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12/13/74

THE WHITE HOUSE
WASHINGTON

December 11, 1974

MR. PRESIDENT:

The attached memorandum has been staffed and has generated the following:

Baroody -- Option 1b

Cole -- Defers to politicians but believes that to keep the President's political house in order, he should go with option 1b.

Marsh -- Option 2a (concurs with Ash recommendation).

Seidman -- Option 2a.

Timmons -- Option 2a.

Hartmann -- Option 1 and favors CPI adjustment method.

*I lean to 2a
Don
I should discuss with staff*

THE WHITE HOUSE

WASHINGTON

DEC 2 1974

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: ~~ROY L. ASH~~
SUBJECT: Recomputation of Military Retired Pay

This memorandum requests your guidance on how to treat the issue of recomputation of military retired pay in the 1976 budget and legislative program.

Prior to 1958, recomputation was the normal method of adjusting military retired pay. Each time active duty pay was increased, retired pay was recomputed based on the new, higher pay scales.

First in 1958 then finally in 1963, the practice of recomputation was terminated and replaced by the current system of automatically adjusting retired pay based on increases in the Consumer Price Index (CPI). A more detailed summary of the background of recomputation is attached.

Military groups have consistently urged a return to recomputation, and President Nixon endorsed such a move in the 1968 campaign. Torn between the tremendous costs of full recomputation and the commitments that had been made, the Nixon Administration, on April 15, 1972, proposed a one-time adjustment of retired pay to the January 1, 1971 pay scales. On the assumption the legislation would pass, the FY 1973 budget included \$300 million and the FY 1974 budget included \$400 million for recomputation. The attached table shows the future costs of a partial recomputation. The FY 1976 budget would increase by \$500 million, and the total lifetime cost of a partial recomputation would be in excess of \$14 billion.

There has been no action to date on the Administration's proposal, but a similar proposal (the Hartke Amendment to the Procurement Authorization Bill) has passed the Senate in each of the last three years only to die in conference.

The FY 1975 budget stated that an allowance for recomputation had been included in the past two budget requests but had not been approved by the Congress, and that "consequently, although the Administration continues to support recomputation, it cannot realistically include it in the budget request."

It is now necessary for the Administration to arrive at a position on this issue. We need your guidance on whether or not to resubmit legislation and include funds for recomputation in the budget.

The principal options are as follows:

1. Resubmit the legislation to the next Congress:
 - a. And include \$500 million in the legislative contingency section of the 1976 budget.
 - b. But do not include \$500 million in the legislative contingency.
2. Do not resubmit the legislation to the next Congress, and:
 - a. Take a reluctant but firm position against recomputation.
 - b. Refer the issue to some advisory body for yet another recommendation.

While the leadership of the Senate and House Armed Services Committees are opposed to any form of recomputation, there is far more than majority support in both Houses if the issue comes to a record vote.

Based on both the merits of the case and the budgetary situation, I recommend that you take a firm but reluctant position against recomputation. However, this is a highly emotional issue with the 700,000 military retirees, and any negative position on recomputation will raise a storm of well organized protest. The alternative of referring the issue to some existing body such as the Defense Manpower Commission or to a group created especially for the purpose would also be criticized, but with less vehemence.

If you decide on either of the Option 2 approaches, we should discuss the specific tactics with Jim Schlesinger. I understand that he does not support any form of re-computation.

DECISION

- | | | | |
|-----------|---|-----------------------------------|-------|
| Option 1a | - | Include in budget. | _____ |
| Option 1b | - | Do not include in budget. | _____ |
| Option 2a | - | Do not resubmit legisla-
tion. | _____ |
| Option 2b | - | Refer for a recommendation. | _____ |

Attachment

Proposed Annual Cost of Defense Department Proposal
for Partial Recomputation of Military Retired Pay

(Amounts in \$ Millions)

<u>Fiscal Year</u>	<u>No Price Index Increases</u>	<u>1-1/2% Annual Increase</u>
1976	\$500	\$510
1977	515	535
1978	530	563
1979	546	591
1980	560	619
1985	575	700
1990	508	683
1995	384	570
2000	259	424
2005	155	277
2010	80	155
2015	35	73
2020	12	27
2025	3	8
2030	1	2
2035	-	-
2040	-	-
Lifetime, no future CPI increases		\$13.8 billion
Lifetime, with annual 1-1/2% increases		\$18.7 billion

November 15, 1974

Recomputation of Military Retired Pay

The Background

Recomputation was the normal method of adjusting military retired pay prior to 1958. Each time active duty military basic pay was increased, military retirees had their retired pay recomputed based on those new, higher pay scales. Thus, all military retirees with the same grade and years of service generally received the same retired pay even though they retired years apart.

