**The original documents are located in Box 19, folder "Health, Education and Welfare (2)" of the Philip Buchen Files at the Gerald R. Ford Presidential Library.**

HEW

THE WHITE HOUSE

WASHINGTON

August 4, 1975

MEMORANDUM FOR THE PRESIDENT

THROUGH: PHILIP BUCHEN P.W.B.

FROM: KENNETH LAZARUS KL

SUBJECT: Secretary Mathews/208(b) Waiver

As you know, David Mathews will be sworn in this Friday, August 8, as Secretary of HEW.

Prior to his confirmation by the Senate, Dr. Mathews agreed to sever completely his relationship with the University of Alabama save his continued participation in the University's insurance and retirement plans solely at his own expense.

In order to preclude any possible conflict of interest arising from claims that Dr. Mathew's continued participation in these plans constitutes employment by the University, agreement was reached on the following course of action:

1. Dr. Mathews would not participate in any matter specifically involving the University of Alabama while serving as Secretary; and

2. At the time of his appointment as Secretary, Dr. Mathews would be granted an exemption under 18 U.S.C. 208(b) from the provisions of 18 U.S.C. 208(a) covering all matters which might generally affect universities and colleges.



The provision for a 208(b) waiver recognizes that you are aware of Dr. Mathews' retention of these insurance and retirement benefits and carries forward your judgment to the effect that, in participating in matters which impact on the University of Alabama to no greater extent than on other universities and colleges, e.g. grants to higher education, the interests of the University of Alabama and those of Dr. Mathews are not such as to affect the integrity of the services which the Government may expect from the Secretary. The legal effect of the waiver is to preclude any possibility, however remote, of criminal prosecution based upon Dr. Mathews participation in matters generally affecting institutions of higher education. The authority to issue such a waiver has not been delegated and thus your personal approval is required.

Attached for your signature is the formal waiver, dated August 8, 1975, which should be executed at your earliest convenience.

Attachment

THE WHITE HOUSE

WASHINGTON

August 8, 1975

MEMORANDUM FOR

DAVID F. MATHEWS
SECRETARY OF HEALTH,
EDUCATION AND WELFARE

This is to confirm my understanding of the fact that, prior to your appointment today as Secretary of Health, Education and Welfare, you have severed completely any financial relationship with the University of Alabama, save your continued participation in the University's insurance and retirement plans solely at your own expense.

Further, pursuant to the authority conferred by 18 U.S.C. 208(b), I have determined that your continued participation in such plans does not constitute an interest so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from you as the Secretary of Health, Education and Welfare relevant to official matters which may affect the University of Alabama to the same extent that they may affect other universities and colleges in general.

HEW

THE WHITE HOUSE

WASHINGTON

August 8, 1975

MEMORANDUM FOR

DAVID F. MATHEWS
SECRETARY OF HEALTH,
EDUCATION AND WELFARE

This is to confirm my understanding of the fact that, prior to your appointment today as Secretary of Health, Education and Welfare, you have severed completely any financial relationship with the University of Alabama, save your continued participation in the University's insurance and retirement plans solely at your own expense.

Further, pursuant to the authority conferred by 18 U.S.C. 208(b), I have determined that your continued participation in such plans does not constitute an interest so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from you as the Secretary of Health, Education and Welfare relevant to official matters which may affect the University of Alabama to the same extent that they may affect other universities and colleges in general.

Gerald R. Ford

Ken has
talked to
them —
so we're off
the hook on this.

[illegible]

THE WHITE HOUSE

WASHINGTON

9/15/75

Eva/Shirley:

I spoke with Sarah Massengale on the attachments and indicated agreement with Cannon's recommendation subject to a caveat on Capitation Subsidies which would recognize that the question of continued capitation for medical and dental schools is subject to future reconsideration.

Ken

THE WHITE HOUSE

WASHINGTON

September 15

Ken,

Mr. Buchen hasn't had a chance to review.

Any help?

shirley

THE WHITE HOUSE

WASHINGTON

September 15, 1975

TO: PHIL BUCHEN

FROM: JIM CANNON

We are very sorry for the short turnaround on this, but Secretary Mathews' paper did not arrive until Saturday evening and the OMB paper was not ready until this morning.

285

THE WHITE HOUSE

WASHINGTON

September 15, 1975

MEMORANDUM FOR: PHIL BUCHEN
MAX FRIEDERSDORF
ALAN GREENSPAN
JOHN MARSH
WILLIAM SEIDMAN

FROM: JIM CANNON

This is to solicit your comments and suggestions by 5:00 p.m. Monday, September 15, on the attached draft decision memorandum for the President on Health Professionals Education.

Please send your comments and suggestions to Sarah Massengale.

Attachment

THE WHITE HOUSE

WASHINGTON

ACTION

September 15, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Administration Position on Federal Role in Health Professions Education

This is to present for your decision the issue of the Federal role in the education of health professionals. The position of the Administration needs to be decided before HEW testifies tomorrow before the Senate.

## ISSUE

The broad issue is how to approach the problems of the geographic and specialty maldistribution of health professionals. The issue focuses in particular on the question: Should the Administration propose to continue Federal formula grant support (capitation) limited to medical and dental schools?

A related matter is also brought to your attention: Should the Administration propose a new student loan program for medical and dental students? This issue is not pressing and can await, if you so decide, further development of the specific proposals before a position is taken.

## BACKGROUND

Your '76 budget proposes:

-- an elimination of construction grants for medical schools

-- a gradual four year phase-out of capitation grants

-- an increase in special project grants

-- an expansion of medical student scholarship assistance tied to repayment through Federal service.

These are proposals which have been advocated by the Administration for the last three years. Congress has shown no inclination to accept this approach. On two previous occasions you have decided to maintain this Administration stance.

HEW argues that the only way the Administration can play a role in shaping the legislation currently moving on the Hill is to recognize that some capitation program will evolve and to work toward developing a compromise measure.

A. Capitation Issue

Should the Administration propose to continue capitation grants but only for medical and dental schools?

-- Administration would maintain position that capitation for pharmacists, veterinarians, optometrists and podiatrists should be phased out.

Arguments for Capitation

a) Capitation, as proposed by HEW would be provided only to those medical and dental schools agreeing to:

-- maintain enrollment levels,

-- increase output of primary health care skills,

-- improve geographic distribution of graduates.

b) Restricting capitation to medical and dental schools would permit reductions in Federal funding while allowing targeting on those schools whose training is the longest, most expensive, and least responsive to normal market forces.

c) Capitation would help assure that tuition charges do not rise to levels that would discourage low and middle income students from seeking medical and dental careers.

Arguments for Maintaining Opposition to any Capitation

a) Health profession students should not be singled out for capitation grant subsidies not available in other fields of higher education, especially in view of health professionals' substantially higher career income prospects.

b) Capitation subsidies, as formula allocations, do not focus Federal assistance on program merit or financial need.

c) The proposed phase-out of capitation would only require tuition increases of $400 annually over the next four years, if schools seek to replace the capitation reduction with tuition increases.

d) A limited Federal role is appropriate because -- while there is consensus on the existence of maldistribution -- there is no agreement on its extent or on the ways to address the problem.

B. Student Assistance Issue

Should the Administration propose a new loan program for medical and dental students? Such a loan program would be funded "off-the-budget." Loan repayment would be made over a 20-year period based upon professional income.

Arguments for a New Loan Program

a) Estimated total 4-year costs -- including living expenses -- to medical and dental students are between $30,000 and $40,000. Medical and dental students need additional sources of financing for these costs.

b) The current Federal guaranteed student loan program is inadequate not simply because the loan guarantee limit of $10,000 is too low, but also because banks are unwilling to consistently make individual loans to students of $30,000 to $40,000. Repayment pressures may lead graduates into high paying specialties rather than primary care.

Arguments Against a New Loan Program

a) While an income-related loan program may be a good idea, the specifics of such a proposal should be fully worked out before the Administration makes a commitment to it.

b) Congress and the Administration have generally opposed off-the-budget financing of Federal programs.

c) No current evidence supports a conclusion that there is a significant number of medical or dental students or applicants foregoing an education because of inability to obtain financing.

d) Federal scholarship student assistance should be tied to a service commitment. For other students who seek Federal support, but do not wish to commit themselves to meeting Federal objectives, assistance should be limited to Federal loan guarantees.

e) An income-related loan repayment program is a complex issue with implications for the Federal responsibility in higher education generally and therefore should not be considered apart from other HEW higher education loan proposals.

RECOMMENDATIONS

OMB is arguing that capitation should continue to be phased out and that the needs of medical students should be considered as part of the overall Federal approach to higher education student loan programs.

Secretary Mathews maintains that Congress will continue capitation programs and therefore if we persist in our current position, we will play no role in the eventual outcome which is likely to be an extension or expansion of the existing program.

I believe that given the history of Congressional action on the Administration's position we should seek the most effective use of capitation and therefore I recommend support of HEW's capitation proposal.

Action on the student assistance recommendations should await further development of specific elements of the various proposals.

DECISION

Capitation Subsidies

Option 1: Continue capitation for medical and dental schools that agree to participate in geographic and specialty distribution initiatives.

__________APPROVE (Mathews) ________DISAPPROVE

Option 2: Phase-out capitation subsidies over a 4-year period. Meet geographic and specialty mal-distribution through special projects and scholarships.

__________APPROVE (Lynn) ________DISAPPROVE

Student Assistance

Option 1: Establish a new off-the-budget loan program for medical and dental students.

________APPROVE (Mathews) ________DISAPPROVE

Option 2: Consider a new income-related loan repayment program as part of a comprehensive review of Federal education loan programs in the context of develop-ing the 1977 budget.

__________APPROVE (Lynn) ________DISAPPROVE

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

SEP 15 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Administration Position on Health Professions Legislation

Background. Past health professions education legislation authorizes different types of Federal support for training health professionals. These include assistance to institutions through construction assistance, capitation grants, special project grants, and student assistance through loans and scholarships. The 1976 budget proposes an elimination of construction grants, a gradual phase-out of capitation grants over the next four years, an increase in special project grants and reliance on expanded student scholarship assistance requiring "repayment" through Federal service. Attachment A summarizes the funding pattern and levels for health professions training in recent years.

These proposals have been advocated for three years by the Administration. Some progress has been made in persuading the Congress that the major issue concerns geographic and specialty maldistribution rather than sheer numbers of health professionals, but Congress has shown no inclination to accept the Administration's proposals from either a substantive or a budgetary standpoint. The phase-out of capitation grants in particular has been strongly opposed. HEW believes that an opportunity exists to make progress toward our longer range goals by revising the current Administration's proposals.

On September 16, HEW will testify before the Senate on Federal authorization for health professions training. This memorandum seeks your guidance on two issues discussed below. Secretary Mathews has prepared a separate memorandum on this subject (Attachment B).

<u>Capitation Grants</u>. Should the Administration propose to continue Federal formula grant support (capitation) limited to medical and dental schools?

<u>Arguments For Capitation</u>:

-- Capitation, as proposed by HEW, would be provided only to those medical and dental schools agreeing to address national priorities. They would be required to (a) maintain enrollment levels, (b) increase output of primary health care skills, and (c) improve geographic distribution of graduates. Capitation for all other schools (i.e., veterinary medicine, optometry, podiatry, and pharmacy) would continue to be phased out within three years.

-- Medical and dental schools uniquely fulfill national needs in the training of physicians and dentists, the conduct of biomedical research, and the delivery of high quality patient care. Restricting capitation to these schools would permit Federal funding lower than that recently authorized by the House and would allow targeting on those schools whose training is the longest, most expensive, and least responsive to normal market forces.

-- Capitation would provide medical and dental schools with some assurance of financial stability and continuity in an era of rising and unpredictable costs.

-- Capitation would help assure that tuition charges do not rise to levels that would discourage low and middle income students from seeking medical and dental careers. Such discouragement could occur even if sizable loan and scholarship programs existed.

-- Capitation would help assure that the education component of the schools is not subsidized or distorted by research and/or patient care.

-- The Administration's health professions proposal will be taken seriously by the Congress only if it contains a conditional capitation provision.

Arguments Against Capitation:

-- The taxpaying public should not continue to single out health profession students for capitation grant subsidies not available in other fields of higher education, especially in view of health professionals' substantially higher career income prospects.

-- Capitation subsidies, as formula allocations, do not focus Federal assistance on program merit or financial need.

-- The proposed phase-out of capitation would only require tuition increases of $400 annually over the next four years, if schools seek to replace the capitation reduction with tuition increases.

-- There is already ample pressure on the schools to maintain enrollments and there appears to be a more than adequate supply of qualified students willing to pay higher tuitions. The Federal Government would assist students through scholarships in return for Federal service commitments.

-- Rather than imposing the same conditions on every recipient school through capitation grants, an appropriate Federal means of addressing maldistribution is through a combination of (1) special projects funding demonstrating different ways of addressing maldistribution, (2) scholarships tied to future service commitments in underserved areas, and (3) other activities not a part of health professions programs, per se. Other Federal activities include the National Health Service Corps, migrant health, Health Maintenance Organizations, etc.

-- A limited Federal role is appropriate because--while there is consensus on the existence of maldistribution--there is no agreement on its extent or on the ways to address the problem.

-- A Federal commitment to provide institutional operating support for medical and dental schools is an undesirable precedent. These schools are not markedly unique from other institutions of advanced training (even other institutions within the health professions that conduct research, deliver services, and train professionals) to warrant such treatment.

Student Assistance. Should the Administration propose a new loan program for medical and dental students? Such a loan program would be funded "off-the-budget." Loan repayment would be made over a 20-year period based upon professional income.

Arguments For A New Loan Program:

-- Estimated total 4-year costs--including living expenses--to medical and dental students are between $30,000 and $40,000. Medical and dental students need additional sources of financing for these costs.

-- The current Federal guaranteed student loan program is inadequate not simply because the loan guarantee limit of $10,000 is too low, but also because (a) banks are unwilling to consistently make individual loans to students of $30,000 to $40,000, and (b) students are required to repay over a ten-year period beginning one year after training. Repayment pressures may lead graduates into high paying specialties rather than primary care.

-- A demonstration program limited to medical and dental students would allow the flexibility of testing the acceptability of this mechanism as a means of financing higher education generally.

Arguments Against A New Loan Program:

-- While an income-related loan program may be a good idea, the specifics of such a proposal should be fully worked out before the Administration makes a commitment to it.

-- Congress and the Administration have generally opposed off-the-budget financing of Federal programs.

-- Some medical and dental students may have high education costs that they have difficulty financing. Nevertheless, no current evidence supports a conclusion that there is a significant number of medical or dental students or applicants foregoing an education because of inability to obtain financing.

-- Given a Federal need for physicians to provide services in Defense, VA, and HEW direct health delivery programs, Federal scholarship student assistance should be tied to a service commitment. For other students who seek Federal support, but do not wish to commit themselves to meeting Federal objectives, assistance should be limited to Federal loan guarantees. The Administration's proposal would amend the Higher Education Act to increase the Federal loan guarantee to $25,000.

-- An income-related loan repayment program is a complex issue with implications for the Federal responsibility in higher education generally. Such a program just for medical and dental students does not seem warranted and would be contrary to Administration efforts to simplify and consolidate higher education student assistance programs. It should not be considered apart from other HEW higher education loan proposals.

Decisions:

Capitation Subsidies:

☐ Option 1: Continue capitation for medical and dental schools that agree to participate in geographic and specialty distribution initiatives. (Secretary Mathews)

☐ Option 2: Phase-out capitation subsidies over a 4-year period. Meet geographic and specialty maldistribution through special projects and scholarships. (OMB)

Student Assistance:

☐ Option 1: Establish a new off-the-budget loan program for medical and dental students. (Secretary Mathews)

☐ Option 2: Consider a new income-related loan repayment program as part of a comprehensive review of Federal education loan programs in the context of developing the 1977 budget. (OMB)

Attachments

Attachment A

September 13, 1975

Health Professions Funding
(In millions of dollars)

| Program | 1974 Actual | 1975 Actual | 1976 President's Budget | 1976 HEW Proposal | 1976 Change |
|---|---|---|---|---|---|
| Capitation: | | | | | |
| Medical and Dental Schools | 153 | 123 | 96 | 118 | +22 |
| Other Health Professions Schools | 33 | 27 | 5 | 11 | + 6 |
| Construction: | | | | | |
| Grants/Interest Subsidies | 96 | 96 | 2 | 7 | + 5 |
| Special Projects: | | | | | |
| Categorical | 174 | 147 | 145 | 98 | -47 |
| Financial Distress | 15 | 5 | 5 | 5 | -- |
| Start-up | 6 | 5 | 3 | 6 | + 3 |
| D.C. Medical/Dental Schools | -- | 8 | -- | -- | -- |
| Student Assistance: | | | | | |
| Health Professions Loans | 36 | 36 | 20 | 30 | +10 |
| National Health Service Corps Scholarships | 3 | 23 | 23 | 25 | + 2 |
| Shortage Area Scholarships | 2 | -- | -- | -- | -- |
| Loan Repayment | 1 | 3 | 6 | -- | - 6 |
| General Scholarships | 15 | 7 | 4 | 4 | -- |
| Income-Related Loans | -- | -- | -- | 2 | + 2 |
| Program Management: | | | | | |
| Graduate Medical Education Commission | -- | -- | -- | 1 | + 1 |
| Health Professions Data Analyses | -- | -- | -- | 2 | + 2 |
| Subtotal | 534 | 480 | 309 | 309 | |
| Nurse Training Activities | 122 | 121 | 34 | 34 | |
| Program Management* | 49 | 47 | 52 | 52 | |
| Total | 705 | 648 | 395 | 395 | |

*Includes all program direction costs for the Health Resources Administration.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

September 13, 1975

MEMORANDUM FOR THE PRESIDENT

FROM : David Mathews

SUBJECT: Health Professions Education Legislation

OMB is placing before you a decision memorandum on the Department's request for reconsideration of the Administration's position on health professions education legislation. Given the importance I attach to this subject, I wish to add my own views from the perspective of my personal experience as well as that of the Department.

While the debate over this issue in the past three years has produced heightened Congressional understanding of the maldistribution problems to which the Administration proposals drew attention, the proposals themselves have not been and will not be accepted by the Congress, in part because they do not adequately deal with those problems. If we presist in our current position, the Administration will play no role in the Congressional outcome which the Department assesses to be either extension of existing law or a variant of one of the Congressionally-drafted bills.

I doubt anyone in the Administration would welcome either result. Both possibilities may necessitate a veto on your part with a strong potential for being overridden, particularly in light of the two recent overrides of HEW bills (including nurse training). I find continuation toward these results particularly unfortunate, since I believe the Department's recommended alternative would make real progress on agreed objectives and has a good chance to form the basis of a compromise bill.

The Administration's position to phase capitation down or out has a rationale in fiscal necessities, the general Federal approach to student assistance, and the high incomes of many in the health professions. While conceptually pure, these reasons take an excessively narrow view of the complex and nationally important health research, patient care and education institutions called medical schools. In addition, these reasons give inadequate recognition to:

-- the important national problems which must be addressed,

-- the practical needs for transition time in moving to new objectives in large institutions whose problems were largely created by the Federal government, and

-- the underlying political realities.

It has been the Federal government which stimulated medical schools to embark into health research and patient care, thus creating enormously complex institutions and influencing priorities in ways that now prove troublesome in fulfilling their educational purposes in a manner consistent with national health needs. Our problems with geographic and specialty maldistribution of health professionals start in these complex institutions and must be addressed there with enough force to make some difference in the outcome. At the same time, we need to approach these institutions with enough sensitivity about the difficulties of change to avoid the sharp shocks that can produce unintended and undesirable consequences. I believe the Department's proposal strikes just such an appropriate balance.

I find OMB's concentration on the conceptual evils of capitation to contradict political reality and to undervalue the real changes in the use and nature of capitation contained in our proposal. It is quite clear that the Congress will maintain capitation. Our recommended approach takes that fact and makes use of it to fashion a new tool to answer serious national problems in rural health and insufficient primary care professionals. This approach gives you the opportunity for a positive and needed initiative in the health field within the framework of the budget you have approved. Without it, Congress will go its own way, leaving us in a negative posture with the problems either inadequately or inappropriately addressed.

Finally, I respectfully disagree with the OMB arguments that our current proposals would produce minor consequences in the medical schools, and that these schools are or should be indistinguishable from other graduate education. The rapidly escalating costs are such that the added burden on tuition from declining capitation when combined with other factors may indeed restrict access to the middle class. Further, I don't find it excessively difficult to distinguish medical education with its high cost and heavy Federal involvement in the institutions from other graduate education.

I urge you to consider favorably the recommendations we have made.

David Mathews

Secretary

THE WHITE HOUSE
WASHINGTON

September 10

Dawn,

The deadline is past and
Mr. Buchen hasn't had a
chance to review.

Could Ken give it a quickie?

shirley

return

KL

THE WHITE HOUSE

WASHINGTON

September 9, 1975

MEMORANDUM FOR: PHIL BUCHEN

FROM: PAUL A. THEIS PAT

Attached is a proposed statement for use following Congressional action Wednesday afternoon on the President's Education Act veto.

Would you let us have your comments by noon, Wednesday, September 10?

Thanks.

Attachment

CLEARANCE FORM FOR PRESIDENTIAL SPEECH MATERIAL

TO: THE PRESIDENT

VIA: ROBERT HARTMANN

FROM: PAUL A. THEIS

SUBJECT: Statement on Congressional override of Education Act veto

TIME, DATE AND PLACE OF PRESIDENTIAL USE:

Wednesday afternoon, September 10, 1975

SPEECHWRITER: Rousek

EDITED BY: Theis

BASIC RESEARCH/SPEECH MATERIAL SUPPLIED BY:

Max Friedersdorf

CLEARED BY (Please initial):

(X) OPERATIONS (Rumsfeld) ______

(X) CONGRESSIONAL/PUBLIC LIAISON (Marsh) ______

(X) PRESS (Nessen) ______

(X) LEGAL (Buchen) ______

(X) ECONOMIC POLICY BOARD (Seidman) ______

(X) OFFICE OF MANAGEMENT AND BUDGET (Lynn) ______

(X) DOMESTIC COUNCIL (Cannon) ______

( ) NATIONAL SECURITY COUNCIL (Scowcroft) ______

(X) RESEARCH (Waldron) ______

(X) MARGITA WHITE (FYI) ______

( ) ENERGY RESOURCES COUNCIL (Zarb) ______

(X) COUNCIL OF ECONOMIC ADVISERS (Greenspan) ______

( ) OFFICE OF PUBLIC LIAISON (Baroody) ______

(X) Max Friedersdorf ______

( ) ______

(Rousek) PT

September 9, 1975
THIRD DRAFT

PROPOSED STATEMENT ON CONGRESSIONAL OVERRIDE OF EDUCATION ACT VETO

I am disappointed the Congress did not sustain my veto of H. R. 5901, the Education Appropriations Act. By this action, the Congress has heaped more fuel on the fires of inflation.

However worthy its objectives, this appropriation is $1.5 billion more than I proposed in the fiscal year 1976 budget and will add another $800 million to the fiscal 1977 budget.

As I have stated repeatedly when vetoing appropriations bills calling for excessive spending, it is essential in the battle against inflation to keep the Federal deficit under control. The Congress itself has stated that the Federal deficit in fiscal year 1976 should be no higher than $68.8 billion. This is substantially higher than the $60 billion deficit at which I drew the line.

Unless the Congress makes a major effort to control expenditures, it will find itself forced to approve a deficit even higher thanthe $68.8 billion it proposed in April.

Unless we want to return to double digit inflation and start back on the road to an even worse recession, we must bring Federal spending under control. The Congress must handle the public's money more responsibly than it has to date. I cannot do it alone.

# # #

THE WHITE HOUSE

WASHINGTON

September 30, 1975

Bobbie has spoken to Dr. Marrs and has indicated that Counsel's Office has no objection to his holding a briefing with ethnic groups.

Bobbie Kilberg

Noted

R

THE WHITE HOUSE

WASHINGTON

9/30

Bobbie

Any help?

Shirley

THE WHITE HOUSE

WASHINGTON

HEW

September 20, 1975

MEMORANDUM FOR

THE DOMESTIC COUNCIL

OFFICE OF MANAGEMENT AND BUDGET

SECRETARY OF HEALTH, EDUCATION AND WELFARE

SUBJECT: Meeting on the Ethnic Heritage Studies Program

The general issue of the Ethnic Heritage Studies Program has taken on significance far beyond that which was anticipated when budget decisions were made in this area. I have heard strong expressions of interest from all over the country and from dozens of reputable organizations of ethnics. We have been under extreme pressure to arrange meetings with the President or with staff members so that the strongly held supportive views could be expressed. In keeping with the President's openness approach, I would like to meet with and hear out an appropriate group of interested people.

Please let me have your views by October 6, 1975.

Theodore C. Marrs
Special Assistant to the President

Attachment

CC: Mr. Philip W. Buchen
Mr. John O. Marsh, Jr.

# NATIONAL ETHNIC STUDIES ASSEMBLY, INC.

The Catholic University of America P.O. Box 1335 Washington, D.C. 20064 Phone (202) 635-5470




August 26, 1975

Dr. Theodore C. Marrs
Special Assistant to the President
The White House
Washington, D.C. 20500

Dear Dr. Marrs:

Further to our conversation in the spring and my recent discussions with Mrs. Shelton in your office, I hereby submit the request on behalf of the National Ethnic Studies Assembly for a meeting on the subject of the Ethnic Heritage Studies Program (Title IX of the Education Amendments of 1972) to be held at the White House. The proposed date for the meeting is October 28, 1975.

Considering the number of ethnic groups involved, it is estimated that about 60 to 70 educators and scholars interested in the subject would attend. The list of their names with addresses will be submitted at a later date as agreed.

We would propose to discuss the following main issues:

1. The status of the ethnic studies program with the Department of HEW and specifically with the Office of Education, with special reference to (a) appropriation policies, and (b) general education policies.

2. The status and function of the recently appointed National Advisory Council to the Program.

3. The status and function of the Ethnic Heritage Studies Branch of the Office of Education, Division of International Education, with special reference to (a) principles of grant distribution (evaluation criteria and procedures for the evaluation of applications, priorities, parities, etc.), (b) inclusion of ethnic personnel on the staff of the Branch, and (c) evaluation criteria of completed projects.

4. Participation and involvement of national ethnic organizations in the Program.

5. The appointment of a special assistant to the President for ethnic affairs.

We would appreciate having the opportunity to discuss the above issues with the chief representatives of the DHEW related to the Program:

Dr. David Mathews, Secretary of Health, Education and Welfare
Dr. Virginia Y. Trotter, Assistant Secretary for Education
Dr. T. H. Bell, Commissioner of Education
Dr. Edward L. Meador, Director, Division of International Education
Dr. Donald L. Bigelow, Chief, Ethnic Heritage Studies Branch.

In view of the importance of the Program and of the abovementioned issues to the ethnic groups and to the general education system, we are sure that this conference will result in a general clarification and will contribute significantly to mutual understanding and cooperation.

I anticipate your kind reply.

Sincerely yours,

Richard Kolm

Richard Kolm
President

Thursday 10/23/75

11:00 Jack Svahn, Acting Administrator of Social and Rehabilitation Service of HEW, called to discuss the memo you sent to Secretary Mathews re the Antioch School of Law problem. 245-6726

For filing
P.

HEW

THE WHITE HOUSE

WASHINGTON

October 21, 1975

MEMORANDUM FOR:

THE HONORABLE DAVID MATHEWS
SECRETARY OF HEALTH, EDUCATION,
AND WELFARE

Enclosed is a copy of a letter concerning a problem which the Antioch School of Law alleges it has with the Office of the HEW Region III in Philadelphia.

I would appreciate your having someone call me before 3:00 p.m. on Friday, October 24, to suggest how I might dispose of the request made to me.

P.W.B.

Philip W. Buchen
Counsel to the President

Enclosure

# ANTIOCH SCHOOL OF LAW

1624 Crescent Place, N.W., Washington, D.C. 20009
202/265-9500

*Deans*
Edgar S. and Jean Camper Cahn



October 14, 1975

Philip W. Buchen, Esq.
Office of the President
The White House
Washington, D.C.

Dear Phil,

I am writing to you in my capacity as Chairman, Board of Visitors, Antioch School of Law, Washington, D.C.

We are having considerable difficulty in obtaining approval from H.E.W. Region III, in Philadelphia, for reimbursement to the Law School for a staff training program. This program was contracted for by the District of Columbia and approved by the then Regional Director of H.E.W. I understand the funds are available.

The roadblock appears to be an insistence by the Regional H.E.W. office on submission of additional data which is (a) merely cumulative, or (b) exceeds the scope of the original contract, i.e., training of DNR personnel.

Obviously, it places a severe strain on the resources of the Law School when it is denied reimbursement for a contractual program for which it has already expended large amounts of its energy.

I expect to be in Washington on Friday, October 24, 1975. If possible, I would like an appointment with you to review this perplexing problem at 3:00 p.m. that day. Dean Edgar Cahn will be with me since he has intimate knowledge of what has occurred.

Please let me know if this can be arranged, and to the extent you can, would you energize H.E.W. to move on this project.

Sincerely,

John

John W. Cummiskey, Chairman
Board of Visitors

JWC/ls

cc: Dean Edgar Cahn

HEW

THE WHITE HOUSE

WASHINGTON

November 26, 1975

Dear Mr. Meyer:

Your letter concerning the invitation to have Secretary Mathews appear at the annual Wisconsin Public Welfare Association Conference has been received.

From my vantage point, it would be difficult for me to try affecting the Secretary's decision in that regard. As you can appreciate, all Cabinet Officers receive many more requests for speaking appearances than they are able to accept and their choice of which ones to accept must be made in the context of the total demands on their time.

I know Secretary Mathews will give every possible consideration to your request. Also, I shall mention to him your special interest in having him accept your invitation, but without any thought that my encouragement will be decisive.

I do wish you success in planning for next year's conference.

Sincerely,

Philip W. Buchen

Philip W. Buchen
Counsel to the President

Mr. George Meyer
Social Service Supervisor II
Sheboygan County Department of
Social Services
Court House Annex - Room 114
P. O. Box 610
Sheboygan, Wisconsin 53081

THE WHITE HOUSE

WASHINGTON

December 10, 1975

MEMORANDUM FOR: JIM CANNON

THROUGH: PHIL BUCHEN P.

FROM: Bobbie Greene Kilberg

SUBJECT: Social Security Memorandum

We have reviewed your draft decision memorandum to the President on Social Security and have two comments:

(1) Short-term financing: It is the judgment of the Counsel's Office that the President should approve one of the options which provide for raising taxes or decreasing benefits. We believe it would be economically and politically irresponsible not to adopt one of the action options on short-term financing. Therefore, Option 5, i.e., not to propose legislation at this time, would be unacceptable to us.

(2) Decoupling: The Counsel's Office favors alternative 2 which would provide for benefit levels for future retirees to keep pace with inflation but not with real wage growth.

THE WHITE HOUSE

WASHINGTON

December 8, 1975

MEMORANDUM FOR: PHIL BUCHEN
JACK MARSH
MAX FRIEDERSDORF
ALAN GREENSPAN
ROBERT HARTMANN
JIM LYNN
BILL SEIDMAN

FROM: JIM CANNON Jim

SUBJECT: Social Security

Attached for your comments is a draft decision memorandum for the President on Social Security. The memorandum has been discussed extensively with many of you and your staffs. It presents to the President key substantive questions each of which have significant ramifications for workers and retired persons.

While the issues are complex, they have, as I mentioned, been reviewed before and we have attempted to reflect the suggestions and comments that have been submitted to us. In this final round, therefore, it is essential that you indicate specifically the changes that you believe are still necessary.

Given this background, I would appreciate having your comments by close of business on Wednesday, December 10, 1975.

Attachment

THE WHITE HOUSE

WASHINGTON

December 8, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Social Security Financing

PURPOSE

The purpose of this memorandum is to present for your review and decision options for dealing with the serious short and long term financing problems facing the Social Security System. The timing of any legislative proposal is clearly a key element in your decision. Therefore, the discussion of options will include a projection of the effect on the trust fund and an assessment of political and budgetary consequences.

CURRENT SYSTEM

The Social Security System is composed of three separate trust funds known as Old Age and Survivors' Insurance (OASI), Disability Insurance (DI) and Health Insurance (HI) - Medicare. The combined OASDI trust funds are the major concern in this memo, as they are expected to decline rapidly in the next few years.

In 1974, Social Security collected $58.9 billion for OASDI from 99 million workers in covered employment and paid $58.5 billion in OASDI benefits to some 31 million beneficiaries. The current OASDI tax rate is 4.95% each paid by employees and employers on a maximum wage base of $14,100. The wage base will increase to $15,300 in 1976. The current tax rate for the HI (Medicare) trust fund is .9% each paid by employees and employers. Current law provides a tax increase of .2% in 1978 for HI only.

Social Security Tax Rates (Employer/Employee, each):

Present Law

| Calendar Year | OASDI | HI | TOTAL |
|---|---|---|---|
| 1975-77 | 4.95% | 0.90% | 5.85% |
| 1978-80 | " | 1.10 | 6.05 |
| 1981-85 | " | 1.35 | 6.30 |
| 1986-98 | " | 1.50 | 6.45 |

PROBLEMS

The OASDI trust funds are underfinanced in the short and long term. Benefit outlays are expected to exceed payroll tax receipts in 1975 and will continue to do so each year thereafter. If no changes are made in current law, the projected deficit over the next 25 years (1975-1999) will average 1.3% (.65% each for employees and employers) of taxable earnings. In the following 25 year period (2000-2024) the deficit will rise to 4.1% (2.05% each for employees and employers) of taxable earnings.

Therefore, unless some action is taken, OASDI trust funds will fall from the current 66% of yearly outgo to 43% in 1977, 33% in 1978, 11% in 1981, 3% in 1982, and the trust funds will be exhausted by 1983.

The projected rapid decline in trust fund assets over the next few years can be attributed to:

-- Increased benefits resulting from wage growth and inflation.

-- Absence of equivalent increases in payroll tax revenues. (In fact, payroll tax receipts have diminished due to high rates of unemployment).

The projected long term (beyond 2000) deficit can be attributed to:

-- Future population trends which include a substantially increasing ratio of retired persons to the working population after the beginning of the 21st Century.

-- A flaw in the current system which over adjusts the benefits of future retirees to inflation. The current formula which determines future benefits for workers increases the weighting of earnings by the rate of inflation. Since wages normally grow with inflation, the result is an overcompensation -- commonly referred to as a "coupled" system. There is a general consensus in the Congress and among outside experts that the inflation adjustment in the formula should be eliminated, thus "decoupling" the system. Such a change would not affect the automatic CPI increases in benefits after retirement. It should be emphasized here that "decoupling" of any sort will have virtually no effect on the short term deficit.

## POLITICAL CONTEXT

An awareness of the political environment surrounding the Social Security System is crucial as we sort out these very important issues. Social Security decisions have traditionally followed a pattern which has insulated the system from sudden and far reaching changes. Structural modifications take place usually after extensive public debate including exhaustive studies and visible commissions. Protection of the system is fostered by one of the strongest and largest constituencies in the public policy arena, including the elderly, organized labor and all of the wage earners who are contributing to the system and expect to benefit from it in the future.

Members of Congress and especially of the Finance and Ways and Means Committees have institutionalized this process of incremental reform. The Committees have jointly established an advisory group (the Hsiao Panel) to examine the long term financing -- "decoupling" problem and to recommend policy changes to the Committees in the spring of 1976.

Although some hearings have been held on the short term financing problem, no proposals have come out of the Committees. Last May Secretary Weinberger testifying before Ways and Means took the position that the Administration would be glad to cooperate in developing a proposal to alleviate the short term deficit. You decided then not to propose any tax or wage base increase noting that the Congress had failed to act on the 5% cap on benefit increases proposed in the FY 1976 budget. The stand off has continued since that time as the trust fund continues to decline.

Because of the financing problems, the public has begun to question the stability of Social Security. Although the subleties and complexities are not widely understood, there exists general pressure to move toward stabilizing the trust fund with a minimum of change for those in the system.

DECISIONS

The discussion of alternatives for your decision are presented in three categories:

I. Options to deal with the short term decline in trust fund assets.

II. "Decoupling" options which alleviate part or all of the long term deficit.

III. Mechanism for analyzing the structure and role of Social Security.

These sets of options including choices of the timing of any initiative you choose are described, as follows.

I. SHORT TERM FINANCING

Background

The choices for preventing the rapid decline of the trust fund are difficult ones. Simply expressed at some point before 1983 revenues must be increased or benefits must be reduced. In the absence of either of these steps use of general revenue funds will be the only alternative. The options available and the timing of any action thus reflect the effect on the trust funds, budgetary and political consequences.

Estimated Trust Fund Assets under Current Law:

| Calendar Year | Assets at Beginning of Year as Percent of Outgo during Year |
|---|---|
| 1975 | 66% |
| 1976 | 55% |
| 1977 | 43% |
| 1978 | 33% |
| 1979 | 25% |
| 1980 | 18% |
| 1981 | 11% |
| 1982 | 3% |
| 1983 | 0% |

These projections by the Social Security Administration are based on economic assumptions (Tab A) which are of course judgmental and probably somewhat optimistic.

HEW has taken the position that it would be dangerous for the trust fund assets to fall below 33% in an unpredictable economic situation. This issue is in part a matter of public confidence. The 33% reserve would serve as a buffer if the economy worsens. In order to prevent the trust funds from falling below 33% during 1978, legislation to increase revenues or decrease benefits must be effective by January 1978.

If SSA's economic assumptions are overly optimistic and/or if you feel that the trust funds should not fall so low, then the effective date should be early in 1977, which would require legislation in 1976. Of course raising taxes or decreasing benefits would be unpopular but, on the other hand, it may seem irresponsible not to take a position.

Short Term Financing Options

Short term financing options which prevent the trust fund assets from falling below one-third in 1978 include the following:

Option 1. Increase revenues by raising payroll taxes

It would be necessary to increase taxes by .3% (each for employees and employers) of payroll beginning in 1977 and to gradually increase that amount to .6% by 1984.

PRO

The advantage of such a tax increase is that it would eliminate the short term (1975-1999) deficit.

CON

Given your proposal for a permanent income tax reduction and the recent increase in Unemployment Insurance tax rates, it would be difficult to justify an additional tax increase in the next year or so. Also, an increase in the regressive payroll tax has a particularly harsh effect on low wage earners. There may be political repercussions from taxpayers generally and particularly from business and organized labor.

Option 2. Increase revenues by a combination of a more modest increase in taxes and raising the maximum wage base.

If the wage base were raised from the currently projected $16,800 for 1977 to $19,500, the necessary tax increases (for employee and employer each) would be .25% in 1978, rising to .45% by 1984.



PRO

As in option 1, the entire short term deficit would be eliminated. Also, the more modest tax increase would be less hard on low wage earners than option 1. The wage base increase would reduce the regressive effects of the tax to a small extent.

CON

Again, even these more modest tax increases would be difficult, given economic and political considerations. The base increase would cause high (above $16,800) wage earners to assume more of the tax burden. Because this group would then be entitled to higher future benefits, the trust fund expenditures would be enlarged in the long run.

Option 3. Reduce outlays by placing a cap on the 1976 and 1977 CPI benefit increases and decreasing certain other benefits.

OMB has proposed increasing benefits by only 60% of the CPI in 1976 and 1977 and several other program changes, including:

a. Eliminate payment of retroactive benefits for the months before an application is filed if such payment would require a permanent reduction in future monthly benefits.

b. Eliminate the monthly retirement test and base the retirement test on annual earnings.

c. Eliminate, over a 4-year period, benefits for those aged 18 to 22 in school full time.

The two 60% caps on the CPI benefit increases would save $3.1 billion in calendar 1977 and an increasing amount in subsequent years. The other program changes would save approximately $1.2 billion in 1977 and up to $3.2 billion by 1981. Such reduced expenditures would keep the trust fund levels above one-third of outgo through 1981. At best, this postpones another decision on short term financing for five years.

PRO

This benefit reduction "buys" time. Further economic recovery (lower unemployment and inflation) in the next five years may increase revenues and reduce benefits somewhat; and a tax or tax/wage base increase may be more feasible at that time.

CON

It eliminates only a small portion of the short term deficit. A similar cap was proposed last year and was not even introduced in the Congress. Such a proposal has little chance of enactment and, if proposed, would raise the ire of constituent groups, particularly the elderly.

Option 4. Increase OASDI trust fund revenues by partially financing the HI (Medicare) trust fund from general revenues.

The 1975 Advisory Council on Social Security recommended that the HI (Medicare) tax revenues be gradually shifted to the OASDI trust fund. General revenues would be used to meet HI costs not met by tax revenues. Eventually under this approach the Medicare program could be completely funded by general revenues.

The chart below shows the amount of general revenues required in order to shift HI tax receipts into OASDI and still maintain a stable HI trust fund.

| Calendar Year | Amount of General Revenues In HI | General Revenue as % of HI Income | HI Assets Beginning of Year as % of Outgo |
|---|---|---|---|
| 1977 | $ 1.5 | 12% | 61% |
| 1978 | 6.0 | 30 | 35 |
| 1979 | 7.5 | 33 | 35 |
| 1980 | 9.3 | 36 | 35 |
| 1981 | 9.1 | 31 | 35 |
| 1982 | 11.2 | 34 | 35 |
| 1983 | 13.7 | 37 | 35 |
| 1984 | 16.4 | 40 | 35 |
| 1985 | 19.5 | 43 | 35 |

Obviously, this would require additional income tax revenues or budgetary reduction in other areas.

PRO

It can be argued that Medicare hospital insurance should not be financed by Social Security payroll taxes, because unlike OASDI, it is not a wage replacement program. There is no relationship between earnings and benefits in Medicare. Part B of Medicare (insurance for non-hospital medical care) is currently funded by premiums paid by enrollees and from general revenues.

The entire short term deficit and part of the long term deficit could be eliminated by this proposal.

CON

The additional general revenues for the HI trust fund would require an income tax increase or budget reductions in other programs. Given your proposal for equivalent income tax and budget reductions, this may be impossible in the next few years.

Option 5. Do not propose legislation at this time

Since Congress has made no move on short-term financing, you could simply wait or raise the issue and agree to work with the committees to arrive at a mutually agreeable solution.

PRO

In economic and political terms, it will be difficult to propose any of the above options, all of which have clear disadvantages. The Congress should share the burden of any proposal. Also, there probably exists some leeway on timing of any legislative proposal. Depending on your view of the economic assumptions and trust fund stability, you could postpone action for another year.

CON

Because of declining public confidence in the stability of Social Security, inaction on your part may be viewed as irresponsible. Aside from the issue of public confidence, if the economic assumptions are overly optimistic or the economy takes a downturn, the trust fund "buffer" may not be adequate.

RECOMMENDATIONS:

DECISION:

| | | |
|---|---|---|
| Option 1 | (tax rate increase in 1977) | ________ |
| Option 2 | (wage base increase in 1977 and tax increase in 1978) | ________ |
| Option 3 | (60% cap on benefit increase and other reductions) | ________ |
| Option 4 | (shift funds from HI to OASDI; partial general revenue financing to Medicare) | ________ |
| Option 5 | (defer action) | ________ |

COMMENTS:

## II. DECOUPLING

### Background

As described on page 2, "decoupling" means the elimination of the double indexing for inflation in the benefit formula for future retirees. Decoupling is a long term financing issue, as the coupled system will not impact on the trust fund deficit until after the year 2000. The cumulative effect of "double indexing" began in 1975 in the form of slightly higher benefits for people who retired that year.

A useful tool for discussing the impact of decoupling proposals is a concept referred to as "replacement rates". Social Security benefits after retirement replace a certain percentage of a retiree's previous earnings. This percentage is known as the replacement rate. Under the current law, retirement benefits are equal to:

-- approximately 62 percent of the recent wage of a low income worker.

-- approximately 42 percent of the recent wage of an average earner.

-- approximately 30 percent of the recent wage of a high earner.

Due to the double indexing for inflation in the formula which determines the level of benefits at the time of retirement, replacement rates for each category of worker rise from year to year. If this continues, eventually retirement benefits will replace more than 100 percent of a worker's recent wages.

There exists a general consensus in Congress, among interest groups representing the aged, and among outside experts that the overadjustment for inflation in the formula should be eliminated, thus "decoupling" the system.

Key Issue

The major issue on which there may be wide disagreement is philosophical: What should be the future role of Social Security? What levels of benefits and tax rates would be appropriate in the context of overall taxes and other retirement income?

The issue on which your decision is needed is whether the Administration should make a specific decoupling proposal in 1976 to go with our recommendations on the short-term financing problem, or whether that proposal should be delayed for at least another year.

In considering alternative models for "decoupling," this philosophical question translates into a judgment about what are appropriate replacement rates (percent of wages replaced by retirement benefits) now and in the future. Should we continue to replace the same percentage of wages for low, average, and higher earners as we do now? If so, payroll taxes will have to be raised substantially in the long run (as much as 3 percent by 2050) to finance the system.

Or, should we allow replacement rates to decline over time? This would mean that people who retire in later years would not be able to enjoy the same standard of living relative to their recent earnings as people who retire now do. But, a reduction of the role of Social Security would allow us to contain and perhaps even lower future tax rates.

Put another way, wages are rising at a rate 2 percent faster than costs, reflecting the increasing wealth of our society. The funamental issue, then, is: Should Social Security benefits rise with the cost of living (prices) and allow the elderly to continue to maintain the same level of subsistence; or, should benefits rise with the standard of living (wages) and allow the elderly to share in the increasing wealth of the country, with accompanying higher taxes for workers.

To illustrate the trade-offs, three models which "decouple" the system and provide alternative replacement rates over time will be compared to the current law coupled system. The key variables are the replacement rates and expenditures required to finance the system.

Three charts illustrating the effect on replacement rates and expenditures of three alternative decoupling models as compared to the current law "coupled" system are on pages 15, 16 and 17.

The alternative "decoupling" models are described as follows: (It should be noted that all models require a phased transition from the current system.)

ALTERNATIVE 1: BENEFITS RISE WITH STANDARD OF LIVING (WAGES)

Stop the increase in replacement rates and hold them constant over time at current levels. This means that the benefits of future retirees will reflect increases in the standard of living resulting from real wage growth (since wages are expected to grow at an annual rate of 6 percent and prices are expected to rise at an annual rate of 4 percent, then the 2 percent real wage growth means that Americans will enjoy a steadily increasing standard of living over the years).

Approximately 50 percent of the long term deficit would be eliminated by this alternative. Therefore, additional tax increases (as much as 3 percent more by 2050) would be required to finance such a system.

PRO

Because this proposal decouples with a minimum of change in current replacement rates, it would prove the least controversial among constituent groups and in the Congress. In fact, aging groups and the AFL-CIO have supported this concept. It ensures that the benefits of future retirees will keep pace with our rising standard of living. You could propose to "decouple" in this manner now, and come back later with a broader proposal to change the structure and role of Social Security over the long term.

CON

It only eliminates 50 percent of the long term deficit, therefore, additional tax increases or further restructuring will be required in the future. Also, if you propose decoupling in this manner with minimum of change in the system, you lose a useful forum for forcing the Congress to address the tough issue of the future role of Social Security as it affects taxpayers and beneficiaries.

ALTERNATIVE 2: BENEFITS RISE WITH COST OF LIVING (PRICES).

Allow benefit levels for future retirees to keep pace with inflation instead of real wage growth. This means that if such a proposal were enacted in 1976, the future benefits of workers who retire some years later will be based on the standard of living in 1976. Since wages will grow faster than prices, replacement rates will decline over time. A person who retires in the year 2000 would receive the same benefits as a similar worker who retires in 1976. But because the 2000 retiree would have experienced real wage growth during those 25 years, his Social Security benefits, unless supplemented by other retirement income or private savings, would result in significant change in his lifestyle.

This proposal would eliminate the entire long-term deficit and would allow future tax reductions (as much as 3 percent by 2050).

PRO

Future payroll taxes could be reduced. Since the role Social Security would be lessened over time, people may save more or buy supplementary pensions, thus stimulating capital formation.

CON

Such a far-reaching change in the system would prove very controversial politically. As you can see in the charts, replacement rates would fall as low as 7-14 percent by 2050. This would mean that while the recipients would be able to buy the same amount of goods and services as they can today, they would be substantially poorer relative to the rest of society. Although we have developed the concept of this model, additional staff work will be required over the next month or so before legislation could be submitted.

ALTERNATIVE 3: BENEFITS RISE AS A PROPORTION OF THE STANDARD OF LIVING

Allow future benefits to keep pace with approximately half of the growth in real wages (standard of living). This represents a middle ground between Alternative 1 and 2. Replacement rates never fall below 25 percent of a retiree's recent wages. This proposal would eliminate 80 percent of the long-term deficit. Therefore, some additional tax increases (1.19 percent by 2050) would be required in the long run.

PRO

This Alternative would reduce the future role of Social Security (taxes and benefits), but less severely than Alternative 2. Capital formation may be stimulated somewhat.

CON

Future tax increases, although less than under current law or Alternative 1 would be required in the long run. Declining replacement rates (though less severe than those in Alternative 2) would prove politically controversial. Again, 1 or 2 months would be required to complete the necessary staff work for this proposal.

The existing consensus in opposition to the current coupled system provides a forum for discussion of decoupling proposals. Therefore, one of these three models could be proposed by itself or in conjunction with a short-term financing proposal. (It is important to note again that decoupling will not solve the short-term deficit problems).

Alternatives 2 and 3, which include declining replacement rates, raise some fundamental questions about the role of Social Security which you may not wish to address at this point. A fourth alternative would be to defer any initiative on decoupling.

ALTERNATIVE 4: DEFER ACTION ON DECOUPLING

Section III of this memorandum recommends a comprehensive study of the Social Security system. Such a study could address the question of constant or declining replacement rates.

Unless you are comfortable with proposing Alternative 1 which decouples (eliminates double indexing for inflation) with a minimum of change from the current structure, you may wish to postpone action and avoid the controversy represented by Alternatives 2 and 3. You could offer to work with the Committees on decoupling and present several models for consideration.

PRO

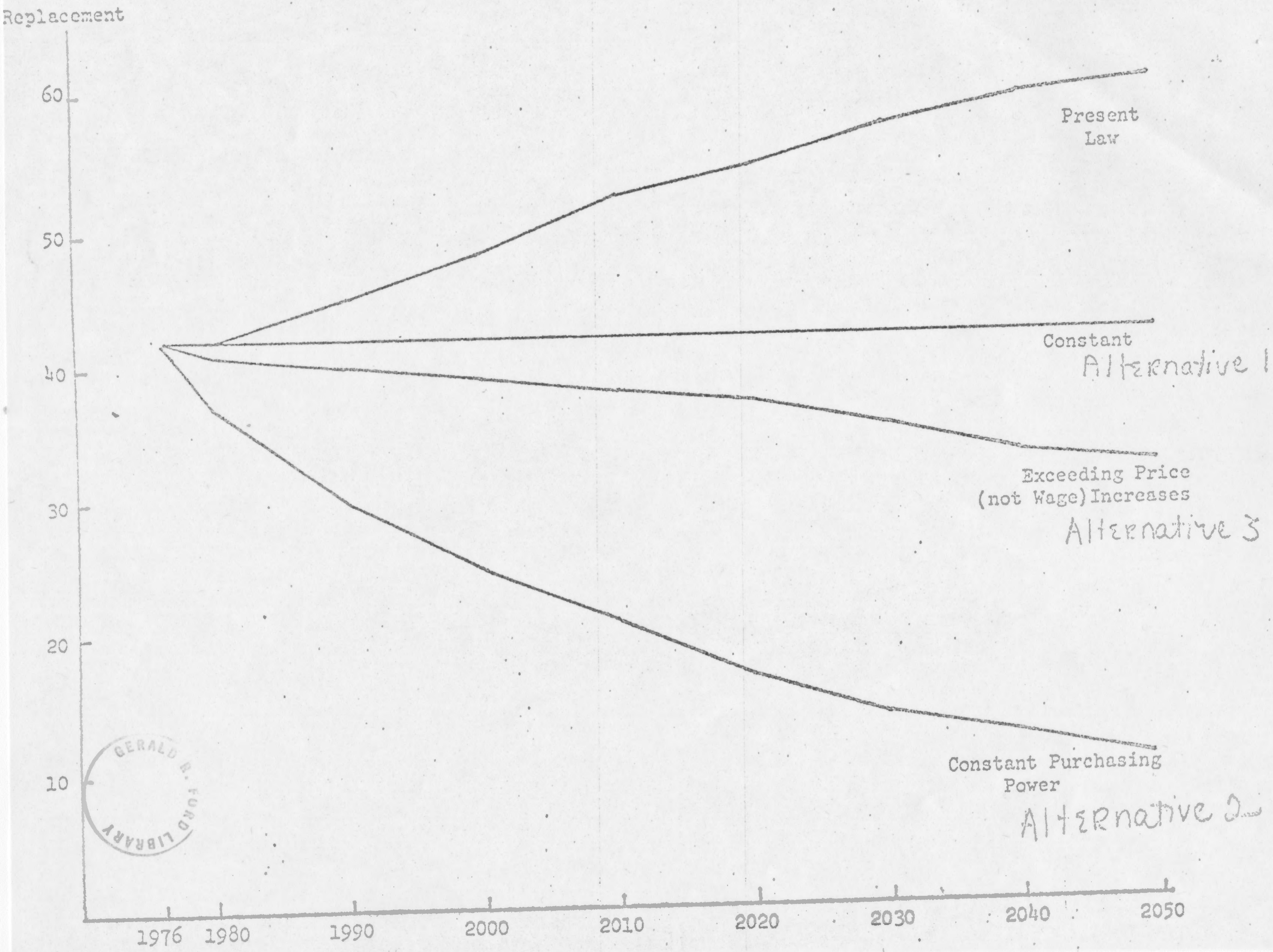
Further study of these issues and cooperation with the Congress would allow time for consideration by the public and in Congress of some fundamental questions about the future role of Social Security -- the appropriate tax rates and benefit levels.

CON

Because a consensus exists on eliminating the double indexing in the formula and the adverse effects are accumulating over time (replacement rates are rising), it may seem irresponsible to postpone action or not to take a position.

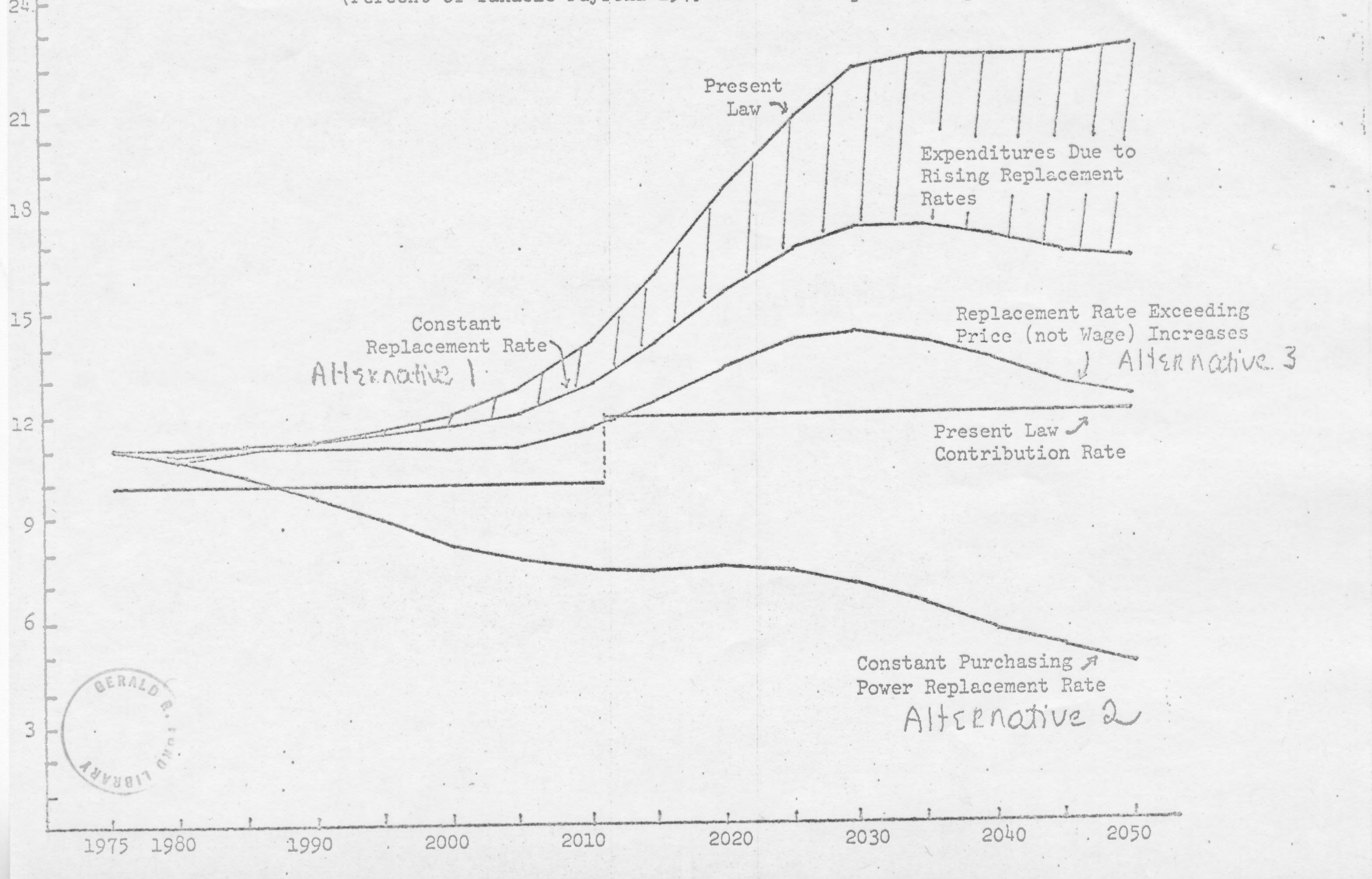
RECOMMENDATIONS

1 Replacement Rates for Regular Workers with Average Wages under Present Law, under a Constant Replacement Rate Proposal and Two Declining Rate Alternatives



(2)

Expenditures under Present Law, Constant Replacement Rates (Current Levels), and Two Declining Replacement Rate Options ~~(One Exceeding Price Increases, One Maintaining Purchasing Power)~~ and Contribution Rate under Present Law (Percent of Taxable Payroll 1975 Trustees' Report Assumptions)



Long-Range Cost Estimates and Replacement Rates under Present Law and under Decoupling Alternatives Based on Wage Indexing 1/

## Long-Range Costs

| Present Law | Average 2/ 75 Years (1975-2049) | First 25 Years (1975-1999) | Second 25 Years (2000-2024) | Third 25 Years (2025-2049) |
|---|---|---|---|---|
| Expenditures | 16.26% | 11.16% | 15.12% | 22.09% |
| Taxes | 10.94 | 9.90 | 11.02 | 11.90 |
| Difference | -5.32 | -1.26 | -4.10 | -10.19 |
| **Decoupling Models** | | | | |
| Constant Replacement Rates 3/ | 13.80 | 11.12 | 13.35 | 16.66 |
| Replacement Rate Exceeding Price, not Wage, Increases (Slow Decline) 4/ | 12.13 | 10.81 | 11.96 | 13.39 |
| Replacement Rate Limited to Increases in Purchasing Power (Fast Decline) 5/ | 7.6 | 9.77 | 7.41 | 5.85 |

## Replacement Rates

| | 1976 | 2000 | 2025 | 2050 |
|---|---|---|---|---|
| **Low Earner 6/** | | | | |
| Present Law | 62% | 75% | 96% | 107% |
| Constant | 61 | 61 | 61 | 61 |
| Slow Decline | 61 | 55 | 49 | 45 |
| Fast Decline | 61 | 37 | 23 | 14 |
| **Average Earner 6/** | | | | |
| Present Law | 42 | 58 | 56 | 60 |
| Constant | 42 | 42 | 42 | 42 |
| Slow Decline | 42 | 39 | 36 | 32 |
| Fast Decline | 42 | 25 | 16 | 10 |
| **Maximum Earner 6/** | | | | |
| Present Law | 30 | 36 | 41 | 43 |
| Constant | 30 | 34 | 35 | 35 |
| Slow Decline | 30 | 30 | 27 | 25 |
| Fast Decline | 30 | 18 | 11 | 7 |

Tab B

See footnotes on following page.

DECISION:

ALTERNATIVE 1 -- Decouple, holding current replacement rates constant ________

ALTERNATIVE 2 -- Decouple, allowing replacement rates to decline rapidly ________

ALTERNATIVE 3 -- Decouple, allowing replacement rates to decline more slowly ________

ALTERNATIVE 4 -- Postpone action ________

COMMENTS:

## III. STUDY OF SOCIAL SECURITY SYSTEM

To allow time for analysis of the broader structural issues and for education of the public and consensus building, it is our judgment that a comprehensive study is needed.

If you decide to defer legislative action a short-term financing proposal and/or decoupling, then the study group could address these issues over the next year.

Clarification of the role of Social Security in our society is necessary to ensure its stability and continued public confidence. Some of the fundamental questions include the following:

-- What should be the role of Social Security in the context of the overall pension system?

-- What should be the role of Social Security in the overall tax system?

-- What should be the role of Social Security in the context of economic growth?

-- What should be the role of Social Security in terms of wage replacement vs. income redistribution (welfare)?

It is our judgment that Domestic Council members should assist in developing a framework for the study which clearly identifies the appropriate issues, and should assist in the selection of a group of outside experts. The experts would provide needed analysis and facilitate increased public awareness of the issues. Responsibility for overseeing the study could housed in either the Domestic Council or in the Office of the Secretary, HEW.

RECOMMENDATIONS:

DECISION:

Propose study of Social Security.

Agree__________ Disagree__________

COMMENTS:

Economic Assumptions and Automatic Increases Based on 1975 Social Security Trustees Report

Through Calendar Year 1981

| Calendar Year | Percent Increase in -- Average Annual Wages | Average Annual CPI | Real Wages | Percent Unemployment Rate | Contribution and Benefit Base | Percent Benefit Increase |
|---|---|---|---|---|---|---|
| 1975 | 6.2% | 9.0% | -2.6% | 8.8% | $14,100 | 8.0% |
| 1976 | 9.0 | 6.6 | 2.3 | 8.0 | 15,300 | 6.6 |
| 1977 | 11.0 | 6.5 | 4.2 | 7.0 | 16,800 | 6.4 |
| 1978 | 8.8 | 5.7 | 2.9 | 6.2 | 18,600 | 6.3 |
| 1979 | 7.7 | 4.6 | 3.0 | 5.4 | 20,100 | 4.8 |
| 1980 | 7.0 | 4.0 | 2.9 | 4.8 | 21,600 | 4.0 |
| 1981 | 6.0 | 4.0 | 1.9 | 4.8 | 23,100 | 4.0 |