects the flaw and essentially places the benefit structure where it would have been had the flaw not occurred in 1972 in the first place. It just says we will take the system and keep it in place and just make this one change. We will set the stage for reconsideration of such things as to whether the wage base is adequate, whether the long-term financing generally is adequate, where the benefits for men and women are adequate.

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This device deliberately avoids those issues. It says they are major issues that deserve careful consideration over time, but meanwhile we have got to know what the long-term financial picture is going to be.

Next, and most important, this provision would cut the long-term 75-year deficit in half. So it has a significant cost effect.

Q What is the amount of the 75-year deficit?

MR. CARDWELL: The 1976 Trustees Report was issued to the Congress in May and it said that over 75 years the system will have a long-term 75-year average deficit of 7.96 percent. This would cut that by 3.95 percent. Say, it would leave a deficit of about 4 percent.

Q 7.9 percent of what?

MR. CARDWELL: Of the payroll that is taxable under the law, the total national payroll that is taxable under the law.

Q Do you have a dollar figure for that?

MR. CARDWELL: If you read the Wall Street Journal, they say it is $4 trillion. No one has ever stopped to calculate it. If you look at it, there is a better way to measure it. There is a gross payroll subject to the wage base in the tax. That is the source of revenue to finance the system. You measure your financing capacity in terms of whether that tax rate and that wage base, when applied, will produce enough money to cover costs. And we fall short.

In other words, look at yourselves. You are paying today 5.85 percent for Social Security. If the actuaries and the trustees are right, in the year 2030, averaged over that period between now and then, you would have had to have paid in roughly 13 or 14 percent, so that is the difference. It says the tax rate falls short by that much in taxes and this would cut that difference roughly in half.

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Q Is the remainder of the deficit due to demographic changes?

MR. CARDWELL: There are really three causes for the deficit. Two have to do with inflation. Both prices and wages on the near term have risen much more sharply than anyone ever anticipated for this period. That kicks the cost of the program up into a higher orbit and that orbit would continue in the future.

The second feature is the fact that we have revised upward -- and "we" represents a very large group of people -- the economists generally in this country agree that on the long term, looking out over the next 75 years, both wages and prices are going to be higher than anticipated when this System was last examined in 1972. So that has another long-term inflationary effect. That is the second long-term cost feature.

The third one -- well, I guess there are really four. The third one is that under those circumstances this particular provision that we are trying to correct compounds the effects of inflation.

The final long-term problem is the result of a revision in the prediction of how the population will mix over the next 75 years. We are predicting now that we will not even replace ourselves in terms of the fertility or birth rate. We are predicting a low replacement rate level. That means fewer workers over the long term paying into the System, it means more proportionately older people drawing out of the System.

Now this particular provision will recognize the long-term inflation and attempts to avoid the double indexing that would have caused that phenomenon to increase the cost of the system.

Q One of the criticisms a number of the Democratic candidates have made this year is that some of the current problems of the Social Security System are attributable to high unemployment. What would half the current rate of unemployment do to the current stability of the System?

MR. CARDWELL: If you could do it, you could not make up now for the deficit that is immediate on hand by sudden improvement in employment. A high rate of employment over the long term would offset some of the effect of the demographic predictions. In other words, you would have a larger share of your work force working. The long range estimates that we are talking about assume a long-term average unemployment rate of about 5 percent. So you can reach your own judgment for the 75 years.

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Q What would 4 percent do to that? Would it make much difference?

MR. CARDWELL: It would make a difference but it would not swing the System by any means.

Q Has any consideration been given in the matter of inquity to fixing up the situation under which the people who run the Social Security System have got a better retirement set-up than the retirement set-up --

MR. CARDWELL: Could I take that question and then just finish my review of what the President did today?

The proposal which stabilized the so-called replacement rates, the share of a person's earnings that are replaced by Social Security upon retirement, at the levels essentially as they exist today literally that effect would take place in the year in which the law is changed. We are assuming this would not be before 1978 so, in effect, it would freeze the replacement rates, if I can use that term, as they would exist in 1978.

Q You don't think the Congress is going to act today on the President's proposal?

MR. CARDWELL: Well, they could act on it today. We are saying it would not be effective until 1978 and you move some lead time to rearrange all the machinery to carry out a new formula. It does not disturb and leaves in place the concept of an automatic cost of living increase for retirees.

Q But it confines it to that?

MR. CARDWELL: But it confines it to that. However, it does have as one of its basic features the idea that future benefits for future retirees would be based on wage levels at the time of retirement, the real wage question that we had earlier, and that they would recognize any inflation or deflation for that matter that would have occurred in the society during the period of the workers' work life.

The provision also has a transition provision. It says that any individual over the next ten years -- ten years following enactment -- would have the right to the benefit computed by this new formula or the benefit computed by the old formula, whichever was higher for his particular circumstance.

Now you want to go then to your question?

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Q Yes. The point I had in mind was that the government workers -- say, the Social Security staff -- when they retire they can retire on immediate full benefits and work in addition.

MR. CARDWELL: Yes.

Q Now the Social Security retiree has to wait seven years if he wants to work.

MR. CARDWELL: That is an issue that has surfaced more and more of late. My personal opinion as someone who is eligible for Federal retirement--who will be if I behave myself, I think it is inequitable but I think as with the question of State and local Government employees who have a right that the average worker does not have -- namely, to either opt in the System optionally or opt out once they come in -- both of those are anomalous situations. The 1975 Social Security Advisory Council took note of both of those situations and recommended that eventually for that matter, assuming public policymakers could agree to it, they should put the System on a universal coverage basis. That means they merge Federal workers and State and local Government workers into the System.

Most people assume that that means that the Government worker would have to give up something, and you can assume what the consequence of that might be.

Q Another criticism heard by Presidential candidates is the fact that the working spouse, the working wife, gets short-changed -- the one who works all the time -- because she is limited, she can go only up to about, I think, half of what her husband gets.

MR. CARDWELL: No, not really, she can get her benefit right or the two of them together can get his right and the spouse's right, whichever produces the best effect for the two of them.

However, her right combined singularly with his right could perhaps produce a better effect, and the law does not allow that. The law says, I think really --

Q That is the point.

MR. CARDWELL: More often than not the issue raised by single women and by working women comes in the form of a concern that the housewife, the non-working married woman -- non-working married man even -- has a right to draw in effect a 50 percent benefit without ever having paid in.

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The married worker also will find herself often in a situation where she will have worked for a short while prior to marriage and will have paid in, will not have worked long enough to earn a full right, she will go back into employment in her later years in married life and again will perhaps only work for a short period -- the two periods combined not being sufficient to earn a benefit. The single woman has sometimes the same complaint.

This is, I think, a very complex issue and it really comes into contest in part with the matter of how you look at the family unit, single people versus married people. The solutions to that problem turn out to be very expensive, if you try to round everybody upward. If you leave the wife's benefit in place and if you try to also give the working wife an equivalent benefit opportunity, that increases the cost of the System.

Another advocacy on the part of women these days is that housewives should get a full benefit, and even though they directly do not pay into the System.

You have all these points and counterpoints flooding in for consideration at a time when we see the long-term cost of the System rising at a very rapid rate. We think that by putting the System on a firm footing -- which we think the President's proposal would do -- you improve the opportunity for policymakers to later rationally approach these kinds of questions. The answers are not going to be easy to come by.

THE PRESS: Thank you.

END (AT 12:50 P.M. EDT)