In 1958, the practice of recomputation was terminated. At that time, instead of recomputing retired pay based on the 1958 pay scales, all military members then retired were given a 6% increase in retired pay. In 1963, members who were on the retired rolls before June 1958 were allowed to recompute to the 1958 pay scales or to receive a 5% increase in retired pay, whichever was greater.

Concurrently, a system for automatically adjusting retired pay based on increases in the cost of living as measured by the Consumer Price Index (CPI) was adopted. Although the method was changed slightly over the past few years, that system is still used today.

Under present law, whenever the Consumer Price Index attains a level 3% higher than the index used as the basis for the last increase in retired pay and remains at or above that level for 3 consecutive months, military retired pay is increased by the highest percentage of increase attained during that 3-month period, plus one additional percent. The 1% add-on was authorized by Congress in 1969 to compensate for any lag in the adjustment mechanism. This system is virtually identical to the system for adjusting civil service retirement annuities.

Since 1958, as a result of retired pay adjustment, military retired pay has increased 89%. During that same period of time, active duty pay, which previously had lagged behind pay in industry, has increased 173.8%. This difference between active duty basic pay increases and retired pay increases is the heart of the issue surrounding recomputation.

While President Nixon had endorsed a return to recomputation in the 1968 campaign, strong reservations about the wisdom of such a move as well as the high costs involved precluded a legislative proposal in the early years of the Nixon Administration.

In the face of growing public and Congressional pressure, the President on March 10, 1971 appointed an Interagency Committee to review the whole question of military retirement benefits including the issue of recomputation.

The Interagency Committee -- composed of a member from the Department of Defense, the Civil Service Commission, the Veterans Administration, and the Office of Management and Budget -- spent considerable time investigating the issues inherent in the consideration of recomputation of retired pay. It investigated the methods used to adjust retired pay in private sector and in other public sector plans and determined that the CPI method of adjusting military and civil service retired pay was liberal, compared with other plans. As such, the CPI method was considered a fair and adequate method of adjusting military retired pay.

Further, the Interagency Committee found that recomputation and the CPI method of adjusting retired pay do not serve the same objective. The CPI adjustment is for the purpose of maintaining the purchasing power of retired pay, and the Interagency Committee believed that this was appropriate and should be continued.

However, recomputation -- as used prior to 1958 -- transferred active duty pay raises directly into retired pay. Such liberal adjustments of retired pay are not made under retirement plans in either public or private employment and the Committee concluded that as a general and continuing policy, recomputation of military pay was not appropriate.

At the same time, the Committee recognized that the sudden discontinuance of recomputation in 1958 worked a hardship upon many senior military members whose career and long-range financial planning included the expectation of retired pay being recomputed in accordance with active duty pay adjustments.

The Committee further recognized that in recent years there have been relatively large increases in military pay that were not reflected in the retired pay of persons retired before such increases. Only recently has active duty pay attained levels that are reasonably competitive with pay in the civilian sector, and accordingly, members who retired many years in the past are receiving retired pay based on levels that were below comparability at the time they retired.

As a result of these considerations, the Nixon Administration on April 15, 1972, proposed partial recomputation by means of a one-time adjustment of retired pay to the January 1, 1971 pay scales as subsequently adjusted by the CPI.

The one-time adjustment would occur for nondisability retirees at age 60 if they retired with less than 25 years of service, and at age 55 if they retired with 25 or more years of service. Those members already meeting the age and years-of-service thresholds would be adjusted immediately. All others would be adjusted to the CPI-adjusted 1971 pay scales at the time they attain the stated threshold.

The FY 1973 budget included an estimate of \$288 million on the assumption the legislation would pass. The FY 1974 budget included \$360 million on the same assumption.

While there has been no action to date on the Administration's proposal, a similar proposal, the Hartke Amendment to the Procurement Authorization Bill, has passed the Senate in each of the last three years only to die in conference. After the first Hartke Amendment was deleted, hearings on the issue were held by a special subcommittee of the House Armed Services Committee.

