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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.

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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.

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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.

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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.

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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)