The original documents are located in Box C50, folder "Presidential Handwriting, 10/6/1976" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 6 1976

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn

SUBJECT: Article on Pensions

Thank you for sending me your comments about the article on pensions. The article identifies a number of significant problems.

The Civil Service Commission is currently doing a comprehensive evaluation of the financing mechanism for the Civil Service Retirement and Disability System, taking into account the Board of Actuaries 1972 report and the financing criteria established by the Employees Retirement Income Security Act of 1974. The study will cover:

- The pegging of government retirement programs to a cost of living index,
- The effects of inflation on total retirement cost,
- The ability of future generations to support the drawdowns made against the fund by retired persons.

A report is due in late September that is expected to generate a set of proposals for the FY 1978 budget.

In conjunction with the ongoing CSC study on the desirability and feasibility of adopting total compensation comparability, information is being developed to permit ongoing comparisons of Federal retirement benefits with those of private sector systems. The results will provide a much sounder basis for determining, over time, the adequacy or over liberalization of benefit levels which is a concern highlighted in the article.

The article is also critical of the military retirement system. The legislative package called the Retirement Modernization Act, which you transmitted to this Congress, proposed major reforms in that system. The present plan is to reintroduce the proposal in the new Congress. In addition, the retirement issue is being considered in the Quadrennial Review of Military Compensation. It is expected that a report of that review and its recommendations will go to the Congress sometime in the next few months.

THE WHITE HOUSE

WASHINGTON

August 4, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM LYNN
PAUL O'NEILL

FROM: JIM CONNOR JEC

SUBJECT: Article on Pensions

The attached article was returned in the President's outbox with the following notation:

"Unbelievable - Scandalous"

Please follow-up with appropriate action.

cc: Dick Cheney

Attachment:
Article by Tom Stevenson entitled
OUR GRANDCHILDREN WILL PAY -
IN HOCK TO PENSIONS

THE WHITE HOUSE
WASHINGTON

Jim Lynn / Paul O'Neil

Unbelievable
Scandalous.

one due a government house allotment would get it till he produced a sterilization certificate; and vans had rounded up young and old, married and unmarried for "the operation." The fury at Turkman Gate had been in response to forcible evictions of its inhabitants from the area along with the administration's family planning methods. That there must be some truth in the news of deaths and arrests on a considerable scale became evident when about a week after the event an array of spokesmen swung into identical explanation like an orchestra with everybody playing the violin. The lieutenant governor of Delhi denied that people were being forcibly sterilized. The health minister hastened to make it clear in Parliament that the union government "was not for pressure or harrassment in implementing the program" and was ruling out compulsory sterilization for the parents of more than two children. A team of reporters sent to "investigate allegations of forcible sterilization found them "entirely false." And a government release stated in predictable language that "certain unsocial and frustrated elements were circulating rumours that rations would not be issued nor salaries paid to persons not undergoing sterilization." It warned the people to be on guard against "such anti-national and anti-social elements and their nefarious designs." None of this vehement denial explained why the new family planning center set up with much fanfare at Dojana House, Old Delhi, had abruptly been shut down, nor the flood of resentment that continued to fill the air. But this unceremonious retreat on an issue where the Catholics had already expressed firm disapproval, and the Muslims had flared into actual violence, is an interesting aspect of maneuver required even in a dictatorship. Modifying Delhi's rough sterilization drive is probably based on an assessment that the subject is inflammable and the Muslims must be handled with care. But in our irrational political situation it could simply be based on the possibility of a third expected child for Mrs. Gandhi's elder son. In any event it would be a tragedy if the campaign is not soon converted to education and effective remedy, for on this issue, emergency or no emergency, we cannot afford to fail.

