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1/13/75

THE WHITE HOUSE
WASHINGTON

January 11, 1975

MR. PRESIDENT:

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

Baroody -- Concur with the memo as drafted except: if Option #3 is chosen, reference to the "equity" of the present program should be deleted -- it's debatable and would invite strong reaction from proponents of recomputation.

Cole -- Ok to go in.

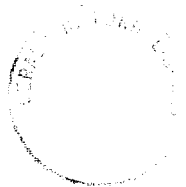
Friedersdorf -- No comment.

Hartmann -- In view of other policy decision relative to COL increases in military retired pay, etc., I favor alternative #1. Second choice: face up to real reason with alternative #3.

Marsh -- Option #3 but strike words "is equitable, and".

Seidman -- I recommend #3.

Don



THE WHITE HOUSE

WASHINGTON

JAN 8 1975

ACTION

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

In December, you decided not to submit legislation or include funds in the 1976 Budget to recompute military retired pay. This memorandum requests your guidance on whether or not to explain this decision in the text of the 1976 Budget.

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."

Based on my December 2 memorandum (Tab A), you decided not to resubmit the legislation to the next Congress and to take a reluctant but firm position against recomputation. There are three principal ways to treat this decision in the text of the 1976 Budget:

Alternative #1 - make no reference at all to recomputation.

Alternative #2 - say we are not proposing recomputation this year because it is politically unrealistic. For example;

"The budget this year does not propose funding or legislation to recompute military retired pay. The recent history of recomputation indicates that it is unrealistic to propose further legislation at this time."

Alternative #3 - say we oppose recomputation because of the need for fiscal restraint and because our current system is equitable and appropriate. For example;

"The budget this year does not propose funding or legislation to recompute military retired pay. Current economic conditions make it necessary to restrain the growth of Federal expenditures. The present military retirement system is equitable, and, with its provisions for CPI adjustments, already has the effect of recomputing retired military pay. Further recomputation would not be appropriate at this time."

Recommendation

The Secretary of Defense and Jack Marsh recommend Alternative #3. They believe a firm but reluctant stand against recomputation is necessary to minimize Congressional and other pressures for such legislation (Tab B).

Ted Marrs recommends Alternative #2. He feels this general language does not commit us to support recomputation, and that it will smooth the transition from previous Administration support to a position of reluctant opposition. He believes the stronger language in Alternative #3 would stimulate Congressional pressures to reconsider legislation.

The NSC staff agree with the substance of Alternative #3, but feel it may cause strong Congressional reactions. They have no objection to either Alternative #1 or #2.

I recommend Alternative #1. By making no reference to recomputation, we should reduce the likelihood of Congressional and public reaction. Even the general language in Alternative #3 implies criticism of past Congressional inaction which may be challenged because of previous Administration efforts to quietly dissuade such action by Congress. I agree with Ted Marrs that the language in Alternative #3 is unnecessarily strong.

DECISION

_____ Approve Alternative #1 (no reference).

_____ Approve Alternative #2 (general statement).

MR 7. Approve Alternative #3 (reluctant opposition).

Leave out "equitable" as per Marsh.

TAB A

UNIVERSITY MICROFILMS
SERIALS ACQUISITION
300 N ZEEB RD
ANN ARBOR MI 48106
616-763-0900

THE WHITE HOUSE
WASHINGTON

12/2/74

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: ROY L. ASH /S/
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.

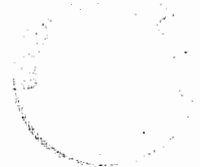
Based on both the merits of the case and the budgetary situation, I recommend that you take a firm but reluctant position against recomputation. However, this is a highly emotional issue with the 700,000 military retirees, and any negative position on recomputation will raise a storm of well organized 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.

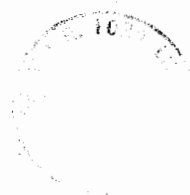
The one-time adjustment would occur for nondisability retirees at age 60 if they retired with less than 25 years of service, and at age 55 if they retired with 25 or more years of service. Those members already meeting the age and years-of-service thresholds would be adjusted immediately. All others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

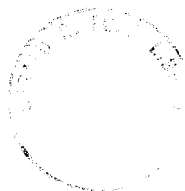
While there has been no action to date on the Administration's proposal, a similar proposal, the Hartke Amendment to the Procurement Authorization Bill, has passed the Senate in each of the last three years only to die in conference. After the first Hartke Amendment was deleted, hearings on the issue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



TAB B



THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

28 DEC 1974

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reevaluation of Administration Position on Recomputation of
Military Retired Pay

Before 1958, military retired pay was recomputed as necessary to preserve its mathematical relationship to active duty pay. Studies showed that this practice was virtually unique, inside or outside of government. Thus in 1958 when active duty pay was extensively restructured, a one-time cost-of-living adjustment was made to retired pay in lieu of straight recomputation. In time, pressure built up for a return to recomputation.

In 1963 the Congress established a system which geared retired pay to the Consumer Price Index, and recomputation as a concept was officially deleted from the statutes. At the same time, a "one-shot" recomputation was made available to pre-1958 retirees, based on 1958 pay scales. Organizations testifying on behalf of recomputation at that time agreed that these two steps would settle the recomputation issue once and for all.

In recent years, however, the issue has been raised again. The Nixon Administration proposed a one-time recomputation to 1971 pay scales in FY 73. Other proposals were sponsored by various members of the House and Senate. Then, two years ago, a Special Subcommittee of the House Armed Services Committee was formed to investigate the matter. After taking extensive testimony, the Committee concluded that:

"Court tests have proved conclusively that there is no legal obligation to provide recomputation.

"The subcommittee found no evidence of large numbers of retirees in conditions of economic deprivation; and if personnel were in economic difficulty, recomputation would not in any case be the best way to deal with the problem.



"The Government does have a moral obligation toward military retirees, but that obligation does not require the restoration of recomputation.

"The present retirement system is superior to any system in the private sector. The CPI formula protects the purchasing power of retired pay and is most certainly a system which should be retained."

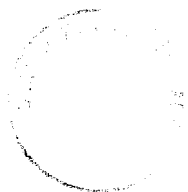
Thus the Special Committee dealt head-on with the "moral" issue of whether those retirees whose annuity-adjustment system was changed from straight recomputation to the CPI-related approach were treated unfairly. As noted above, the Committee concluded that fair treatment had been received. On balance, I find that I must agree, though it is a difficult issue to resolve to one's complete satisfaction.

Beyond this, however, other factors arise as one considers the issue of recomputation in today's economic environment. The most significant of these is the effect that inflation is having upon the relationship between active duty pay and the retirement annuity. Active duty pay changes are geared to changes in Federal civilian salaries which in turn are adjusted by changes in private sector pay rates as measured by Bureau of Labor surveys. The annual rate of CPI increase has recently been more than double the annual rate of adjustment to salary/wages. As a result, under current projections, if retired pay were recomputed to January 1971 pay scales for all pre-1971 retirees as had been proposed by the previous Administration, any member retiring next October would receive less retired pay than a similar member who retired before January 1, 1971. For example, a lieutenant colonel (O-5) with 26 years' service retiring next October would actually receive \$70 per month less than a similar member who retired 20 years ago.

In effect, retired pay is already being "recomputed". For example, a lieutenant colonel with 26 years of service who retired prior to 1958 now receives an annuity equal to 67% of the annuity received by a similar member who retired last summer. Assuming that current inflationary trends continue into 1976, that percentage will increase to 78% of the amount received by a similar member retiring in October of that year.

In view of these trends, I recommend at this time that the Administration not submit recomputation legislation to the new Congress.

James L. Schlesinger



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 8, 1975

Time:

FOR ACTION: Bill Baroody
Ken Cole
Max Friedersdorf
Robert T. Hartmann
Jack Marsh
Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 9, 1975

Time: 5:00 p.m.

SUBJECT:

Ash memo (1/8/75) 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:

Cole - ok per Shepard

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

IN MEMORANDUM

WASHINGTON

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January 8, 1975

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SUBJECT:

Ash memo (1/8/75) 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:

*Concern w/ memo as drafted except:
 if option #3 is chosen, reference to
 the "equity" of the present program should
 be deleted - it's debatable & would invite
 strong reaction from proponents of recomputation*



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Jerry H. Jones
 Staff Secretary

THE WHITE HOUSE

WASHINGTON

January 9, 1975

MEMORANDUM FOR:

WARREN HENDRIKS

FROM:

MAX L. FRIEDERSDORF *M. 6*

SUBJECT:

Action Memorandum - Log No.

Ash memo (1/8/75) re: Recomputation
of Military Retired Pay

The Office of Legislative Affairs concurs with the Agencies
that the enrolled bill should be signed.

Attachments

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 8, 1975

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FOR ACTION: Bill Baroody
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THE WHITE HOUSE

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Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

In view of other ^{policy} decisions relative
 to COL increases in military retired
 pay, etc., I favor Alt. # 1

Second choice: face up to real
 reason with Alt. # 3



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Jerry H. Jones
 Staff Secretary

JAN 9 1975

THE WHITE HOUSE

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Draft Remarks

REMARKS:

*Option # 3
but strike words
"is suitable, and"
see pg 2*

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Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

ACTION MEMORANDUM

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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 recommend #3.

J. W. Seidman

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

January 13, 1975

ADMINISTRATIVELY CONFIDENTIAL

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

Your memorandum to the President of January 8 on the above subject has been reviewed and Alternative #3 was approved with a notation that the following part of line 10, page 2 -- "is equitable, and," -- should be removed.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld