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THE PRESIDENT HAS SEEN. . .

THE WHITE HOUSE

INFORMATION

WASHINGTON

February 28, 1975

Handwritten initials

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CAVANAUGH *[Handwritten mark]*

SUBJECT: Social Security Advisory Council Financing Recommendation

Attached is a letter from Allen Wallis, Chairman of the Social Security Advisory Council, in response to your inquiry of Alan Greenspan as to why the Council will be recommending general fund financing for Medicare rather than an increase in the amount of earnings subject to the payroll tax.

The Council's principal reason for not increasing to \$24,000 the earnings subject to the payroll tax was their fear of the depressing effect this would have on savings and productivity. Furthermore, Dr. Wallis says raising the tax base would be only a temporary solution to the system's financing problems, for future retirees will be receiving higher benefits because of their higher average covered earnings.

Finally, because a majority of the Council believes that social security should be financed by the payroll tax, they are recommending that benefits not related to earnings be financed from general revenues. By removing Medicare, they feel that not only will that principle be maintained but also that the present payroll tax level will be sufficient to finance social security for some time.

Dr. Wallis also notes that the Council's final report will be submitted in several days. At that time we will review the report through the Domestic Council system and prepare options for you to consider.