Our Grandchildren Will Pay

In Hock to Pensions

by Tom Stevenson

In June the House voted to increase the nation's debt limit from $627 billion to $700 billion. A more punctilious Congress might have increased that figure to over one trillion dollars. Why? A conservative estimate of $300 billion is the staggering sum that the federal government is presently in hock to its legions of current and retired employees under one of a dozen pension programs. In 1970, this "accrued unfunded liability," the phrase accountants and actuaries use to denote the amount of dollars a pension fund is shy of its commitments, was about $158 billion. Today, the figure for the military, alone, has grown to $172.2 billion. When the liabilities of the civil service ($106.8 billion), Coast Guard ($2.1 billion), District of Columbia police and fire departments ($1.1 billion), foreign service ($950 million), Central Intelligence Agency (although secret, perhaps one billion dollars), Federal Judiciary ($28 million), Public Health Service ($624 million), National Oceanic and Atmospheric Administration ($26 million), Federal Lighthouse Keepers (seven million dollars) and other special plans such as the US Presidents Retirement System are included, the total debt of federal employee pension funds now stands at $285 billion.

That figure, however, almost certainly understates the government's total pension obligations. For if one adds the unfunded liabilities of the various veterans' pension programs ($110 billion) and the railroad retirement system ($22 billion) which, although not federal employee funds, constitute a similar financial commitment, and another $75 billion for the amount by which some actuaries believe that the government may be underestimating its liabilities, the total obligations now approach $500 billion. And that doesn't count Social Security, which is not, strictly

Tom Stevenson is a free lance who writes on pensions for *Institutional Investor* magazine.

speaking, a pension system.

Spurred mainly by the revelations concerning New York's pensions, the costly benefits and questionable financing of state and local government pension plans have become a favorite target of the Ford administration. Yet scant attention has been paid to the spiraling obligations of the pensions that the federal lawmakers, bureaucrats and military have devised for themselves. One wades in vain through the 384-page *1977 Budget of the United States Government* and the companion 313-page *Special Analyses of the 1977 Budget* for a single mention of this looming burden. "Frankly, we would just as soon not receive any publicity," says an official of the US Federal Judiciary System. There may be some good reasons that some federal employees would prefer to keep their retirement systems out of the spotlight.

In contrast to private employers, who typically require an employee to reach 65 before receiving full retirement benefits, many civil service employees can retire as early as age 55, which means that they will live off pension benefits for twice as long. "This is very costly," says Robert Myers, a former chief actuary of the Social Security system and now a professor of actuarial science at Temple University. "The country couldn't afford to do this for other employees. There is no economic justification for doing it for government workers."

To take advantage of the age-55 provision, a federal worker must have put in 30 years. But—again in contrast to the private sector—those years include military service. This provision alone cost the government $400 million in fiscal 1976.

Since civil service workers are not members of the Social Security system, they escape paying the 5.85 percent of salary tax (up to a current maximum of nearly $1000) that most private employees must pay. Yet by holding part-time or private jobs once they quit the government, 40 percent qualify for Social Security benefits. What makes this practice questionable is that Social Security benefits are intentionally tilted so that low-wage earners receive a higher rate of return on their contribution than the middle class. But since only the private, not the total, earnings of the civil service employee are included in the benefit formula, they qualify for the more generous return. "This is a ripoff," says an actuary at a major New York insurance company. "These are largely middle class families taking advantage of a benefit formula that was designed for the poor."

In most private pension plans, a disability retirement, which allows a $5200 a year tax credit, is only permitted when an employee is unable to perform *any* job. In the federal government, a disability retirement is permitted if the employee cannot perform his *current* job. Consequently, a warehouse worker with a bad back can retire on disability rather than be transferred to a clerical job. Today, disability retirements in the civil service are approximately 50 percent higher than in most other systems, and the percentage is growing. "It is outrageous," says Myers. "I know people who have retired for disability who I don't think are disabled at all."

Some federal employees get specially advantageous breaks. For example, while most civil service workers receive retirement benefits of 56 percent of their salary for 30 years of service, congressmen and congressional aides get 75 percent. Federal Bureau of Investigation, Secret Service and other "hazardous duty" personnel can retire at age 50, often at 50 percent or more of their salary. Foreign Service personnel, who can also retire at age 50, may receive in addition special retirement credits for service in one of the overseas State Department posts that are designated "hazardous" or "unhealthful." "The Foreign Service is even worse than the civil service as far as early retirement is concerned," says Myers. "I have been abroad a lot. While a few of these people have tough assignments, most live real well."

Despite the fact that a growing proportion of military assignments involve running computers, staffing hospitals, image-polishing and other sedentary chores, the military offers the most generous retirement package of all. After 20 years, when the typical officer or enlisted person is in his or her early 40s, he or she can retire at 50 percent of basic salary; after 30 years the retiree gets 75 percent. This means that the typical military careerist who retires around age 45 will normally receive retirement benefits amounting to more than twice the total basic pay received during active duty.

Further, nothing prevents military retirees from collecting up to three government pensions: military, Social Security (unlike the civil service, military personnel are members of the system) and, if they can land another government job, civil service. The National Taxpayers Union, the most vocal critic of this so-called "double-dipping," estimates that there are presently 100,000 military retirees holding civil service positions—some of which, the Union claims, are identical to their former military responsibilities.

The most costly feature of federal retirement programs is that, unlike virtually all private pensions, benefit levels are pegged to the cost of living. In essence, this means that each time the consumer price index goes up one percent, so do pension benefits. A lieutenant colonel, for example, who retires at age 44 can expect to receive total retirement benefits of $368,222 over the remaining three decades of his life, assuming no inflation. However with six percent inflation, he will get nearly three times as much: $985,011. With some 2.5 million retirees now receiving $15 billion a year in retirement checks, a six percent increase in inflation triggers a $950 million annual jump in costs.

Further, this ignores the impact of the controversial

"kicker." Every time the cost of living goes up three percent, federal retirees receive a four percent boost in their retirement benefits. Thus, while inflation has gone up 56 percent since 1969, pensions have risen 72 percent, giving federal workers a stake in continued inflation.

Have the costs of federal pensions gone out of control? The Pentagon expresses increasing concern over its retirement costs and has proposed cutting the pension benefits of retirees with less than 30 years of service by 15 percent. Its concern appears well founded. In 1961, retirement pay was only 1.7 percent ($758 million) of the Defense Department's total expenditures ($44.6 billion). In fiscal 1976, while total expenditures have roughly doubled to $91.3 billion, retirement costs have soared to $7.3 billion, or eight percent of total expenditures.

The Civil Service Commission concluded in a 1974 study of 25 corporate, state and city pensions that while civil service retirement benefits were more generous than 10 of the plans ranked, they were comparable to those offered by all the other employers such as California, Maryland, Bank of America, IBM and US Steel. (The only plan ranked more liberal was New York State's.) But that is about the extent of the commission's evaluations. "It is tough to compare benefits," says Thomas Tinsley, who heads the commission's retirement system. "Those studies were done only to look at particular benefits, not at their costs." However in 1975 three independent outside actuaries, who by law must periodically evaluate the plan, warned that "the present approach to funding the system will lead to spiraling costs in the future."

So far, however, neither Congress nor the administration has taken any legislative action on either the Pentagon proposal nor the actuaries' report. Arch Patton, retired director of the McKinsey & Co. consulting firm, former chairman of the Presidential Commission on Executive, Legislative and Judicial Salaries, is apprehensive about this indifference. "I think that the federal government's problems with pensions are as bad as New York City's—or worse," says Patton. "Unless something is done it is going to get out of hand. And I'm not sure that it is not already out of hand."

The prospects for a far-ranging congressional review of federal pension systems seem remote. The arcane nature of pensions, the conflict of interest inherent in Congress reforming its own system, the pressure from well organized retirees, and fragmented congressional control combine to make the chances of a thorough reappraisal small.

Perhaps the main reason an overhaul is unlikely—and this is also the most disquieting characteristic of federal pension funds—lies in the strange way they are financed. Instead of putting aside sufficient money each year to meet future pension obligations, as private corporations are required to do under the 1974 Pension Reform Act, the federal government only partially funds its plans. (The sole exception is the Federal Reserve System which is fully funded.) In the case of the military, the Coast Guard, Public Health Service and National Oceanic and Atmospheric Administration retirement plans, the government maintains no special pension fund at all. The full $7.3 billion spent on military pensions in 1976 was distributed directly to one million retirees. No money was set aside to pay the costs of the future pensions of 2.1 million current military personnel.

The federal government, then, is only now paying off the full manpower costs of the last three decades. But it is sticking future taxpayers with the bill for today's five million bureaucrats and military personnel. What Washington, DC, is doing is little different from what Treasury Secretary William Simon and other federal officials have criticized New York for doing: using debt to finance current operating costs. Unfunded pension liabilities are, of course, a special kind of financial obligation. But, in economic terms, they are little different from conventional borrowing.

The government's reluctance to face up to this looming obligation, while hardly praiseworthy, is entirely understandable. Right now the cost of the federal pension system is about $15 billion a year. However, according to estimates by independent actuaries and the General Accounting Office, it would cost a total of about $40 billion a year to fund both systems under the same standards set for private industry by the Pension Reform Act. Raising that extra $25 billion a year is a possibility few legislators would even contemplate, much less propose. It's far easier to leave it to their successors.

To be sure, there are unique problems in funding a federal pension system. With the exception of the Federal Reserve plan, federal agencies aren't permitted to purchase corporate stocks or bonds; they can only own US Treasury issues. Congress could therefore "fund" the systems by creating an additional $300 billion or so of Treasury bonds and transferring them to special pension funds. But this would have no real economic effect: one federal liability would merely have been exchanged for another. The only way to transfer the costs of pensions to the current generation is to require taxpayers or employees to pay for them today, an unpalatable alternative for most elected officials. However, issuing new debt would make federal pension liabilities more visible and underscore their growing importance.

A decade ago, liberal pension benefits were probably a necessary compensation for the inadequacy of federal wages, which lagged far behind private wages. In the last decade, however, the salary gap has been completely closed. With federal liabilities mounting by billions of dollars each year, the generous benefits and growing costs of federal pensions need reappraisal.

Arts and Lives

Stanley Kauffmann on films

Pleasantries, Mostly

Le Magnifique (Cine III). Philippe de Broca is no longer a name to conjure with, which is something of a pity because he's still something of a conjuror. In the early days of the New Wave he was a protégé of Claude Chabrol. He was the one lighthearted member of the Wave: his gifts ran to gaiety updated rather than to his colleagues' usual concerns with esthetic revisionism and social surgery. He once made a film, *The Love Game*, on an idea by Geneviève Cluny that Godard later remade as *Une Femme est une Femme*, and I preferred de Broca's version. His films *The Joker* and *The Five-day Lover*, both with Jean-Pierre Cassel, had effervescent expertise. But the trouble with lightheartedness is life: not the fact that it contains at least as much grimness as brightness but that one gets older and lightheartedness is directly connected to superabundant energy. De Broca's last really successful film that I know was *That Man from Rio* (1964), with Jean-Paul Belmondo, which was his biggest hit in the US, although *King of Hearts*, a lesser piece, ran for five years in Boston.

Twelve years ago I had a little talk with de Broca in Paris, in which he said that, before he had begun making films, he went to a play, saw a young actor named Jean-Pierre Cassel, and thought: "If ever I can make my own films, I'm going to use him." A few weeks later he went to see the play again; Cassel had been replaced by a young actor named Jean-Paul Belmondo, and de Broca thought: "If ever I can make my own films, I'm going to use *him*, too."

It's Belmondo in this new one. A good thing, too. Because it's Belmondo—charm and talent—and Jacqueline Bisset—charm, talent and startling beauty—who make this picture pleasant. The script is by de Broca, and its idea is so tired that my fingers figuratively yawn as I start to sketch it: a hack writer (of James Bond-type novels) falls in love with the girl upstairs in his Paris apartment house. Interwoven with their story are visualized episodes from the wild espionage novel that the hero is writing—himself as super hero, the girl as glamor spy—and the fantasies are influenced by the progress of the real-life affair.

But my fingers brighten up again to talk about Belmondo and Bisset. He is no longer a youth—he calls himself 40 in the film—but he is still lean, strong, homely-handsome, humorous, very taking and (which is usually omitted) technically precise. As for Bisset, it's been clear ever since *The Grasshopper* that she's one of the true beauties on the screen today, clearer still from *Day for Night* that she has talent, and now clear that she can be wickedly, disarmingly cute.

That last point points at de Broca. No one is ever going to single out *Le Magnifique* as a paragon of film comedy, but de Broca is a genuine comedian and he knows how to evoke the best of whatever is comic in his actors. Bisset owed much to Truffaut in a very different role in *Day for Night*. In this inferior film she perhaps owes even more to de Broca. As for Belmondo he presumably *knows* what he owes this director, which is why, at this stage of his career, he accepted a script like this. De Broca helps him make something of his part that is enjoyable exactly as long as the picture lasts, if not a split-second longer.

As for de Broca's shooting and editing, his edge is not as keen as it once was and he relies overmuch on parodic reference (*La Dolce Vita*, *8½*, *Le Million*, *The Gold Rush*), but de Broca slightly dulled is a great deal keener than the people who directed *Murder by Death* and *The Big Bus*, for instance. *Le Magnifique* is not a film that absolutely had to be made or must absolutely be seen: but having been made, it's enjoyable. Particularly for the fun of spending 90 minutes with the principals.

The Bingo Long Traveling All-Stars & Motor Kings (Universal). Here is another flyweight picture which is still considerable fun—about the black baseball players of the pre-Jackie Robinson days. When I was a boy on farms in central New York in the summers of the late 1920s, the men I worked for either played on or were fans of the local baseball team, so I saw a lot of the games. At least once a year a barnstorming team of black players came through (then called Negroes if politeness was in the air). They were marvelous, those Knickerbocker All-Stars. They could do magic with ball and bat and glove. I'm convinced, though I can't prove it, that I once saw Satchel Paige pitch in a converted pasture in Stamford, New York. At any rate, they could and frequently did make monkeys out of the local team.

It was quite clear to everyone, including the Knickerbockers, that the blacks were there to be cheated. Everyone knew, though no one said, that they were very much better than the locals but that one way or another the locals had to win—or, at the most, could be only narrowly beaten. White outfielders would carry extra balls in their back pockets, to throw back in when they couldn't find balls that had been hit into the tall grass. Everyone knew; no one complained. The games were played with one clause of the contract written in invisible ink.

Out of this era a novel was written by William Brashler, and out of the novel an alleged script was written by Hal Barwood and Matthew Robbins. John Badham directed it as well as need be, Bill Butler photographed it a bit better than that. The plot has to do with some players in the Negro League who revolt against their tyrannous Negro owners, form an independent team despite harassment from the owners, are forced out of Negro ball into playing whites, and, as they say, etcetera. There is drama, melodrama, sex and violence, all of it ridiculous. What makes the picture worth seeing is the fun.

That fun focuses on the team itself, on and off the field, with Billy Dee Williams as the star pitcher, and James Earl Jones,

Films Worth Seeing

All the President's Men. How to make a film out of non-filmic material. Anyway it's a *Schadenfreude* treat.

One Flew Over the Cuckoo's Nest. Jack Nicholson fine in a phony social-political allegory set in a mental hospital.

Seven Beauties. Lina Wertmüller's flawed but powerful tragic farce about Italians in WW II.

Veronique. A French girl's 13th summer, discovering adults and the adulthood ahead of her. Slender, engaging.

SK