The subcommittee concluded that recomputation legislation should not be further considered by the Armed Services Committee on the basis that "Recomputation cannot be justified on the grounds of economic need of retirees and it has been proven in the courts that there is no legal obligation." Our study shows that recomputation will not aid retention and could even have a negative impact. The foregoing discussion has shown that the argument that the Government has a moral obligation to provide recomputation cannot be logically sustained. On the other hand, the evidence shows that the Government has met its moral obligation to the retiree by providing an outstanding system, by providing a cost-of-living formula that maintains the purchasing power of the retiree's income, and by providing other benefits which have substantially increased the value of the military retiree's estate. The present system with the CPI formula is superior to systems in the private sector and does have flexibility to make adjustments automatically and expeditiously without requiring statutory action. The hearings have demonstrated that a so-called compromise such

as the Administration bill or the Hartke Amendment would be unacceptable to recomputation proponents as a permanent solution and would only increase pressure for later increases. Finally, the cost of recomputation would mean putting an unacceptable squeeze on the rest of the DOD budget, or reducing other programs, or both. The Congress has met its obligation to our military retirees and that fact must now be recognized."

STAFFING

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: December 2, 1974

Time:

FOR ACTION:

Bill Baroody *JB*
 Ken Cole *JK*
 Bob Hartmann *JB*
 Jack Marsh *JB*
 Bill Timmons *JB*
 Bill Seidman *JB*

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, December 5 1974

Time: noon

SUBJECT:

Ash memo (12/2/74) re: Recomputation of
 Military Retired Pay

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☒ Draft Remarks

REMARKS:

Baroody - option 1b
 Timmons - ~~no objection~~ concurs (2a)
 Cole - Defers to politicians but
 believes that to keep P's political
 house in order, he should go
 with option 1b
 Seidman - no recomputation 2a
 Hartmann - 2a
 12/6 - Called Marsh's office twice
 12/9 - Marsh 2a

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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 delay in submitting the required material, please
 telephone the Staff Secretary immediately.

Jerry H. Jones
 Staff Secretary

THE WHITE HOUSE

WASHINGTON

DEC 2 1974

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH (Signed) Roy L. Ash

SUBJECT: Recomputation of Military Retired Pay

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If you decide on either of the Option 2 approaches, we should discuss the specific tactics with Jim Schlesinger. I understand that he does not support any form of re-computation.

DECISION

- Option 1a - Include in budget. _____
- Option 1b - Do not include in budget. _____
- Option 2a - Do not resubmit legisla-
tion. _____
- Option 2b - Refer for a recommendation. _____

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November 15, 1974

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Date: December 2, 1974

Time:

FOR ACTION: Bill Baroody
Ken Cole
✓ Bob Hartmann
Jack Marsh
Bill Timmons
Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, December 4, 1974

Time: noon

SUBJECT:

Ash memo (12/2/74) re: Recomputation of
Military Retired Pay

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☒☐ Draft Remarks

REMARKS:

*I favor the CPI adjustment
method*

RSH

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

December 4, 1974

MEMORANDUM FOR:

JERRY JONES

FROM:

TED MARRS *TC*

Baroody (Marrs) would recommend alternative 1b.

The well organized and sophisticated interest groups will perceive sending the study of recomputation to the Manpower Commission as deliberate opposition because of previously expressed views on this subject by key members (option 2b). This would be widely publicized as a cop out.

Including \$500.00 in the contingency action has no values (option 1a).

Taking a "reluctant but firm" position against recomputation is not necessary and could indeed stimulate Congressional activity (option 2a) as did the VA bill veto. This option probably would represent consistency in some views (hobgoblin?).

Option 1b would create no public opposition to the President. The awkwardness of a bill with no funding would be based on the fact that there is little reason to expect the House to move on recomputation in view of Hebert/Stratton positions and that a supplementary request could be made.

Enclosure

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: December 2, 1974

Time:

FOR ACTION:

Bill Baroody
Ken Cole
Bob Hartmann
Jack Marsh
Bill Timmons
Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, December 4, 1974

Time: noon

SUBJECT:

Ash memo (12/2/74) re: Recomputation of
Military Retired Pay

ACTION REQUESTED:

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

X ___ Draft Remarks

REMARKS:

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Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

December 4, 1974

MEMORANDUM FOR: JERRY JONES

FROM: WILLIAM E. TIMMONS 

SUBJECT: Ash Memo (12/2/74) re:
Recomputation of Military Retired Pay

The Office of Legislative Affairs concurs in the attached memorandum and has no additional recommendations.

Date: December 2, 1974

Time:

FOR ACTION: Bill Baroody
Ken Cole
Bob Hartmann
Jack Marsh
✓ Bill Timmons
Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, December 4, 1974

Time: noon

SUBJECT:

Ash memo (12/2/74) re: Recomputation of
Military Retired Pay

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☒ Draft Remarks

REMARKS:

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Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

December 5, 1974

MEMORANDUM FOR: JERRY JONES
FROM: WARREN HENDRIKS
SUBJECT: Recomputation of Military Retired Pay
(Ash memo - 12/2/74)

Ken Cole will defer to the politicians on the attached. He believes, however, that to keep the President's political house in order, he should resubmit the legislation but not include it in the budget - option 1B.

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: December 2, 1974

Time:

FOR ACTION: Bill Baroody
~~Ken Cole~~
 Bob Hartmann
 Jack Marsh
 Bill Timmons
 Bill Seidman
 FROM THE STAFF SECRETARY

cc (for information):

DUE: Date: Thursday, December 4, 1974

Time: noon

SUBJECT:

Ash memo (12/2/74) re: Recomputation of
 Military Retired Pay

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☒ Draft Remarks

REMARKS:

Recommend option 2(a)

B. L. King

Option 2(a) goes against some commitments made during the Nixon 1968 campaign, but in the light of the current inflation and budgetary restraints I recommend taking a firm stand against recomputation.

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Jerry H. Jones
 Staff Secretary

Date: December 2, 1974

Time:

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Ken Cole
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ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☒ Draft Remarks

REMARKS:

*I agree with Ash
recommendation - no
recomputation*

JWS

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Jerry H. Jones
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REMARKS:

1st 2A ✓
2nd 2b
JH

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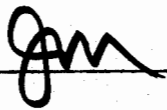
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2. Do not resubmit the legislation to the next Congress, and:
 - a. Take a reluctant but firm position against recomputation.
 - b. Refer the issue to some advisory body for yet another recommendation.

While the leadership of the Senate and House Armed Services Committees are opposed to any form of recomputation, there is far more than majority support in both Houses if the issue comes to a record vote.

Based on both the merits of the case and the budgetary situation, I recommend that you take a firm but reluctant position against recomputation. However, this is a highly emotional issue with the 700,000 military retirees, and any negative position on recomputation will raise a storm of well organized protest. The alternative of referring the issue to some existing body such as the Defense Manpower Commission or to a group created especially for the purpose would also be criticized, but with less vehemence.

If you decide on either of the Option 2 approaches, we should discuss the specific tactics with Jim Schlesinger. I understand that he does not support any form of re-computation.

DECISION

- Option 1a - Include in budget. _____
- Option 1b - Do not include in budget. _____
- Option 2a - Do not resubmit legisla-
tion.  _____
- Option 2b - Refer for a recommendation. _____

Attachment

Proposed Annual Cost of Defense Department Proposal
for Partial Recomputation of Military Retired Pay

(Amounts in \$ Millions)

<u>Fiscal Year</u>	<u>No Price Index Increases</u>	<u>1-1/2% Annual Increase</u>
1976	\$500	\$510
1977	515	535
1978	530	563
1979	546	591
1980	560	619
1985	575	700
1990	508	683
1995	384	570
2000	259	424
2005	155	277
2010	80	155
2015	35	73
2020	12	27
2025	3	8
2030	1	2
2035	-	-
2040	-	-

Lifetime, no future CPI increases	\$13.8 billion
Lifetime, with annual 1-1/2% increases	\$18.7 billion

November 15, 1974

Recomputation of Military Retired Pay

The Background

Recomputation was the normal method of adjusting military retired pay prior to 1958. Each time active duty military basic pay was increased, military retirees had their retired pay recomputed based on those new, higher pay scales. Thus, all military retirees with the same grade and years of service generally received the same retired pay even though they retired years apart.

In 1958, the practice of recomputation was terminated. At that time, instead of recomputing retired pay based on the 1958 pay scales, all military members then retired were given a 6% increase in retired pay. In 1963, members who were on the retired rolls before June 1958 were allowed to recompute to the 1958 pay scales or to receive a 5% increase in retired pay, whichever was greater.

Concurrently, a system for automatically adjusting retired pay based on increases in the cost of living as measured by the Consumer Price Index (CPI) was adopted. Although the method was changed slightly over the past few years, that system is still used today.

Under present law, whenever the Consumer Price Index attains a level 3% higher than the index used as the basis for the last increase in retired pay and remains at or above that level for 3 consecutive months, military retired pay is increased by the highest percentage of increase attained during that 3-month period, plus one additional percent. The 1% add-on was authorized by Congress in 1969 to compensate for any lag in the adjustment mechanism. This system is virtually identical to the system for adjusting civil service retirement annuities.

Since 1958, as a result of retired pay adjustment, military retired pay has increased 89%. During that same period of time, active duty pay, which previously had lagged behind pay in industry, has increased 173.8%. This difference between active duty basic pay increases and retired pay increases is the heart of the issue surrounding recomputation.

While President Nixon had endorsed a return to recomputation in the 1968 campaign, strong reservations about the wisdom of such a move as well as the high costs involved precluded a legislative proposal in the early years of the Nixon Administration.

In the face of growing public and Congressional pressure, the President on March 10, 1971 appointed an Interagency Committee to review the whole question of military retirement benefits including the issue of recomputation.

The Interagency Committee -- composed of a member from the Department of Defense, the Civil Service Commission, the Veterans Administration, and the Office of Management and Budget -- spent considerable time investigating the issues inherent in the consideration of recomputation of retired pay. It investigated the methods used to adjust retired pay in private sector and in other public sector plans and determined that the CPI method of adjusting military and civil service retired pay was liberal, compared with other plans. As such, the CPI method was considered a fair and adequate method of adjusting military retired pay.

Further, the Interagency Committee found that recomputation and the CPI method of adjusting retired pay do not serve the same objective. The CPI adjustment is for the purpose of maintaining the purchasing power of retired pay, and the Interagency Committee believed that this was appropriate and should be continued.

However, recomputation -- as used prior to 1958 -- transferred active duty pay raises directly into retired pay. Such liberal adjustments of retired pay are not made under retirement plans in either public or private employment and the Committee concluded that as a general and continuing policy, recomputation of military pay was not appropriate.

At the same time, the Committee recognized that the sudden discontinuance of recomputation in 1958 worked a hardship upon many senior military members whose career and long-range financial planning included the expectation of retired pay being recomputed in accordance with active duty pay adjustments.

The Committee further recognized that in recent years there have been relatively large increases in military pay that were not reflected in the retired pay of persons retired before such increases. Only recently has active duty pay attained levels that are reasonably competitive with pay in the civilian sector, and accordingly, members who retired many years in the past are receiving retired pay based on levels that were below comparability at the time they retired.

As a result of these considerations, the Nixon Administration on April 15, 1972, proposed partial recomputation by means of a one-time adjustment of retired pay to the January 1, 1971 pay scales as subsequently adjusted by the CPI.

The one-time adjustment would occur for nondisability retirees at age 60 if they retired with less than 25 years of service, and at age 55 if they retired with 25 or more years of service. Those members already meeting the age and years-of-service thresholds would be adjusted immediately. All others would be adjusted to the CPI-adjusted 1971 pay scales at the time they attain the stated threshold.

The FY 1973 budget included an estimate of \$288 million on the assumption the legislation would pass. The FY 1974 budget included \$360 million on the same assumption.

While there has been no action to date on the Administration's proposal, a similar proposal, the Hartke Amendment to the Procurement Authorization Bill, has passed the Senate in each of the last three years only to die in conference. After the first Hartke Amendment was deleted, hearings on the issue were held by a special subcommittee of the House Armed Services Committee.

The subcommittee concluded that recomputation legislation should not be further considered by the Armed Services Committee on the basis that "Recomputation cannot be justified on the grounds of economic need of retirees and it has been proven in the courts that there is no legal obligation." Our study shows that recomputation will not aid retention and could even have a negative impact. The foregoing discussion has shown that the argument that the Government has a moral obligation to provide recomputation cannot be logically sustained. On the other hand, the evidence shows that the Government has met its moral obligation to the retiree by providing an outstanding system, by providing a cost-of-living formula that maintains the purchasing power of the retiree's income, and by providing other benefits which have substantially increased the value of the military retiree's estate. The present system with the CPI formula is superior to systems in the private sector and does have flexibility to make adjustments automatically and expeditiously without requiring statutory action. The hearings have demonstrated that a so-called compromise such

as the Administration bill or the Hartke Amendment would be unacceptable to recomputation proponents as a permanent solution and would only increase pressure for later increases. Finally, the cost of recomputation would mean putting an unacceptable squeeze on the rest of the DOD budget, or reducing other programs, or both. The Congress has met its obligation to our military retirees and that fact must now be recognized."

THE WHITE HOUSE

WASHINGTON

December 13, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ROY L. ASH
FROM: JERRY H. JONES
SUBJECT: Recomputation of Military
Retired Pay

Your memorandum to the President of December 2 on the above subject has been reviewed and the following notation was made:

-- I lean to 2a. I should discuss with staff.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld