Budget – FY 2001 Ideas

1-21-2000

Bruce –

Nicole asked me to pass along the following information. Attached are the numbers for the CDCTC from Treasury. The chart reflects each piece of the tax credit individually, and then totals them at the end.

Greater Tax Relief for Child Care for 4.4 Million Working Families. The Child and Dependent Care Tax Credit provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. The average tax credit would be $249.

Providing Tax Relief to 1.9 Million Parents Who Stay at Home. The average tax cut for parents who stay at home with children under one would be $154.

Making the CDCTC Refundable for 1.9 Million Taxpayers. The average return would be $902.

8.2 million taxpayers in total would feel the effects of the CDCTC.

- Ruby

Child and Dependent Care Tax Credit

				e dit 1\			
						FY 2001 Proposal, 2001 Levels, (Against Current Law as of 1/2000)	FY 2000 Proposal, 2000 Levels, (Against Current Law as of 1/1999)
es 2\ 3\							
	Amount of tax decrease ($ mill)					($1,086)	($1,139)
	Taxpayers with decrease in liability (mill)					4.4	3.3
	Average decrease ($)					($249)	($345)
Effect of Stay-at-Home piece 4\							
	Amount of tax decrease ($ mill)					($299)	($303)
	Taxpayers with decrease in liability (mill)					1.9	1.7
	Average decrease ($)					($154)	($178)
Effect of Above Two Items							
	Amount of tax decrease ($ mill)					($1,385)	($1,442)
	Taxpayers with decrease in liability (mill)					6.3	5.1
	Average decrease ($)					($220)	($289)
Effect of Refundability							
	Amount of tax decrease ($ mill)					($1,747)	n.a.
	Taxpayers with decrease in liability (mill)					1.9	n.a.
	Average decrease ($)					($902)	n.a.
TOTAL effect							
	Amount of tax decrease ($ mill)					($3,132)	n.a.
	Taxpayers with decrease in liability (mill)					8.2	n.a.
	Average decrease ($)					($380)	n.a.
Department of the Treasury							01/21/00
Office of Tax Analysis							07:12PM
RED:Bull/Hrung; ITD:Holtzblatt; EMCA:Gillette							

Crime Budget Priorities

Increases over Enacted
($ in millions)

	Settlement Offer	DPC Adds BA	DPC Adds OL	Total BA	Comments
Firearms Enforcement and Gun Safety					
Firearms Enforcement:					
300 New ATF Agents	$14.50	27.0	24.3	$41.47	Settlement funded 105 agents, DPC add of 195 for a total of 300
200 New ATF Inspectors	$8.20	3.5	3.2	$11.70	Settlement funded 144 inspectors, DPC added 56 inspectors
100 New Technicians (to support gun/ballistic and add'l agents)	$2.80	5.6	5.0	$8.40	Settlement included 42 technicians for YCGII. DPC adds include 100 technicians to support the Gun tracing and Ballistics initiatives and additional agents.
Gun Tracing (Treasury)	$0.00	8.9	8.0	$8.85	-Infrastructure investment to web-based tracing
Federal Law Enforcement Training Center (to train additional agents)	$4.00	0.0	0.0	$4.00	
1,000 Gun Prosecutors					
100 Federal *	$7.00	8.0	7.0	$15.00	Funds 94 positions
1,000 State/Local	$150.00	0.0	0	$150.00	Earmarked within COPs
Expanded Ballistics					DPC requests $35.8 but does not specify the split betw. Treas and DoJ. Total current offer is $6. 4M, balance of $29.4M.
FBI	$1.40	0.0	0.0	$1.40	Covers FBI incremental share.
ATF	$0.00	21.9	21.9	$21.87	MOU between FBI and ATF specifies that ATF will convert existing 147 drugfire machines to a universal system (as soon as possible). They've specified 73 machines in the first year and 74 machines in the second year. Estimated $300K per machine. Less money means slower deployment.
Brady Background Checks (States) by doubling NCHIP ($35M in 2000)	$25.00	10.0	2.2	$35.00	
National Instant Notification	$5.00	0.0	0.0	$5.00	
Kids and Guns:					
Promoting Gun Safety (Treasury)	$0.00	0.0	0.0	$0.00	
Local Media Campaign (Justice)	$10.00	0.0	0.0	$10.00	Earmark in Byrne
Gun Safety/Smart Guns (Justice)	$4.00	6.0	1.3	$10.00	
Police Gun Buyback					
Ending Re-sale of Used Police Weapons	$10.00	0.0	0.0	$10.00	Earmark in COPS
Firearms Enforcement and Gun Safety Subtotal	**$241.90**	**$90.79**	**$72.87**	**$332.69**	
Community Supervision of Released Offenders					
Reentry Courts and Reentry Partnerships	$60.00				
Local Law Enforcement/21st Century Policing					
COPS Hiring	$50.00				Funded from prosecutors, amount would increase in outyears.
Community Prosecutors (COPS)	$0.00	50.0	2.5	$50.00	Settlement assumed $150 M for State/local prosecutors is all for gun prosecutors. This adds $50M for Community Prosecutors, for total of $200 M in COPS for State/local prosecutors.
Zero Tolerance Drug Supervision					
Drug Testing	$75.00				
Drug testing in the Re-entry Partnerships	[25]				
Drug Courts	$10.00				
Residential Substance Abuse Treatment	$2.00				
TOTAL	**$438.90**	**$140.79**	**$75.37**	**$382.69**	

Q&A
1/27/00 DRAFT

Q: What do you mean when you say the President wants to increase the involvement of faith-based organizations?

A: In his budget, the President proposes several new or expanded initiatives for families that will involve faith-based organizations:

- Up to $100 million a year in after-school funds will be available to faith-based and community-based organizations to run school-based after-school programs (Up to 10 percent of the new after-school funds -- $60 million in FY 2001, $100 million a year in later years – can be awarded to faith-based or community-based organizations).

- Faith-based and community-based organizations are expected to play a key role in the new $255 million in competitive grants to promote responsible fatherhood and support working families (employment one-stops can contract with them to operate the programs).

- The $25 million in funds for second chance homes for unmarried teen parents and their children will support homes run by faith-based and community-based organizations (states can contract with faith-based and community-based groups using Social Services Block grant funds earmarked for second chance homes).

- $20 million in competitive grants and targeted technical assistance at HUD will help increase the role of faith-based and community-based organizations in the wide range of HUD programs, including those supplying and maintaining affordable housing, creating economic opportunity, and helping families become self-sufficient.

- [Are we holding this announcement?] $135 million in new funds at DOJ and DOL will involve faith-based and community-based organizations in partnerships to monitor ex-offenders returning to the community and provide them with employment and other services.

[In addition, the Administration supports the bill sponsored by Senator Frist reuthorizing SAMSHA, which allows faith-based organizations to receive substance abuse treatment and prevention funds. Note: OMB cleared this bill informally at the end of session, allowing HHS to tell the Senate we support the bill. We have not "formally" supported the bill, e.g., through a views letter or SAP. DOJ will insist any such views letter say that the bill can and should be construed as forbidding the funding of pervasively sectarian organizations.]

Also, faith-based organizations will be eligible to receiving funding under the $25 million a year in existing juvenile justice competitive grants ($13.5 million in juvenile monitoring and $11 million for youth drug prevention funding).

does the it their budget proposes to increase the involvement of interfaith and community-based organizations in after school, housing, community development, criminal justice, welfare reform, teen pregnancy prevention, and juvenile justice programs, consistent with the constitutional line between church and state

I wanted to show you where we are on the litigation proceeds and price language in the budget.

Litigation Proceeds Issue

I think $5 billion is as good as any other number for our tobacco litigation proceeds language. The important thing to remember is that this number does not represent the amount of tobacco-related federal health claims; it represents where we would put additional investments possible due to proceeds from the litigation. DOJ doesn't have views because they will argue to the court independently what the level of federal claims are. Thus I'd suggest we keep the $5 billion number in and use the following Q&A:

Q: Why are you proposing only $5 billion in funds for farmers and federal health programs when last year you said federal health costs excluding Medicare totalled $8 billion?

A: Taxpayers deserve to be reimbursed for the billions of dollars the federal government is already spending on federal tobacco-related health costs. We would continue that support, invest an additional $5 billion in assisting farmers and in veterans and other federal health programs, and use the remaining recoveries to enhance the security of Medicare and Social Security for future generations.

Are you OK with this?

Thus, here's how the budget language would read:

Tobacco-related health problems have cost Medicare and other Federal programs billions of dollars each year. To recover these losses, the Department of Justice has brought suit against the tobacco industry, and the budget contains ample resources to pay the necessary legal costs. The Administration will propose that, in addition to any remedies imposed by the court to advance public health, $5 billion of any judgment or settlement be used to assist tobacco farmers and their communities and to support the Department of Veterans Affairs and other Federal health programs. One hundred percent of the remaining recoveries would be dedicated to the Medicare and Social Security trust funds, two-thirds to Medicare and one-third to Social Security, to enhance the security of these programs for future generations.

Price Language in the Budget

Because we've taken out the table highlighting the five year revenues from tobacco, which had provided some information on our price policy, we've added a bit more detail to end of the price paragraph as follows. (Note there will still be a tobacco revenue line in the more detailed tables in the back of the budget.)

Cut youth smoking in half by holding the tobacco industry accountable. Public health experts agree that the single most effective way to cut youth smoking is to raise the price of cigarettes. To build on the momentum of the increases already to between the tobacco companies and the States and those already legislated by the Congress, the budget includes a combination of excise tax increases and youth smoking assessments. The cigarette excise tax would be increased 25 cents per pack beginning October 1, 2000, and the already legislated increase would be moved to that date. In addition, beginning in 2004 tobacco companies would pay a youth smoking assessment, estimated at twice lifetime profit per underage smoker, in each year that

underaged smoking has not been reduced by 50 percent.

Cynthia A. Rice 01/21/2000 11:18:44 AM

Record Type: Record

To: Eric P. Liu/OPD/EOP@EOP
cc: bruce n. reed/opd/eop@eop, j. eric gould/opd/eop@eop, eugenia chough/opd/eop@eop, anna richter/opd/eop@eop
bcc:
Subject: Re: Litigation and Price Language in the Budget

You are right we mean veterans health programs (not other parts of the VA), which is implied but not clear -- I'll try to get that change made.

I'm not eager to highlight the reduction from 1999 levels. You are right, that is what we are using to generate the estimates, but saying it reinforces the high bar we are setting.

Eric P. Liu

Eric P. Liu
01/21/2000 10:53:32 AM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP@EOP
cc: bruce n. reed/opd/eop@eop, j. eric gould/opd/eop@eop, eugenia chough/opd/eop@eop, anna richter/opd/eop@eop
bcc:
Subject: Re: Litigation and Price Language in the Budget

Two small Qs for clarification -- in the proceeds language, should it say "the Dept of Vet Affairs **health programs** and other Federal health programs"? and in the price language, does it need to be added at the end "...reduced by 50 percent **from 1999 levels**"?
Cynthia A. Rice

Cynthia A. Rice 01/21/2000 09:22:20 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP
cc: J. Eric Gould/OPD/EOP@EOP, Eugenia Chough/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP
Subject: Litigation and Price Language in the Budget

J. Eric Gould 01/19/2000 06:26:15 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP

cc: Cynthia A. Rice/OPD/EOP@EOP, Cathy R. Mays/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP
Subject: charity taxes - done

I just spoke to Burman and he said that the tax package is locked down and that there were no changes in the philanthropy piece. That said, it's a done deal - the total package costs $4.3 billion/5 and $14 billion/10. They include (I'll also fax you Treasury's paper, which only has the numbers):

1. Nonitemizer 50% above-the-line deduction for charitable contributions in excess of $1000 singles/$2000 joints - 2001-2005; $500 singles/$1000 joints - 2006 and thereafter.

(Costs are in millions)

01	02	03	04	05	06	07	08	09	10	00-05	00-10
-$516	-$1062	-$733	-$765	-$817	-$1245	-$1847	-$1928	-$2007	-$2082	-$3893	-13002

2. Simplify the excise tax on private foundations from the current 1-2% floating rate to a flat 1.25%

01	02	03	04	05	06	07	08	09	10	00-05	00-10
-$49	-$70	-$71	-$73	-$75	-$78	-$81	-$84	-$87	-$90	-$338	-$758

3. Increase limit on charitable donations of appreciated stock. This includes increasing the current 30% AGI limit on appreciated assets to 50% AGI; and increasing the current 20% AGI limit on appreciated assets to private foundations to 30% AGI.

01	02	03	04	05	06	07	08	09	10	00-05	00-10
-$7	-$47	-$29	-$20	-$12	-$8	-$8	-$9	-$9	-$10	-$115	-$159

* The budget also includes the technical clarification to donor advised funds, which has insignificant revenue impact.

01/17/00 12:33 PM	Fiscal Years												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-2005	2000-2010
	($'s in millions)												
Encourage Philanthropy													
• Reduce excise tax on private foundations (1.25%)	--	-49	-70	-71	-73	-75	-78	-81	-84	-87	-90	-338	-758
• 50% above-the-line deduction for charitable contributions in excess of 2,000 joints/$1000 singles; 2001 - 2006, $1,000 joints/$500 singles 2006 and thereafter	--	-518	-1062	-733	-765	-817	-1245	-1647	-1928	-2007	-2082	-3893	-13002
• Increase limit on charitable donations of appreciated stock	--	-7	-47	-29	-29	-12	-8	-8	-9	-9	-10	-115	-159

To Eric Gould

456 - 7431

January 18, 2000

DRAFT PRESS PAPER / BACKGROUND INFORMATION ON HEALTH CARE COVERAGE INITIATIVE

TO: John Podesta, Steve Ricchetti, Karen Tramontano, Gene Sperling, Bruce Reed, Chuck Brain, Jack Lew, Joel Johnson, Charles Burson, Melanne Verveer, Eric Liu, Dan Mendelson, David Beier, Sarah Bianchi

FROM: Chris Jennings and Jeanne Lambrew

Attached are draft (1) press paper and (2) a longer backup document compiled by the Departments and us on the health care initiative to be announced tomorrow. It has not been finally cleared, but we thought that it might be useful for you to have something to read tonight if you are interested.

We will also be circulating the qs and as later.

Thank you, and please call with questions.

DRAFT: PRESIDENT UNVEILS MAJOR NEW HEALTH INSURANCE INITIATIVE

January 19, 2000

Today, President Clinton will unveil a 10-year, $110 billion initiative that would dramatically improve the affordability of and access to health insurance. The proposal would expand coverage to at least 5 million uninsured Americans and expand access to millions more. It addresses the nation's multi-faceted coverage challenges by building on and complementing current private and public programs. Specifically, the initiative will: (1) provide a new, affordable health insurance option for families; (2) accelerate enrollment of uninsured children eligible for Medicaid and S-CHIP; (3) expand health insurance options for Americans facing unique barriers to coverage; and (4) strengthening programs that provide health care directly to the uninsured.

THE CHALLENGE OF THE UNINSURED AND ITS IMPLICATIONS. Over 44 million Americans lack health insurance. Although there are many causes of this problem, it generally results from lack of affordability and/or access to coverage. Family health insurance premiums cost on average $5,700 – which represents a large share of income for a family trying to make ends meet. Purchasing affordable, accessible insurance is a particular challenge for many older people, workers in transitions between jobs, and small businesses and their employees. Lacking health insurance has serious consequences. The uninsured are three times as likely to not receive needed medical care, 50 to 70 percent more likely to need hospitalization for avoidable hospital conditions like pneumonia or uncontrolled diabetes, and four times more likely to rely on an emergency room or have no regular source of care than the privately insured.

The President's four-pronged initiative significantly expands coverage and improves access by:

I. PROVIDING A NEW, AFFORDABLE HEALTH INSURANCE OPTION FOR FAMILIES ($76 billion over 10 years, about 4 million uninsured covered). Over 80 percent of parents of uninsured children with incomes below 200 percent of poverty (about $33,000 for a family of four) are themselves uninsured. Yet, while states have aggressively expanded insurance options for children through Medicaid and the State Children's Health Insurance Program (S-CHIP), parents are often left behind. There are about 6.5 million uninsured parents with income in the Medicaid and S-CHIP eligibility range for children. These parents frequently do not have access to employer-based insurance, and when they do, cannot afford it. Recognizing that family coverage not only helps a large proportion of the nation's uninsured adults but increases the enrollment of children, the Vice President, the National Governors' Association, and a wide rage of groups including Families USA and the Health Insurance Association of America have called for building on S-CHIP to cover parents. The President's budget adopts this approach by:

- **Creating a New "FamilyCare" Program.** This proposal would provide higher Federal matching payments for state coverage of parents of children eligible for Medicaid or S-CHIP. Under FamilyCare, parents would be covered in the same plan as their children. States would use the same systems and follow most of the same rules as they do in Medicaid and S-CHIP today, and the program would be overseen by the same state agency. State spending for FamilyCare would be matched at the same higher matching rate as S-CHIP (up to 15 percentage points higher than the Medicaid rate). To ensure adequate funding, $50 billion over 10 years would be added to the current state S-CHIP allotments. To access these higher allotments, states would have to first cover children to 200 percent of poverty as 30 states now have done. Given states' enthusiastic response to S-CHIP and the NGA support for this option, we expect strong state responses and significant expansions to parents under FamilyCare. If after 5 years, some states have not expanded coverage of parents to at least 100 percent of poverty ($16,700 for a family of four), a fail-safe mechanism would be triggered to require states to expand coverage to that level.

- **Assisting Families in Affording Private Employer-Based Coverage.** FamilyCare would also facilitate the option to pool state funding with employer contributions towards private insurance, which can be a cost-effective way to expand coverage. Under this option, families otherwise eligible for FamilyCare coverage could get assistance in purchase their employers' health plan if it meets FamilyCare standards and their employer pays for at least half of the premium. This minimum employer contribution, along with the S-CHIP crowd-out policies, should discourage employers from reducing or dropping coverage. This option is supported by the National Governors' Association as well.

II. ACCELERATING ENROLLMENT OF UNINSURED CHILDREN ELIGIBLE FOR MEDICAID AND S-CHIP ($5.5 billion over 10 years, an additional 400,000 uninsured children covered). The State Children's Health Insurance Program (S-CHIP) helps children in families with income too high to be eligible for Medicaid but too low to afford private insurance. Enrollment in S-CHIP doubled to 2 million children in 1999. However, despite this encouraging trend, millions of children remain eligible but unenrolled in both S-CHIP and Medicaid. The budget would give states needed tools to increase coverage by:

- **Allowing School Lunch Programs to Share Information with Medicaid ($345 million over 10 years).** Since 60 percent of uninsured children are in the school lunch program, sharing eligibility information can efficiently help outreach efforts.

- **Expanding Sites Authorized to Enroll Children in S-CHIP and Medicaid ($1.2 billion over 10 years).** This includes schools, child care resource and referral centers, homeless programs, and other sites.

- **Requiring States to Make their Medicaid and S-CHIP Enrollment Equally Simple ($4.0 billion over 10 years).** Most states have carried over their S-CHIP simplification strategies like eliminating assets tests and using mail-in applications and 12-month eligibility redeterminations into the Medicaid program. This proposal would have all states do so to make enrollment easier for both programs.

III. EXPANDING HEALTH INSURANCE OPTIONS FOR AMERICANS FACING UNIQUE BARRIERS TO COVERAGE ($28.7 billion over 10 years, about 600,000 million uninsured people covered). Some vulnerable groups of Americans often lack access to employer-sponsored insurance and insurance programs like Medicare or Medicaid. These include older Americans, people in transitions (between jobs, turning 19 and entering the workforce, leaving welfare for work), and workers in small businesses. This plan addresses these specific and other problems by:

- **Establishing a Medicare Buy-In Option and Making It More Affordable Through a Tax Credit ($5.4 billion over 10 years).** The rate of uninsured is growing fastest among people ages 55 to 65 and is expected to increase even faster in the future. Recognizing this, the President has called on Congress to pass legislation that allows people ages 62 through 65 and displaced workers ages 55 to 65 to pay premiums to buy into Medicare. The proposal also would require employers who drop previously promised retiree coverage to allow early retirees with limited alternatives to have access to COBRA continuation coverage until they reach age 65 and qualify for Medicare. This year, to make this policy more affordable, the President proposes a tax credit, equal to 25 percent of the premium, for participants in the Medicare buy-in. Coupled with the tax credit for COBRA (described below), this policy will address both access to and the affordability of health insurance for this vulnerable group.

- **Making COBRA Continuation Coverage More Affordable ($10.3 billion over 10 years).** Consolidated Omnibus Budget Reconciliation Act (COBRA), passed in 1985, allows workers in firms with greater than 20 employees to pay a full premium (102 percent of the average cost of group health insurance) to buy into their employers' health plan for up to 18 to 36 months after leaving their job. This policy is intended to improve the continuity of health coverage as workers change jobs. However, fewer than 25 percent of people eligible for this coverage participate, in part due to cost. The President's budget includes a 25 percent tax credit for COBRA premiums to reduce the number of Americans who experience a gap in coverage due to job change.

- **Improving Access to Affordable Insurance for Workers in Small Businesses ($313 million over 10 years).** Nearly half of uninsured workers are in firms with fewer than 25 employees. The President proposes to give small firms that have not previously offered health insurance a tax credit equal to 20 percent their contribution – twice the credit he proposed last year -- towards health insurance obtained through purchasing coalitions. In additional, tax incentives would be given to foundations to help pay for start-up costs of these coalitions, and the Federal Employees' Health Benefits Program would make available technical assistance to purchasing coalitions.

- **Expanding State Options to Insure Children Through Age 20 ($1.9 billion over 10 years).** Nearly one in three people ages 18 to 24 are uninsured mostly because they age out of Medicaid or S-CHIP or no longer are dependents in private plans. However, they often do not have jobs that offer affordable coverage. The budget would gives states the option to cover people ages 19 and 20 through Medicaid and FamilyCare.

- **Extending Transitional Medicaid ($4.3 billion over 10 years).** Many people leaving welfare for work take first jobs that do not offer affordable health insurance. Recognizing this, Congress passed a requirement in 1988 that extends Medicaid coverage for up to a year for those losing it due to increased earnings. This provision was extended in the welfare reform law to 2001. The President's budget makes this provision permanent and simplifies the state and family requirements to promote enrollment.

- **Restoring State Options to Insure Legal Immigrants ($6.5 billion over 10 years).** States are prohibited from providing health insurance for certain legal immigrants who entered the U.S. after the enactment of welfare reform. The uninsured rate for people of Hispanic origin, some of whom are legal immigrants, was 35 percent in 1998 – over twice the national average of 16 percent. The proposal would give states the option to insure children and pregnant women in Medicaid and S-CHIP regardless of their date of entry. It would eliminate the 5-year ban, deeming, and affidavit of support provisions. The proposal would also require states to provide Medicaid coverage to disabled immigrants who would be made eligible for SSI by the FY 2001 budget's SSI restoration proposal.

IV. STRENGTHENING PROGRAMS THAT PROVIDE HEALTH CARE DIRECTLY TO THE UNINSURED (At least $1 billion over 10 years). In the absence of a universal health insurance system, public hospitals, clinics, and thousands of health care providers give health care of the uninsured and receive inadequate compensation for doing so. Despite a rising need, reductions in government spending and aggressive cost cutting by private insurers has left less money in the health care system to address these needs. The President will renew his commitment to helping these providers by:

- **Increasing Funding for Increasing Access to Health Care for the Uninsured (+$100 million for FY 2001, $1 billion over 5 years).** Last year, the President and Secretary Shalala proposed an historic new program to coordinate systems of care, increase the number of services delivered and establish an accountability system to assure adequate patient care for the uninsured and low-income. The Congress funded an initial $25 million investment for this program. This year, the President proposes funding this initiative at $125 million, a $100 million increase over 2000. This represents a down payment on the President's proposal to invest $1 billion over 5 year. The Administration will also aggressively pursue an authorization to ensure that the program is established as a core element of the health care safety net.

- **Investing in Community Health Centers (+$50 million for FY 2001).** The budget proposes an increase of $50 million to support and enhance the network of community health centers that serve millions of low-income and uninsured Americans – for total funding of over $1.069 billion in FY 2001.

DRAFT:
THE PRESIDENT'S HEALTH INSURANCE INITIATIVE
BACKGROUND INFORMATION
January 19, 2000

THE UNINSURED IN AMERICA

- **Most of 44 million uninsured work or are in working families**. Three-fourths of the uninsured work or are in working families. Although the uninsured rate remains highest among the poor (33 percent), it has been growing faster for the middle class. All income groups experienced increases in the uninsured rate since 1993, but the increase was 50 percent higher for the middle class than that of the poor.[1]

- **Access to health insurance can be a major barrier.** Employer-based insurance is the predominant form of health insurance. In 1996, about 82 percent of workers had access to it. However, 45 percent of low-wage workers and about one-third of workers in small business do not have access to group insurance.[2] The private-sector alternative, individual insurance, is frequently inaccessible, particularly for older and less healthy people. In addition, Medicaid, the State Children's Health Insurance Program, and Medicare have state and Federal rules which limit who can enroll.

- **For others, affordability of health insurance remains the biggest barrier**. Health insurance premiums for employer-based coverage in 1999 averaged $2,300 for an individual and $5,700 for a family – with the workers' share being $420 and $1,740 respectively.[3] People purchasing coverage in the individual insurance market not only lack employer contributions but usually face higher premiums due to higher administrative costs and, if ill or older, medical underwriting and age rating.

CONSEQUENCES OF LACKING HEALTH INSURANCE. Compared to people with insurance, those without insurance are likely to:

- **Forego needed health care**. The percent of uninsured adults who did not receive needed medical care is more than three time that of privately insured adults (30 versus 7 percent).[4] The proportion of uninsured adults who postponed care is even higher (55 versus 14 percent).[5] Over one in four uninsured children need health care (e.g., prescription medicine, surgery) but do not get it.[6]

- **Suffer adverse health effects and need expensive health care.** The uninsured are 50 to 70 percent more likely to need hospitalization for avoidable hospital conditions like pneumonia or uncontrolled diabetes than the privately insured.[7] Children without health insurance are nearly twice as likely to forego health care for conditions like asthma or recurring ear infections.[8]

- **Rely on emergency rooms or have no regular source of care**. One-fourth of the uninsured adults rely on the emergency room or have no regular source of care, compared to 6 percent of the privately insured.[9] The proportion of uninsured children lacking a usual source of care is 3 times that of privately insured (20 v 6 percent).[10]

OVERVIEW OF THE INITIATIVE. The President invests over $110 billion over 10 years in a multi-faceted health coverage initiative. It would expand coverage to at least 5 million uninsured Americans and expand access to millions more[11] through its four-pronged approach of:

I. **PROVIDING A NEW, AFFORDABLE HEALTH INSURANCE OPTION FOR FAMILIES ($76 billion over 10 years, about 4 million uninsured covered).** The President's budget would build on S-CHIP to pay higher Federal matching payments for covering parents as well as their children. In the new "FamilyCare" program, parents would be enrolled in the same health plan as their children, and states could help families afford job-based insurance.

II. **ACCELERATING ENROLLMENT OF UNINSURED CHILDREN ELIGIBLE FOR MEDICAID AND S-CHIP ($5.5 billion over 10 years, an additional 400,000 uninsured children covered).** States would be given new outreach tools:

- Allowing School Lunch Programs to Share Information with Medicaid ($345 million over 10 years)
- Expanding Sites Authorized to Enroll Children in S-CHIP and Medicaid ($1.2 billion over 10 years)
- Requiring States to Make their Medicaid and S-CHIP Enrollment Equally Simple ($4.0 billion over 10 years)

III. **EXPANDING HEALTH INSURANCE OPTIONS FOR AMERICANS FACING UNIQUE BARRIERS TO COVERAGE ($28.7 billion over 10 years, about 600,000 million uninsured people covered).** Some Americans like older people, workers in job transitions, and workers in small businesses, have limited health insurance options. This initiative broadens Medicare and Medicaid options and makes employer-based insurance more accessible through tax incentives by:

- Establishing a Medicare Buy-In Option and Making It More Affordable Through a Tax Credit ($5.4 billion over 10 years)
- Making COBRA Continuation Coverage More Affordable ($10.3 billion over 10 years)
- Improving Access to Affordable Insurance for Workers in Small Businesses ($313 million over 10 years)
- Expanding State Options to Insure Children Through Age 20 ($1.9 billion over 10 years)
- Extending Transitional Medicaid ($4.3 billion over 10 years)
- Restoring State Options to Insure Legal Immigrants ($6.5 billion over 10 years)

IV. **STRENGTHENING PROGRAMS THAT PROVIDE HEALTH CARE DIRECTLY TO THE UNINSURED. (At least $1 billion over 10 years).** The budget expands a new program that coordinates and expands systems that increase access to health care for the uninsured and invests in community health centers.

PROVIDING A NEW, AFFORDABLE HEALTH INSURANCE OPTION FOR FAMILIES

Over 80 percent of parents of uninsured children with incomes below 200 percent of poverty (about $33,000 for a family of four) are themselves uninsured. Recognizing that family coverage not only helps a large proportion of the nation's uninsured adults but increases the enrollment of children, the Vice President, National Governors' Association, consumer advocates and insurers have called for expanding S-CHIP to cover parents. The President's proposal does this by building on S-CHIP to provide higher Federal matching payments for states to insure parents through the same health plan as their children. "FamilyCare" costs $76 billion over 10 years and will insure an estimated 4 million uninsured people when fully implemented.

BACKGROUND

- **Most uninsured children are in families with uninsured parents.** Over 80 percent of parents of uninsured children with income below 200 percent of poverty (about $33,000 for a family of four) are themselves uninsured.[12]

- **Nearly two-thirds of uninsured parents – 6.5 million -- have children who are in Medicaid and S-CHIP eligibility range** (income below 200 percent of poverty). This represents about one in seven of the uninsured in the U.S.[13]

- **Medicaid eligibility limits are much lower for parents than their children.** While all states cover poor children and many states cover children up to 200 percent of poverty, only 13 states cover parents at or above the poverty level.[14] The median upper eligibility limit for parents in Medicaid is about 60 percent of poverty. In 32 states, uninsured parents who work full time at minimum wages jobs are not eligible for Medicaid because their incomes are too high.[15] S-CHIP does not include an explicit authority to cover parents.

- **Many low-income families decline employer-based insurance, primarily due to cost**. About 20 percent of all uninsured people have access to employer-sponsored insurance. Families with lower incomes are especially likely to turn down such coverage and remain uninsured. Three-fourths of these uninsured people cite cost as the major barrier. The amount that low-wage families pay for the employee share of premiums is, on average, over 50 percent higher for a family with a worker earning less than $7 per hour versus those with a worker earning over $15 per hour.[16]

UPPER ELIGIBILITY IN MEDICAID / SCHIP (14)		
	CHILDREN	PARENTS
	(Percent of Poverty)	
ALABAMA	200	22
ALASKA	200	83
ARIZONA	200	51
ARKANSAS	200	22
CALIFORNIA	250	100
COLORADO	185	45
CONNECTICUT	300	185
DELAWARE	200	108
DC	200	200
FLORIDA	200	34
GEORGIA	200	45
HAWAII	185	100
IDAHO	150	36
ILLINOIS	133	52
INDIANA	150	33
IOWA	185	93
KANSAS	200	43
KENTUCKY	200	54
LOUISIANA	150	23
MAINE	185	108
MARYLAND	200	46
MASSACHUSETTS	200	133
MICHIGAN	200	48
MINNESOTA	280	275
MISSISSIPPI	133	40
MISSOURI	300	100
MONTANA	150	73
NEBRASKA	185	43
NEVADA	200	90
NEW HAMPSHIRE	300	60
NEW JERSEY	350	47
NEW MEXICO	235	62
NEW YORK	192	59
NORTH CAROLINA	200	56
NORTH DAKOTA	100	74
OHIO	150	85
OKLAHOMA	185	37
OREGON	170	100
PENNSYLVANIA	200	71
RHODE ISLAND	300	193
SOUTH CAROLINA	150	58
SOUTH DAKOTA	140	70
TENNESSEE	200	67
TEXAS	200	32
UTAH	200	58
VERMONT	300	158
VIRGINIA	185	33
WASHINGTON	250	96
WEST VIRGINIA	150	30
WISCONSIN	185	185
WYOMING	133	69

- **Covering parents would increase enrollment of uninsured children**. Families are more likely to learn about Medicaid and S-CHIP and to enroll their children in the programs if the whole family is eligible. As such, the NGA and policy experts believe that this option would reduce the number of uninsured children as well as parents.[17] Wisconsin, Minnesota and Vermont are among the states using Medicaid state plan options or 1115 demonstrations to achieve this effect.

- **Cost-effective way to expand coverage.** A recent study compared the effectiveness of covering uninsured adults through a refundable tax credit for group or individual insurance and expanding S-CHIP. It found that S-CHIP would much more efficiently expand coverage to the uninsured than a tax credit. The study found that the tax credit would subsidize 5 people that already have insurance for every single newly insured person at a total cost 6 times higher than that of the S-CHIP proposal.[18]

- **Widespread support.** The concept of extending S-CHIP to parents is one of the few ideas for expanding coverage that is supported by a broad range of groups. The National Governors' Association supported expanding S-CHIP to cover parents in its 1999 policy resolutions, arguing that "CHIP is a promising vehicle to promote the goal shared by the Governors, Congress, and the Administration – decreasing the number of Americans without health insurance."[19] At a January 13, 2000 conference to discuss ideas on expanding coverage, Families USA, the Health Insurance Association of America, the American Hospital Association, the Catholic Health Association and the Service Employees International Union all recommend using S-CHIP or a similar model to cover the parents of Medicaid and S-CHIP children.[20]

PROPOSAL. The President's proposal would expand S-CHIP to provide higher Federal matching payments for expanding affordable health insurance to parents of children eligible for or enrolled in Medicaid and S-CHIP. This new "FamilyCare" program:

- **Provides higher Federal matching payments for expanding coverage to parents.** States that raise their eligibility for parents above their Medicaid level as of 1/1/00 would be eligible for the enhanced S-CHIP matching rate for this expansion group. The S-CHIP matching rate is up to 15 percentage points higher than the regular Medicaid matching rate. States' plans for covering parents would only be approved if they first expand eligibility for children up to 200 percent of poverty (30 states have already done so[21]) and do not have waiting lists for S-CHIP. This preserves the bipartisan commitment made in 1997 to focus funding on children first.

- **Increases S-CHIP allotments**. To ensure adequate funding for parents and their children, the current S-CHIP allotments would be increased by $50 billion for 2002 through 2010 and made permanent. The higher Federal matching payments for the expansion group of parents would generally come from increased S-CHIP state allotments, called FamilyCare allotments. Allotments for the higher Federal matching payments are fixed dollar amounts allocated to each state based on a formula similar to S-CHIP. As in S-CHIP, should the allotment limits be reached, states expanding through Medicaid may continue to cover parents at the regular Medicaid matching rate or roll back eligibility while states expanding through non-Medicaid programs may use state-only funds to continue coverage or limit enrollment.

- **Enrolls parents in the same program as their children.** Parents would be insured in the same program as their children to promote continuity of care and administrative simplicity. States would use the same systems and follow most of the same rules as they do in Medicaid and S-CHIP, and coverage for parents would be overseen by the same state agency that runs their children's program. Parents of children eligible for Medicaid would be enrolled in Medicaid, while parents of children eligible for non-Medicaid S-CHIP programs would be enrolled in those programs.

- **Covers lower income parents first.** As in S-CHIP, states would cover lower-income parents before covering higher-income parents. States could not cover parents at income eligibility levels above those of children, but could set eligibility limits for parents lower than that of children. For the first five years, states could set parents' eligibility limit anywhere between their current minimum levels for parents and their maximum levels for children. Given states' enthusiastic response to S-CHIP and the NGA support for this option, we expect strong state responses and significant expansions to parents under FamilyCare. If, after 5 years, some states have not expanded coverage of parents to at least 100 percent of poverty (about $16,700 for a family of four), a fail-safe mechanism would be triggered to require these states to go to this level of coverage. Thus, by 2006, all poor parents would be eligible for coverage like their children are today.

- **Creates more equitable funding structure.** From 2001 to 2005, all enhanced matching payments for states' expansion group of parents would come from the FamilyCare allotment, as would all payments for S-CHIP children. For example, a state that covered parents to 50 percent of poverty prior to 1/1/00 and then expanded coverage above that would receive enhanced matching payments drawn from their allotments for coverage of the newly eligible parents. Beginning in 2006, two changes would be made. First, the enhanced Federal matching payments for parents below poverty would no longer be deducted from the allotment. States would still receive the enhanced matching payments for poor parents covered under expansions implemented after 1/1/00, but these payments would come from uncapped Medicaid funding and would no longer be subtracted from allotment funding. Second, all states could receive enhanced matching payments for covering any parent above the poverty line and any child above the Medicaid mandatory coverage levels[22] – irrespective of when the state expanded coverage. This ensures that states that have already expanded coverage would be rewarded.

- **Facilitating employer-based coverage.** FamilyCare would also expand the option to pool allotment funding with employer contributions towards the purchase of private insurance, which can be a cost-effective way to expand coverage. States could enable families otherwise eligible for FamilyCare to purchase their employers' health plan as long as it meets FamilyCare standards. Under this option, employers would have to contribute at least half of the family premium cost to discourage them from reducing or dropping coverage because of this program. In addition, the S-CHIP crowd-out policies would apply. One study found that over one in five families whose children were enrolled in the Florida Healthy Kids program previously had access to employer-based coverage but their parents could not afford the premium so they remained uninsured.[23] This option, supported by states[24], would help keep such families in private coverage.

ACCELERATING ENROLLMENT OF UNINSURED CHILDREN ELIGIBLE FOR MEDICAID AND S-CHIP

The State Children's Health Insurance Program (S-CHIP) helps children in families with incomes too high for Medicaid eligibility but too low to afford private insurance. Enrollment in S-CHIP doubled to 2 million children in 1999. However, despite this encouraging trend, millions of children remain eligible but unenrolled in both S-CHIP and Medicaid. The budget would give states needed tools to increase coverage. About an additional 400,000 uninsured children would be covered because of these policies. The initiative costs about $5.5 billion over 10 years.

BACKGROUND

- **The number of children enrolled in the State Children's Health Insurance Program (S-CHIP) has doubled in less than a year.** Nearly 2 million children were covered by S-CHIP between October 1, 1998 and September 30, 1999, a doubling in enrollment from December 1998.[25]

- **The number of states covering children up to 200 percent of poverty has increased by more than seven fold.** Prior to S-CHIP's creation, only 4 states covered children with family incomes up to at least 200 percent of the Federal poverty level (about $33,000 for a family of 4). Today, 30 states have plans approved to cover children with incomes up to at least this level.[26]

- **However, over 4 million eligible children remain uninsured.**[27] One study found that two-thirds of eligible uninsured children are in two-parent families, 75 percent of parents of these children work, and only 5 percent receive welfare.[28]

- **Barriers include lack of knowledge of eligibility and complex application processes.** A survey of parents whose uninsured children are likely to be eligible for Medicaid found that 58 percent did not try to enroll their children because they did not think that their children were eligible and over half (52 percent) said that they believed that the application process would take too long or believed that the forms are too complicated (50 percent).[29]

- **Uninsured children are often in programs like the school lunch program that can help enroll them.** A number of programs, like the school lunch program, subsidized child care, and Head Start, target the same children who are also eligible for Medicaid and S-CHIP. A recent study by the Urban Institute found that approximately 60 percent – almost 4 million – of the uninsured children nationwide are currently enrolled in school lunch programs.[30] However, Federal law prohibits school lunch programs from sharing enrollment information with Medicaid and does not allow states to use school lunch eligibility as a proxy for Medicaid eligibility.

PROPOSALS

- **Allowing School Lunch Program to Share Information with Medicaid ($345 million over 10 years).** This proposal, similar to bipartisan legislation proposed by Senator Lugar and Congresswomen Carson, would allow school lunch programs to share application information with Medicaid staff for the sole purpose of outreach and enrollment (this is already allowed for S-CHIP).

- **Expanding Sites Authorized to Enroll Children in S-CHIP and Medicaid ($1.2 billion over 10 years).** The President's proposal expands the Medicaid "presumptive eligibility" option for children by authorizing additional sites for enrollment including schools, child care centers, homeless shelters, agencies that determine eligibility for Medicaid, TANF, and S-CHIP, and other entities approved by the Secretary. Presumptive eligibility means that qualified entities, at the states' discretion, may immediately enroll potentially eligible children in Medicaid and S-CHIP on a temporary basis while their applications are formally processed. With the help of Congresswomen DeGette, the law that created the children's health program in 1997 included presumptive eligibility as an option in S-CHIP and Medicaid. However, it limited the types of entities that could presumptively enroll children in Medicaid to Medicaid providers and entities determining eligibility for WIC, Head Start and Child Care & Development Block Grant services. To date, 9 states have opted to use presumptive eligibility for children in Medicaid[31] and 12 states for S-CHIP.[32] Expanding the sites authorized for this option can help states provide critical health care services to children pending official enrollment and increases the likelihood that families complete the application process. More than half (53 percent) of parents of uninsured but eligible children think that immediate enrollment with completion of forms later is one of the best ways to encourage enrollment.[33]

- **Requiring States to Make their Medicaid and S-CHIP Enrollment Equally Simple ($4 billion over 10 years).** Studies confirm that complicated, long application processes for Medicaid and S-CHIP discourage enrollment. While many states have recognized this and have simplified the process in S-CHIP, not all states have carried over all of their S-CHIP simplification strategies to Medicaid. To ensure that children do not fall through the cracks in states that have different rules and procedures for Medicaid and S-CHIP, this proposal would require that states conform certain Medicaid eligibility rules and procedures for children to the simplified rules and procedures used in S-CHIP. If a state, in S-CHIP: (1) does not require an assets test; (2) uses simplified eligibility requirements and a mail-in application; and (3) determines eligibility for S-CHIP no more than once a year, it would need to apply these same rules and procedures for children in Medicaid. Both conforming Medicaid and S-CHIP and these specific simplifications are recommended by the National Governors' Association as best practices.[34] Over 40 states have already made Medicaid as simple as S-CHIP.[35]

ESTABLISHING A MEDICARE BUY-IN OPTION AND MAKING IT MORE AFFORDABLE THROUGH A TAX CREDIT

People ages 55 to 65 are at greater risk of developing health problems. Recognizing that this age group is also the fastest growing group of uninsured, the President has called on Congress to pass legislation that allows certain people ages 55 to 65 to buy into Medicare. The proposal also would require employers who drop previously promised retiree coverage to allow early retirees with limited alternatives to have access to COBRA continuation coverage until they reach age 65 and qualify for Medicare. This year, to make the policy more affordable, the President proposes a tax credit, equal to 25 percent of the premium, for participants in the Medicare buy-in. Coupled with the tax credit for COBRA (described later), this policy will address both access to and the affordability of health insurance for this vulnerable group. The Medicare buy-in plus the tax credit for this buy-in cost about $5.4 billion over 10 years.

BACKGROUND

- **Fastest growing number of uninsured.** Between 1997 and 1998, the proportion of people ages 55 to 65 who are uninsured increased from 14.3 to 15.0 percent – about five times the rate increase for the general population. All of this increase occurred among people with incomes above poverty, with a dramatic increase for those with income between 300 and 400 percent of poverty (between $33,000 and $44,000 for a couple) – from 10.2 to 14.6 percent. [36]

- **Less access to employer-based coverage.** The major reason for the increase in the uninsured in this age group is their lower access to employer-based insurance. In 1998, 66 percent of people ages 55 to 64 had employer-based insurance compared to 75 percent of people ages 45 to 55.[37] Some lose their employer-based health insurance when their spouse becomes eligible for Medicare. Many lose coverage because they lose their jobs due to company downsizing or plant closings. Still others lose insurance when their employer drops retiree health coverage unexpectedly.

- **Greater reliance on individual insurance.** Because of a weaker connection to the workplace, a disproportionate percent of people ages 55 to 65 rely on individual insurance. However, the nature of individual insurance makes it easier to avoid people likely to have health problems. In addition to being subject to age rating, a health condition can trigger higher rates, exclusion of certain benefits coverage, or denial of coverage.[38] People ages 60 to 64 are nearly three times more likely to report fair to poor health as those ages 35 to 44. Their probability of experiencing health problems such as heart disease, emphysema, heart attack, stroke and cancer is double that of people ages 45 to 54.[39]

- **Problems will get worse with demographic changes.** As the Baby Boom generation enters its 50s, the proportion of people ages 55 to 65 is expected to increase from 21 to 30 million by 2005 and to 35 million by 2010 — to 12 percent of the U.S. population, over a 50 percent increase.[40] Even if the uninsured rate remained the same, the proportion of uninsured in this age group would climb. One study projects that the uninsured rate for people ages 55 to 65 will rise even faster given the decline in access to private insurance for this group.[41]

PROPOSALS

- **Providing a New 25 Percent Tax Credit for New Options for People Ages 55 to 65.** This year, for the first time, the President will propose a 25 percent tax credit for people eligible for the buy-in. It helps make the original option – which already is more affordable than alternatives in the individual insurance market – even more attractive to people with limited income. In addition, people participating in the extended COBRA coverage would be eligible for the new COBRA tax credit (described later). This tax credit has the advantage of encouraging greater participation in these options for people ages 55 to 65 which could, in turn, reduce the premium costs for these programs over time since new participants are likely to be healthier. It would not, however, be large enough to encourage firms to drop their early retiree coverage or individuals to retire earlier.

  This policy builds on the three-pronged initiative advocated by the President and the Democratic Congressional leadership (Daschle, Gephardt, Moynihan, Rangell, Dingell, Rockefeller, Stark, Brown), described below.

1. **Enabling Americans Ages 62 to 65 to Buy Into Medicare.** People ages 62 to 65 who do not have access to employer-based insurance would have a one-time option to buy into Medicare. The premium they would pay would be divided into two parts. First, participants would pay a base premium of about $300 per month — the average cost of insuring Americans this age range. Second, participants would pay an additional monthly payment, estimated at $10 to $20, for each year that they buy into the Medicare program. This premium, to be paid once participants enter Medicare at age 65, covers the extra costs of sicker participants. This two part "payment plan" enables these older Americans to buy into Medicare at a more affordable premium, while ensuring that the financing for the buy-in option is sustainable in the long run.

2. **Allowing Displaced Workers Ages 55 to 65 to Buy Into Medicare.** Workers who have involuntarily lost their jobs and their health care coverage would be eligible for a similar Medicare buy-in option. Such workers have a harder time finding new jobs: only 52 percent are reemployed compared to over 70 percent of younger workers. Nearly half of these unemployed, displaced workers who had health insurance remain uninsured. Individuals choosing this option would pay the entire premium at the time they receive the benefit without any Medicare "loan," in order to ensure that Medicare does not pay excessive up-front costs and participants do not have to make large payments after they turn 65.

3. **Giving Americans Ages 55 and Older Whose Employers Reneged on Providing Retiree Health Benefits Access to COBRA until Eligible for Medicare.** In recent years, the number of companies offering retiree benefits has declined. Some companies have ended coverage only for future retirees, but others have dropped coverage for individuals who have already retired. This policy provides much-needed access to affordable health care for these retirees and their dependents whose health care coverage is eliminated after they have retired. It allows these retirees to buy into their former employers' health plan through age 65 by extending the availability of COBRA coverage to these families. Retirees would pay a premium of 125 percent of the average cost of the employer's group health insurance.

MAKING COBRA CONTINUATION COVERAGE MORE AFFORDABLE

To improve continuity of health coverage as workers change jobs, the President's budget includes a 25 percent tax credit for COBRA premiums. COBRA allows workers in firms with greater than 20 employees to pay a full premium (102 percent of the average cost of group health insurance) to buy into their employers' health plan for up to 18 months after leaving their job. However, fewer than 25 percent of people eligible for this coverage participate, in part due to cost. This tax credit will increase participation. It costs $10.3 billion over 10 years.

BACKGROUND

- **Changing jobs risks losing health insurance.** Since most insurance is job based, changing jobs puts workers and their families at risk of becoming uninsured. One study found that 58 percent of the two million Americans who lose their health insurance each month cite a change in employment as the primary reason for losing coverage.[42] About 44 percent of workers with one or more job changes experienced a gap in health insurance coverage. This is even more pronounced for men, over half of whom were uninsured for a month or more when they had a job interruption.[43]

- **COBRA continuation coverage provides an important option.** Passed in 1985, the Consolidated Omnibus Budget Reconciliation Act (COBRA) included a provision aimed at minimizing the disruption in health insurance due to job change. It allows workers in firms with greater than 20 employees to pay a full premium (102 percent of the average cost of group health insurance) to buy into their employers' health plan for up to 18 months after leaving their job. On the whole, evidence supports claims that COBRA decreases the probability that a person between jobs is uninsured, reduces "job lock", and covers workers during pre-existing condition waiting periods.[44]

- **Participation in COBRA is low, primarily due to cost.** Studies suggest that only 20 to 25 percent of COBRA eligibles purchase this coverage. Although some of these people had access to insurance through other family members, the primary reason cited for declining COBRA is its high cost.[45]

PROPOSAL

- **New Tax Credit To Make COBRA More Affordable.** The President's budget includes a 25 percent tax credit for COBRA premiums to reduce the number of Americans who experience a gap in coverage due to job change. It not only helps workers and families access insurance but may help employers, since the current tendency for only people with health problems to participate would be reduced.

IMPROVING ACCESS TO AFFORDABLE INSURANCE FOR WORKERS IN SMALL BUSINESSES

Recognizing the problems that small businesses face in offering their workers insurance, the President proposes a set of policies to harness the purchasing power of large employers and provide assistance for premium payments. It would give small firms that have not previously offered health insurance a tax credit equal to 20 percent of their contribution – twice the credit proposed last year -- towards health insurance obtained through purchasing coalitions. In addition, tax incentives would be given to foundations to help pay for start-up costs of these coalitions, and technical assistance would be provided. Altogether, this initiative costs $313 million over 10 years.

BACKGROUND

- **Nearly half of uninsured workers are in firms with fewer than 25 employees.** The likelihood of being uninsured is greater for workers in small firms – nearly three times higher than that of workers in large firms.[46]

- **Small firms are less likely to offer health insurance**. Only one-third of firms with fewer than 10 employees and two-thirds of firms with 10 to 24 employees offer coverage.[47] Businesses blame the high cost of premiums for this problem. Small businesses typically pay higher premiums for the same benefits and administrative costs may consume as much as 40 percent of premium dollars. Trends suggest that the situation will worsen. The proportion of small businesses offering health insurance declined between 1996 and 1998 – from 53 to 49 percent for firms with 3 to 9 workers and from 78 to 71 percent for firms with 10 to 24 workers. [48]

- **Purchasing coalitions a growing option for small businesses**. Although still relatively unknown, nearly one in 10 businesses with 3 to 9 employees participated in cooperatives in 1998, and interest and participation are growing.[49]

PROPOSAL

- **Provide a 20 Percent Tax Credit for Employer Contributions**. A tax credit equal to 20 percent of employer contributions toward health premiums would be given to eligible small businesses. Small businesses with between 3 and 50 employees that have not offered coverage in the past could receive this credit if they purchase coverage for their workers through a qualified coalition. This credit is temporary.

- **Financial Assistance in Creating Coalitions.** Start-up costs are a barrier to developing purchasing coalitions. Yet the current tax provisions for foundations makes private foundations reluctant or, in some cases, prohibited from offering grants for these costs. Under this proposal, any grant or loan made by a private foundation to a qualified small business health purchasing coalition would be treated as a grant (or loan) made for charitable purposes. This provision is temporary.

- **Technical Assistance in Creating Coalitions.** Since the Federal Employees Health Benefits Program is a model for coalitions, its managers would provide technical assistance to coalitions, sharing its administrative experience.

EXTENDING MEDICAID TO VULNERABLE POPULATIONS

Medicaid has proven to be a critical source of health insurance for millions of Americans. However, some vulnerable groups of people – children aging out of Medicaid and S-CHIP, people leaving welfare for work, and legal immigrants – cannot or will not be allowed into Medicaid due to current restrictions. The President's budget includes several important provisions to remove these barriers.

EXPANDING STATE OPTIONS TO INSURE CHILDREN THROUGH AGE 20 ($1.9 billion over 10 years)

- About 1.2 million people ages 19 and 20 have low incomes (below 200 percent of poverty) and are uninsured.[50] Mostly, this results because they age out of Medicaid or S-CHIP or no longer qualify as dependents in their parents' private plans.

- The budget would gives states the option to cover people ages 19 and 20 through Medicaid and S-CHIP.

EXTENDING TRANSITIONAL MEDICAID ($4.3 billion over 10 years)

- Many people leaving welfare for work take first jobs that do not offer affordable health insurance.[51] As such, transitional Medicaid provides a critical bridge to work. Created in 1988, transitional Medicaid extends coverage for up to a year for those losing it due to increased earnings. The 1996 welfare reform bill extended this provision through 2001. A recent survey found that nearly half of former welfare recipients had Medicaid coverage, most likely due to this benefit.[52]

- The President's budget makes this provision permanent and simplifies the state and family requirements to promote enrollment.

RESTORING STATE OPTIONS TO COVER LEGAL IMMIGRANTS ($6.5 billion over 10 years)

- Over the strong objections of the Administration, the 1996 welfare law prohibited states from providing health insurance for certain legal immigrants who entered the U.S. after the enactment of welfare reform. The uninsured rate for people of Hispanic origin was 35 percent – over twice the national average of 16 percent.[53]

- The President's Budget would give states the option to insure children and pregnant women in Medicaid and S-CHIP regardless of their date of entry. It would eliminate the 5-year ban, deeming, and affidavit of support provisions. The proposal would also require states to provide Medicaid coverage to disabled immigrants who would be made eligible for SSI by the FY 2001 budget's SSI restoration proposal.

STRENGTHENING PROGRAMS THAT PROVIDE HEALTH CARE DIRECTLY TO THE UNINSURED

BACKGROUND

- **Greater demand.** In the absence of a universal health insurance system, public hospitals, clinics, and thousands of health care providers give health care of the millions of uninsured. About 6 percent of all hospitals and 26 percent of safety net hospitals annual costs are estimated to be uncompensated, and 2,500 community health center sites serve an estimated 4 million uninsured.[54]

- **Fewer resources.** Despite a rising need, reductions in government spending and aggressive cost cutting by private insurers has left less money in the health care system to address these needs.

PROPOSALS

- **Increasing Funding for Increasing Access to Health Care for the Uninsured (+$100 million for FY 2001).** Last year, the President and Secretary Shalala proposed an historic new grant program to support community providers of services to the uninsured. The Congress funded an initial $25 million investment for this program. This year, the President proposes funding this initiative at $125 million, a $100 million increase over 2000. This represents a down payment on the President's proposal to invest $1 billion over 5 year. The Administration will also aggressively pursue an authorization to ensure that the program is established as a core element of the health care safety net.

    - **Providing new services to the uninsured.** These grants will allow providers to deliver the full range of primary care services to the uninsured, rather than treating only the most emergent problems. Currently, many uninsured individuals do not have access to primary care, mental health, and substance abuse services.

    - **Preserving access to critical tertiary care services.** These funds will help support large public hospitals, that often are the only source for trauma care, burn units, neonatal intensive care units, and other specialized services that are critical to all of the residents in a service area. If these institutions succumb to the burden of uncompensated care costs, both the insured and uninsured residents of the service area will be forced to seek these essential health care services elsewhere.

    - **Holding providers accountable for health outcomes.** These grants will help local providers develop the financial, information, and telecommunication systems that are necessary to appropriately monitor and manage patient needs, This will improve the efficiency and effectiveness of service delivery within the safety net, permitting more clients to be served with existing resources.

- **Investing in Community Health Centers (+$50 million for FY 2001).** The budget proposes an increase of $50 million to support and enhance the network of community health centers that serve millions of low-income and uninsured Americans – for total funding of over $1.069 billion in FY 2001.

ENDNOTES

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Cynthia A. Rice 01/09/2000 01:58:51 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP, epliu@msn.com

cc: J. Eric Gould/OPD/EOP@EOP, Eugenia Chough/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP

Subject: Tobacco Options Scored by Treasury

Attached are two tobacco options scored by Treasury. These options should be used for the Sunday night conference call and the Monday morning meeting with the President. Then Monday we can make any needed revisions given any feedback.

Each option has a base 25 cent excise tax in all years, and a triggered assessment starting in FY 2004 if youth smoking is not cut in half. One option has a $3,000 per child assessment; the other has a 50 cent per pack assessment. The assessments would begin in January 2004.

Both options reach the 3/3/3/8/9 revenue targets; in neither option do we reach the youth smoking goal so the assessments continue in years 6-10 (though in the $3,000 per kid option the assessment triggers off in 2010).

The tables include youth smoking numbers as well. Note that youth smoking numbers from a given year (e.g. 2005) are used to determine whether to levy an assessment in the following year (e.g. 2006).

The two attached files are identical in content -- one is a pdf file (probably the easiest to launch) and the other is an Excel file. The Excel file has the two options in stacked spreadsheets -- you have to click on the "3000" or "50 cents" button in the lower left corner to switch between the two.

A few technical notes:

(1) These estimates assume the $3,000 per kid is nondeductible and the 50 cents per pack is deductible. There was no conscious reason for this -- it is a result simply of the fact that Treasury is used to scoring lookbacks as nondeductible and excise taxes as deductible. Gotbaum has expressed interest in making a cents per pack assessment nondeductible, so we could use a number smaller than 50 cents a pack and raise the same amount of revenue. Note that Justice has always preferred assessments be deductible (easier to defend as nonpunitive).

(2) Treasury actually defined the "cut youth smoking in half" goal as cutting the number of youth smokers in half from the number smoking in 1999. Because the 12 - 17 year old age cohort is expected to grow over the next decade, using this definition makes the goal slightly harder to meet than if the goal were defined as cutting the percentage of youth who smoke in half. Treasury did not do this in order to make the goal harder (they just thought it made sense given the per child assessment option) but it has that effect.

(3) While the base 25 cent excise tax applies proportionally to other tobacco products as well, I believe, though I need to double check, that the assessment is only on cigarettes. We are not sure if the HHS survey would give us data needed to assess smokeless or cigars, but we can find out. The McCain bill had an assessment on smokeless but not cigars but the reduction targets for smokeless were much more modest than those for cigarettes. I'm fine with just leaving the assessments for cigarettes -- the fact that the base excise tax applies to all tobacco produces makes that easier I think because it shows we do

have a policy to reduce other tobacco use -- but I wanted to flag the issue for you.

(4) And finally, if we increase the assessments so the youth smoking goal is met and the assessment triggers off, Treasury plans to assume that prices, once raised by an assessment, will take three years to return to their original level. This will take into account the likelihood that companies will just keep the higher prices in effect while running more special discounts etc. and eventually through competition be forced to lower prices. This assumption will help smooth somewhat any zigzag effects in the out years.

- 2001TOBC.XLS

- 2001TOBC.PDF

- reserve tob $ for SS, Medicare
- if nothing said, how spend depends on how wins / which [illegible]
- DOJ concern: ROTUS can propose where $ goes, which means need legislation
  → Tom Ferelli (DOJ?)
  → specific amounts seem silly (80% or 2/3)

50¢ per pack

Estimated Effects of Increasing Tobacco Taxes and Imposing Youth Smoking Assessments

$0.25 per pack increase, speed-up of scheduled increase, and proportional treatment of other tobacco products

An additional increase of $0.50 per pack will occur in 2004 if youth smoking targets are not met

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Proposal: **Increase excise tax on cigarettes by 25 cents** over current law beginning October 1, 2000. In addition, accelerate the 5 cent increase scheduled from January 1, 2002 to October 1, 2000. Resulting total excise tax: 64 cents per pack.

Beginning January 1, 2004 manufacturers or importers of tobacco products will be charged an **assessment of an additional 50 cents per pack.** This assessment, like excise taxes, is assumed to be deductible.
This youth smoker assessment remains in effect until youth smoking rates have been cut in half.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	00-05	00-10
						[millions of dollars; fiscal years]							
Net Receipts	**446**	**4084**	**3738**	**3532**	**8476**	**9554**	**9477**	**9406**	**9329**	**9259**	**9187**	**29830**	**76488**
Reduction in youth smoking from 1999 (%)	**25.4**	**42.0**	**41.3**	**40.4**	**48.2**	**47.3**	**46.9**	**46.8**	**47.2**	**47.7**	**47.7**		
Number of youth smokers (thousands)	2923	2377	2408	2445	2123	2160	2178	2183	2165	2144	2143		

Estimates provided by the Office of Tax Analysis, based upon forecasts of youth smoking provided by the Office of Economic Policy
Estimates assume that excise taxes are applied proportionately to other tobacco products.
Estimates assume that the additional assessment will be collected by BATF via the existing system for excise taxes.

underlined 5¢

$3000 per kid

Estimated Effects of Increasing Tobacco Taxes and Imposing Youth Smoking Assessments

$0.25 per pack increase, speed-up of scheduled increase, and proportional treatment of other tobacco products
Youth smoking assessment of $3000 per youth smoker in 2004 if targets not met

---

Proposal: **Increase excise tax on cigarettes by 25 cents** over current law beginning October 1, 2000. In addition, accelerate the 5 cent increase scheduled from January 1, 2002 to October 1, 2000. Resulting total excise tax: 64 cents per pack.

Companies will be charged an assessment of **$3,000 per youth smoker** times the number of underage smokers as measured by HHS' survey for 2002. The youth smoker assessment will remain in effect until youth smoking rates have been cut in half from 1999 levels. Assessment is ***non-deductible.***

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	00-05	00-10
						[millions of dollars; fiscal years]							
Net Receipts	446	4,084	3,738	3,532	9,617	9,502	9,172	8,812	8,440	8,366	2,895	30,920	68,605
Reduction in youth smoking from 1999 (%)	25.4	42.0	41.3	40.4	39.5	42.4	45.9	49.4	49.9	50.0	49.7		
Number of youth smokers (thousands)	2,923	2,377	2,408	2,445	2,482	2,360	2,218	2,076	2,056	2,048	2,061		

Estimates provided by the Office of Tax Analysis, based upon forecasts of youth smoking provided by the Office of Economic Policy
Estimates assume that excise taxes are applied proportionately to other tobacco products.

IV. TOBACCO POLICY

Base Policy: Accelerate the scheduled 5 cent excise tax increase from January 1, 2002 to October 1, 2000, raising about $600 million in FY 2001 and $1 billion from FY 2000-2002.

Increase the tobacco excise tax by 25 cents per pack starting in FY 2001. Raises about $3.5 billion per year.

Youth Penalty: If youth smoking is not cut in half by 2004, an additional policy would be triggered on until this goal is reached. Two different variants have been scored, each of which raise $5 year to $6 billion per year from 2004 forward:

Variant A) An additional 50 cent excise tax.
Variant B) A $3,000 assessment per underage smoker.

Total Revenue:

5-years:	$30 billion
10-years:	$70-75 billion

available to students. As a complement to his smaller schools and classes proposal, this initiative would help create schools that are not only smaller, but have a common mission; teacher, parent and student buy-in; and increased autonomy.

School Construction: For students to learn, schools must be well-equipped and able to accommodate smaller class sizes. In 1998, the American Society of Civil Engineers said that school buildings represent the nation's most pressing infrastructure need. To address this critical need, Al Gore will fight to pass the Administration's school construction initiative. This proposal would provide federal tax credits and other financial support as incentives to help states and local school districts to build and renovate public schools. Half of the bond authority will be allocated to the 100 school districts with the largest number of low-income children, and the other half will be allocated to the states.

GoToCollege.com: Provide grants to high-need school districts so disadvantaged students can have subsidized access to Advanced Placement courses as well as SAT and achievement test preparation courses online.

Reaffirm Commitment to IDEA: President Gore will reaffirm the importance of the Individuals with Disabilities Education Act (IDEA) by making a substantial increased investment in this program, which ensures that children with disabilities have access to a free appropriate education and has opened the doors of public schools to children with special needs. His administration will help states and school districts provide high quality education for all students, including students with disabilities.

Demand More from Our Students, Teachers, and Schools

Higher Standards, Higher Pay for Teachers: This initiative would award competitive grants to high-poverty urban and rural school districts to help them attract and retain high-quality teachers and principals through better pay and higher standards. In order to receive funding, partnerships involving school districts, local businesses, and teacher's unions, would take aggressive steps to raise teacher standards and provide professional development and intensive support to help all teachers and principals succeed. Participating partnerships would agree on steps to reward good teaching, provide mentors for new teachers and principals, recruit talented new teachers, and adopt faster, but fair ways to identify, improve, and when necessary remove low performing teachers. School districts would require rigorous peer evaluations to identify potential master teachers, provide advice and extra help to all teachers, and identify those few who should be placed into a program to improve, or when necessary remove low-performing teachers. Under this proposal, all teachers in participating school districts would receive up to a $5,000 salary increase. Master teachers, reaching an advanced professional standard, would receive an additional $5,000 salary increase – for example, given to those who get advanced certification through the National Board for Professional Teaching Standards Certification or those who pass a rigorous peer evaluation demonstrating high-quality teaching based on clearly defined and objective standards. Al Gore believes that teachers should be treated and paid like professionals, and held to high professional standards. No teaching contract or license should provide a lifetime job guarantee, but we must provide all our teachers the intensive support and training needed to succeed.

Raising Standards for All Students. Al Gore will fight to raise standards for all our students. As part of this effort, he will challenge all states to institute a

Cynthia A. Rice 01/19/2000 11:26:48 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP

cc: J. Eric Gould/OPD/EOP@EOP, Eugenia Chough/OPD/EOP@EOP

Subject: Where we are on tobacco litigation proceeds language

DOJ is pushing back, though not yet with their big guns, to add "other federal health programs." Gotbaum is trying to get Jack Lew to raise it with Podesta. I think it would be a good idea to add it, but if Podesta made up his mind knowing DOJ's concerns obviously it could be annoying to him to have it re-raised.

---------- Forwarded by Cynthia A. Rice/OPD/EOP on 01/19/2000 11:20 AM ----------

JOSHUA GOTBAUM

01/18/2000 10:03:45 PM

Record Type: Non-Record

To: Cynthia A. Rice/OPD/EOP@EOP

cc:

bcc:

Subject: Re: Draft language

This is the language Josh is trying to get Jack to push:

Tobacco-related health problems have cost Medicare and other Federal programs billions of dollars each year. To recover these losses, the Department of Justice has brought suit against the tobacco industry, and the budget contains ample resources to pay the necessary legal costs. The Administration will propose that, in addition to any remedies imposed by the court to advance public health, $5 billion of any judgment or settlement be used to assist tobacco farmers and their communities and to support the Department of Veterans Affairs and other Federal health programs. One hundred percent of the remaining recoveries would be dedicated to the Medicare and Social Security trust funds, two-thirds to Medicare and one-third to Social Security, to enhance the security of these programs for future generations.

Cynthia A. Rice

Cynthia A. Rice 01/18/2000 05:41:09 PM

Use of Tobacco Litigation Proceeds

The DOJ lawsuit against the tobacco industry seeks the recovery of smoking-related costs to Medicare, the VA health care system, the DOD health care system, and FEHBP. Even though the FY 2001 Budget will not include estimates for tobacco lawsuit recoveries, we still want to be prepared to indicate publicly how revenues the Federal government may receive from this lawsuit will be allocated. During the FY 2001 Health Entitlements review, you noted that you were comfortable allocating these revenues to Medicare and Social Security, but we have also taken steps since then to have VA and DOD share in the costs of tobacco litigation.

FY 2000 Budget. The following language was included in the FY 2000 Budget:

> ". . . tobacco-related health problems have cost Medicare and other Federal programs billions of dollars each year. To recover these losses, the Department of Justice intends to bring suit against the tobacco industry, and the budget contains $20 million to pay for necessary legal costs. The Administration will propose that recoveries will be used to enhance the security of Medicare for future generations."

FY 2001 Budget. For FY 2001, there are two options:

1) **Allocate all recoveries to the Medicare and Social Security Trust Funds.** By allocating all potential tobacco recoveries to the trust funds, the Administration could extend the solvency of Medicare and Social Security and publicly maintain a strong commitment to these programs. However, this policy will raise questions as to why plaintiffs specifically named in the lawsuit (e.g., VA, DOD, and FEHBP) are not receiving any of the recoveries, while Social Security, which is not included in the lawsuit, is receiving a large share of the recoveries. It will also contradict several Presidential statements that tobacco farmers should benefit from the suit.

2) **Use 80% of the proceeds for Medicare and Social Security, and 20% for other tobacco and health-related programs (e.g., VA, DOD, FEHBP, tobacco farmers).** This alternate distribution recognizes that the Administration has signaled that other groups may have a claim to a portion of the tobacco litigation proceeds, since VA and DOD, as well as HHS, are paying for the tobacco lawsuit in FYs 2000 and 2001. In addition, the FY 2000 Budget showed $8 billion in tobacco-related costs for Veterans, DOD, and other Federal programs, and last fall the Administration did not oppose a provision in the House VA Millennium bill setting up a tobacco trust fund for VA's share of any tobacco litigation recoveries. Finally, the President has stated that he is committed to protecting the financial well-being of tobacco farmers and their communities. As a result, this option would allocate roughly two-thirds of the proceeds to Medicare and Social Security, and the remaining one-third to other Federal programs.

Tobacco Issues
1/5/00

(1) Require states to cover Medicaid cessation only if federal match provided.
OMB wants to impose requirement with no federal match (states that began covering cessation on a voluntary basis would continue to receive a match; the rest would not). Alternatives include: (a) require Medicaid to cover cessation but provide a federal match (states would pay 20 to 50 percent of the costs) – a federal cost of about $100 million over 5 years; (b) provide federal match only for states that are spending a certain percentage of their state settlement on tobacco prevention and health; (c) maintain current law state option for Medicaid coverage of cessation (just over half the states have adopted the option).

In addition, we could make the cessation option for federal employees more generous through a directive this Spring.

(2) Setting aside excise tax in '01 and '02 for tobacco farmers.
The current $5 billion settlement will be paid out to farmers over the next 12 years. Dedicating two years of a 25 cent excise tax would more than double the trust fund. OMB staff believe we will need some tobacco revenue in '01 and '02 for other purposes, and seem to be more willing to have a set-aside if it includes public health, e.g., use 5 cents of base excise tax in all years in trust fund for farmers and for national tobacco prevention (counteradvertising/public education and federal match for Medicaid cessation).

(3) Tobacco revenues: increase excise tax if youth smoking goals are not met
OMB prefers Option 4 over our preferred Option 5

(4) Be silent in budget on uses for proceeds of DOJ lawsuit
OMB would like to make a broad statement that proceeds will shore up Social Security, pay tobacco related health expenses in Medicare, VA, and DOD, and assist farmers. Last year's budget said "recoveries will be used to enhance the security of Medicare for future generations."

Tobacco Price Options
1/5/00

OMB Preference
Option #4: An excise tax starting at 25 cent per pack and rising to 55 cents per pack would be combined with a per child assessment beginning in FY 2003.

OMB proposes to simply levy a $1,000 or $1,500 per child assessment in FY 2003 – not basing the assessment on failure to meet a youth smoking reduction goal. OMB would then levy additional assessments in FY '04 and '05 based either on the number of new child smokers or on whether youth smoking reduction targets are met.

This option should be revised to levy assessments in FY 2003-2005 if youth smoking is not reduced by a third within three years and half within five years. The per child payments should either be an amount per child smoker or an amount per child smoker by which the target was missed (we'll probably need to do the former to get the revenue we need in '03). Whether the amount should be $1,500 per child or some fraction will probably need to depend on revenue needs.

		'01	'02	'03	'04	'05	'01-'05
Triggered Assessment	**	--		3.1	0.9	1.0	5.0
Excise Tax		3.3	3.5	4.4	5.6	6.3	23.1
Total		3.3	3.5	7.5	6.5	7.3	28.1

* Preliminary figures; would need to be coordinated with Treasury.
** Based on a $1,000 per child assessment in FY '03 and a $1,250 and $1,500 assessment in FY '04 and '05 for every new child smoker.

DPC Preference
Option 5: A base excise tax of 25 cents per pack, with a surtax of 75 cents if youth smoking is not reduced by a third within three years and half within five years. The excise tax in '01 and '02 would be added to the tobacco farmer settlement trust funds. A possible alternative would be to use a portion of the excise tax in all years for farmer and public health trust funds. Also, we may want to revise this option to change the surtax from 75 cents to 50 cents (since we likely don't need to raise this much revenue).

	'01	'02	'03	'04	'05	'01-'05
Revenues from 25 cent/pack	3.3	3.3	3.3	3.3	3.3	16.5
Surtax of 75 cents/pack if youth smoking not reduced by a third within three years and a half within five years	0	0	9.9	9.9	9.9	29.7
Total	3.3	3.3	13.2	13.2	13.2	46.2
Total if surtax is 50 cents not 75	3.3	3.3	9.9	9.9	9.9	36.3

These rough scores likely overestimate revenues, since an additional 75 cents per pack will not raise three times as much as the first 25 cents because of change in demand.

Cynthia A. Rice 01/07/2000 04:40:49 PM

Record Type: Record

To: Eric P. Liu/OPD/EOP@EOP

cc: J. Eric Gould/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP, Eugenia Chough/OPD/EOP@EOP
Subject: Where we are on tobacco options -- let's talk this afternoon

We've asked Treasury for two revised options to hit our 3/3/3/8/9 targets -- will get them today or tomorrow at the latest (I can fax them to you at home). I hear there will be a Sunday night conference call to prepare for the Monday am meeting with the President.

Option 1:

25 cent excise tax all years
If youth smoking has not been reduced by half, an additional 33 cents (or so) per pack assessment beginning January 1, 2004 which would continue until the youth smoking goal is met. (We expect the estimates will show the goal will not be met in the 10 year window, though we would come close. The tables we get from Treasury will show us the number of youth smokers and how close we'd come to the goal).

Option 2:

25 cent excise tax all years
If youth smoking has not been reduced by half, a $2500 (or so) per child ~~assessment~~ penalty beginning January 1, 2004 which would continue until the youth smoking goal is met. (We expect the estimates will show the goal will not be met in the 10 year window, though we would come close. The tables we get from Treasury will show us the number of youth smokers and how close we'd come to the goal).

Note: in both options, the assessment would be nondeductible (though the base 25 cent excise tax would be deductible). FYI: a 33 cent per pack nondeductible assessment garners approximately the same amount of money as a 50 cent deductible one. Having assessments be nondeductible has the advantage of enabling us to raise the same revenue with smaller assessments (e.g. 33 cents instead of 50 cents) but it has disadvantages of appearing punitive if DOJ ever has to defend this in court.

We start the assessments January 1, 2004 to enable us to have one assessment level (rather than a smaller one in '04 and a higher one in '05) while raising less revenue in '04 than '05. Essentially by starting one quarter late, we hope to raise 3/4 of the amount in assessment in'04 as we do in '05.

Tobacco Options for the FY 2001 Budget
12/17/99

Two youth smoking reduction options for possible inclusion in the FY 2001 budget are described below. Option #1 is designed to raise close to $7 billion in FY 2001; Option #2 raises revenues more gradually.

Option #1 : This proposal would reduce youth smoking by: 1) imposing an industry-wide youth smoking assessment during FYs 2001-05 ; and 2) phasing in an increase in tobacco excise taxes (rising 5 cents each year from 30 cents to 50 cents per pack in FY 2001-05). Estimated revenues in FY 2001 would be about $ 6.7 billion.

a) Youth Smoking Assessment: In FY 2001, tobacco companies would be charged an industry-wide assessment for each underage smoker, based on the reported number of underage smokers, times approximately one-half the estimated lifetime profit per underage smoker (discounted to present value). The charge in FY 2001 would be about $800 per youth smoker. With an estimated 3.5 million underage smokers, the total assessment would be about $2.8 billion. Charges of $400 and $300, respectively, would be imposed per underage smoker in each of FYs 2003 and 2005, unless youth smoking rates are reduced by 30 percent in FY 2003 and 50 percent in FY 2005. Youth smoking rates would be measured by HHS' National Household Survey on Drug Abuse.

b) Tobacco Excise Taxes: Additional excise taxes would be phased in over the FY 2001-2005 period, beginning at an additional 30 cents in FY 2001, and rising gradually to 50 cents by FY 2005.

Option #1: Estimated Tobacco Revenues ($ in billions) *

	'01	'02	'03	'04	'05	'01-'05
Youth Assessment Revenues	2.8	--	1.2	--	0.9	4.9
Excise Tax Revenues	3.9	4.1	4.5	5.2	5.8	23.5
Total	**6.7**	**4.1**	**5.7**	**5.2**	**6.7**	**28.4**

* preliminary figures; would need to be coordinated with Treasury.

Option # 2: This option combines an excise tax with a payment triggered by whether or not youth smoking rates meet targeted reductions of 30% over 3 years or 50% over 5 years. This triggered payment could either be an excise tax (Option 2a) or a stand-alone assessment (Option 2b). The underlying excise tax in both cases would be phased in gradually over the FY 2001-2005 period, beginning at an additional 20 cents in FY 2001, and rising 5 cents per year, to an additional 40 cents in FY 2005.

Option 2A: The triggered payment would be a surtax added to the underlying excise tax in FY03 and FY05 if the target is missed. The determination of the excise tax increase would depend on the level that the target rate was missed (e.g., if rates are reduced by 20% instead of 30%, another 10 cents would be added; if rates are reduced by 10% instead of 30%, another 25 cents would be added, etc.). The target information would be based on youth smoking data from HHS' Household survey.

Option 2B: The triggered payment would be a separate youth tobacco use assessment on a [company-specific or industry-wide basis] in FY 2003 and FY 2005. In FY 2003, if the 30% smoking reduction target over three years is missed, the assessment would be $1,500 per youth smoker (i.e., $1,500 times the number of smokers aged 12-17 failing to meet the 30% target reduction). Similarly, the assessment trigger in FY 2005 would be based on the number of underage smokers failing to meet the 50% reduction target over five years times $1,500 per smoker.

Estimated Tobacco Revenues ($ in billions) *

Option 2A:

	'01	'02	'03	'04	'05	'01-'05
Triggered Payment	--	--	0.8	1.1	3.0	4.9
Excise Tax Revenues	2.6	2.9	3.5	4.1	4.7	17.8
Total	**2.6**	**2.9**	**4.3**	**5.2**	**7.7**	**22.7**

Option 2B:

	'01	'02	'03	'04	'05	'01-'05
Triggered Payment	--	--	0.5	--	1.7	2.2
Excise Tax Revenues	2.6	2.9	3.5	4.1	4.7	17.8
Total	**2.6**	**2.9**	**4.0**	**4.1**	**6.4**	**20.0**

* preliminary figures; would need to be coordinated with Treasury.

Cynthia A. Rice 12/17/99 11:04:02 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP

cc: J. Eric Gould/OPD/EOP@EOP, Eugenia Chough/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP

Subject: Where we are on tobacco tax options

We've gotten OMB to drop the goofiest parts of their last proposal, and we now have two basic options.

Both options include a low level excise tax and additional payments if youth smoking is not reduced by 30 percent in 3 years and 50 percent in 5 years.

The first option raises more money in year 1 (about $7 billion total) by including a per youth smoker assessment in year 1; the second has the additional assessments only in years 3 and 5. Assessments could be industry wide or company specific (that is left ambiguous, though OMB knows our views).

I don't think Jack has been fully briefed on the new options yet, but I wanted you to know roughly where things stand before your 12:30.

More detailed paper is being revised, which I will show you and OMB will show Jack. Then we will loop in Treasury.

Tobacco Budget Ideas
12/12/99 DRAFT

Price Increase: The following proposals would reduce youth smoking by raising the price of cigarettes and providing tobacco companies with incentives to stop marketing tobacco to children.

Option 1: Starting in FY 2001, the federal tobacco excise tax would be raised by 25 cents. If youth smoking does not decrease by one-third within three years and by half within five years, the excise tax would be raised by another 25 cents in FY 2003 and FY 2005. Thus, to avoid additional tax increases, youth smoking would have to decline by one-third between 1999 and 2002 and by half between 1999 and 2004.

Option 1: Cigarette Price Increases and Revenues, FY 2001-2005

	FY '01	FY '02	FY '03	FY '04	FY '05	FY '01-'05
Initial Excise Tax Increase	25 cents	25 cents	25 cents	25 cents	25 cents	--
Additional Excise Tax Increases if Youth Smoking Reduction Targets are Not Met	--	--	25 cents	25 cents	50 cents	--
Potential Total Excise Tax Increases	25 cents	25 cents	50 cents	50 cents	75 cents	--
Revenues*	$2.9 bi	$2.9 bi	$5.8 bi	$5.8 bi	$8.7 bi	$26.1 bi

*Figures need to be revised by OMB and Treasury; they are based on the simplistic assumption that every 10 cent increase in the excise tax raises $1.16 billion (since a 55 cent increase raises about $6.4 billion).

A comparable price increase would be put in place for other tobacco products (the percentage price increase from current levels would be the same as for cigarettes), using the same tobacco use reduction targets (one-third within three years and half within five years).

Progress in meeting the tobacco use reduction targets would be based on data for children aged 12 to 17 from HHS' National Household Survey on Drug Abuse. (Note: need to double check that survey includes all tobacco products.)

Option 2: The same as Option 1, except the initial excise tax increase would be 35 cents, and it would be raised by 15 cents in 2003 and 2005 if youth smoking reduction targets weren't met.

Option 2: Cigarette Price Increases and Revenues, FY 2001-2005

	FY '01	FY '02	FY '03	FY '04	FY '05	FY '01-'05
Initial Excise Tax Increase	35 cents	35 cents	35 cents	35 cents	35 cents	--
Additional Excise Tax Increases if Youth Smoking Reduction Targets are Not Met	--	--	15 cents	15 cents	30 cents	--
Potential Total Excise Tax Increases	25 cents	25 cents	50 cents	50 cents	65 cents	--
Revenues*	$4.1 bi	$4.1 bi	$5.8 bi	$5.8 bi	$7.5 bi	$ 27.3 bi

*Figures need to be revised by OMB and Treasury; they are based on the simplistic assumption that every 10 cent increase in the excise tax raises $1.16 billion (since a 55 cent increase raises about $6.4 billion).

Option 3: The same as Option 1, but in addition, if youth smoking of a particular company's brands does not decline by one-third within three years and by half within five years, the company would pay an assessment for each additional underage smoker. This surcharge would be based on the lifetime profit the company would be expected to obtain from each youth smoker (estimated at $1,450 per child discounted to present value). For example, if in FY 1999 one million children smoked a particular company's brands of cigarettes, then to meet the targets, the number of youth smokers of those brands would need to decline to at least 666,666 by FY 2002 and to at least 500,000 by FY 2004. If 600,000 children smoked the company's brands in FY 2004, the company would pay an assessment of ($1,450 x 100,000) or $145 million in FY 2005.

Option 4: The same excise tax levels as Option 2, combined with the company-specific assessment in Option 3.

Note: The McCain bill had the following youth smoking reduction targets:

Calendar Year After Date of Enactment	Required Percentage as a Percentage of Base Incidence Percentage in Underage Cigarette Use*
Years 3 and 4	15 percent
Years 5 and 6	30 percent
Years 7, 8 and 9	50 percent
Year 10 and thereafter	60 percent

State Lookback: Although state officials said the purpose of the $246 billion state settlements with the tobacco industry was to reduce youth smoking, few states are investing settlement funds in programs to prevent youth tobacco use. This proposal would ensure that if the provisions of the state settlement (45 cent price increase, some limitations on marketing and promotion of tobacco products, and funding for a national foundation to reduce youth smoking) do not actually reduce youth smoking, then states would spend settlement funds on youth smoking prevention programs. The spending provisions would be triggered if youth smoking did not decline by one-third within three years and by half within five years.

Specific funding requirements would be based on CDC recommendations, which vary by state based on state characteristics, such as demographic factors, tobacco use prevalence, and other factors. CDC's recommendations range from $7 to $20 per capita in smaller states (population under 3 million), $6 to $17 per capita in medium-sized States (population 3 to 7 million), and $5 to $16 per capita in larger States (population over 7 million).

A penalty could be structured that would require States that miss the above youth smoking targets to invest additional funding into youth tobacco prevention activities. The greater the percentage rate states miss the targets by the more they would have to invest in prevention activities based on CDC's recommended investment guidelines for the State.

Tobacco prevention could be defined as evidence-based efforts to reduce tobacco, particularly among youth, including: 1) tobacco prevention and control activities at the school, community, and state levels; 2) enforcement of tobacco control laws and regulations; 3) public education programs, including the use of mass media; 4) cessation services consistent with AHCPR guidelines and cessation treatments approved by the FDA; 5) surveillance and evaluation programs to provide accountability.

OMB staff have not discussed this option with Jack Lew and tend to think that, due to state opposition, this proposal would be quite unlikely to pass the Congress.

Support Critical Public Health Efforts to Prevent Youth Smoking: We should support continued funding of tobacco prevention programs at CDC and FDA, and include an increase if possible.

a) **CDC Funding**: Overall, HHS is requesting $131 million for CDC in FY 2001 for tobacco prevention efforts, $30 million over FY 2000 levels. OMB has proposed in passback an increase of $5 million over FY 2000 levels, for a total of $105 million. If HHS appeals this passback, we should try to give them additional funds if possible. HHS plans to target the increased funds to: providing technical assistance and support to states, schools, and communities operating tobacco prevention programs, collecting and evaluating data on smoking rates and prevention programs, and funding efforts to reduce tobacco use world wide.

b) **FDA Funding**: HHS is requesting $88 million ($20 million over FY2000 request and $54 million over FY2000 funding) to expand youth anti-smoking outreach and enforcement activities in all states. In passback, OMB has flat-funded the FDA anti-tobacco program at the FY 2000 $34 million level, saying appropriators have made clear that they do not intend to increase the funding until the Supreme Court case is completed. If we are willing to propose flat funding, we should insist that OMB agree that if the Supreme Court rules in FDA's favor, we will submit a budget amendment to the Hill for at least the $68 million we requested in FY 2000, and perhaps more. Alternatively, we should insist that the FY 2001 budget include $68 million when announced.

   HHS said its request of $88 million would allow FDA to:

   - Expand retailer inspections from 400,000 in FY 2000 to 540,000 retailers. Fund retailer information kits and newsletters explaining underage purchasing prohibitions. Complete national retailer database tracking results.
   - Monitor compliance with advertising restrictions (if these provisions are put in place, pending Supreme Court review).
   - Begin to develop performance standards for cigarettes and smokeless tobacco products, classify products, and inspect industry practices.

Fund the Department of Justice Tobacco Litigation. The Department of Justice has initiated litigation against the tobacco industry to recover certain federal health expenditures caused by tobacco use.

Option 1: Propose $20 million for the Department of Justice to finance costs incurred in preparing and bringing litigation against the tobacco companies for tobacco-related Federal health costs. This would be the same unsuccessful strategy employed in the FY2000 budget.

Option 2: Include the shared costs of the litigation within the requests for HHS, DoD and VA since the suit is intended to recover the smoking related costs incurred by the Federal government, of which these three departments experienced substantial costs.

OMB plans to fund the litigation at $20 million, but according to Michael Deich, they have not decided which of these options to prefer. For FY 2000, OMB required HHS, DoD, and VA to each provide $2.65 billion in funds for the litigation.

Cessation Coverage. Currently, smoking cessation prescription and non-prescription drugs are optional state Medicaid benefits that are matched by the Federal government at the individual states FMAP rate (which on average is 57 percent). Our understanding is that 27 States provide Medicaid coverage for FDA approved smoking cessation products. There are a number of options we could propose to expand the coverage of smoking cessation products for Medicaid and other Federal programs:

Option 1A: Mandate coverage of prescription/nonprescription smoking cessation products and reimburse at FMAP. In 1998, HCFA estimated that the Federal costs of this provision would be about $114 over 5 years.

Option 1B: Create an enhanced FMAP rate for cessation services. For example, the Hansen-Meehan bill proposed a 90 percent Federal match rate for State costs of providing cessation programs. This enhanced match would theoretically offer States the incentive to cover these services.

Option 1C: Require States to provide cessation programs and require them to fund the costs themselves (using tobacco settlement or other funds). This is the option OMB prefers.

Option 2: Require DoD to provide effective cessation programs and reintroduce the proposal in last year's budget for VA to fund cessation programs for Veterans.

Option 3: Require, through a directive this Spring, the Federal Employees Health Benefits Program to provide a more generous cessation benefit.

Of course, any model of Option 1 can be combined with Option 2 and/or 3.

Farmers: These are two proposals that would allow us to maintain our commitment to ensure the well-being of tobacco farmers, their families and their communities.

a) **Compensating Tobacco Farmers:** The Agricultural Appropriations bill for FY 2000 directs the Secretary of Agriculture to use $328 million in funds from the Commodity Credit Corporation to provide payments to compensate flue-cured and burley tobacco farmers that had their quotas reduced in 1999. We could propose an additional $328 million in FY 2001 for farmers facing quota reduction in 2000.

b) **Preferable Tax Treatment of Payments to Tobacco Farmers:** Proposals supported by Sen. Robb and Rep. Boucher would exclude from gross income payments made by the tobacco industry to tobacco farmers as part of last year's settlement (The $5 billion in payments are to be paid out over the next 12 years). The Treasury Department has expressed initial opposition to this proposal, arguing that tobacco farmers should not get to exempt payments from taxes when other farmers cannot. We believe we can argue back that this situation is unique because only tobacco farmers have received these types of payments (settlement payments from companies); other farmers get federal subsidies which are different. Treasury has not yet scored this proposal, but using a few basic assumptions, it appears the provision would cost between $400 and $800 million.

   Rough scoring assumptions: 1) Taxes would be relieved for $2.56 billion in payments in the budget window (assuming the provision is made retroactive to 1999 and that only taxes on income through 2004 would be paid during the budget window); and 2) farmers would normally pay either 15 percent or 28 percent tax bracket on such income. Using these assumptions, the provision would relinquish $384-$717 million over five years.

   Payout schedule for $5.15 billion in tobacco settlement payments:

   1999: $380 mi
   2000: $280 mi
   2001: $400 mi
   2002-2008: $500 mi
   2009: $295 mi
   2010: $295 mi

Additional Tobacco Price Idea
12/13/99 DRAFT

Option 5: As in Option 1, starting in FY 2001 the federal tobacco excise tax would be raised by 25 cents. If youth smoking does not decrease by one-third within three years and by half within five years, the excise tax would be raised by another 25 cents in FY 2003 and FY 2005. Thus, to avoid additional tax increases, youth smoking would have to decline by one-third between 1999 and 2002 and by half between 1999 and 2004.

In addition, each company would be charged a surcharge based on the lifetime profit the company would be expected to obtain from each youth smoker (estimated at $1,450 per child discounted to present value). This surcharge would be imposed as follows. In FY 2001, companies would pay $500 per child for every child who smoked its company's brands. Then, if youth smoking of a particular company's brands does not decline by one-third within three years and by half within five years, the company would pay another $500 per child surcharge for each underage smoker above the targets.

For example, if in FY 1999 one million children smoked a particular company's brands of cigarettes, then that company would pay a surcharge of $500 million ($500 x 1,000,000). To meet the targets, the number of youth smokers of those brands would need to decline to at least 666,666 by FY 2002 and to at least 500,000 by FY 2004. If 600,000 children smoked the company's brands in FY 2004, the company would pay an assessment of $50 million in FY 2005 ($500 x 100,000).

Option 5: Cigarette Price Increases and Revenues, FY 2001-2005

	FY '01	FY '02	FY '03	FY '04	FY '05	FY '01-'05
Initial Excise Tax Increase	25 cents	25 cents	25 cents	25 cents	25 cents	--
Additional Excise Tax Increases if Youth Smoking Reduction Targets are Not Met	--	--	25 cents	25 cents	50 cents	--
Potential Total Excise Tax Increases	25 cents	25 cents	50 cents	50 cents	75 cents	--
Excise Tax Revenues***	$2.9 bi	$2.9 bi	$5.8 bi	$5.8 bi	$8.7 bi	$26.1 bi
Company Specific Surcharges**	$2.1 bi	--	*	--	*	--
Total Revenues	$5.0 bi	$2.9 bi	$5.8 bi*	$5.8 bi	$8.7 bi*	$28.2 bi

* Additional amounts of surcharge revenues will need to be estimated using company-specific data.

** In FY 1999 there were approximately 4.1 million smokers aged 12 to 17 nationwide; thus FY 2001 revenues would be $500 x 4,100,000.

*** Figures need to be revised by OMB and Treasury; they are based on the simplistic assumption that every 10 cent increase in the excise tax raises $1.16 billion (since a 55 cent increase raises about $6.4 billion).

businesses on how to meet legal requirements, and launch an equal pay public announcement campaign to inform employers and employees alike of their rights and responsibilities. EEOC only received a slight increase in the final FY 2000 budget, which did not include $10 million for this important initiative. We should repeat the request.

TOBACCO

1. Price Increase. The following proposals would reduce youth smoking by raising the price of cigarettes and providing tobacco companies with incentives to stop marketing tobacco to children. Option 1: Starting in FY 2001, the federal tobacco excise tax would be raised by 25 cents. If youth smoking does not decrease by one-third within three years and by half within five years, the excise tax would be raised by another 25 cents in FY 2003 and FY 2005. Thus, to avoid additional tax increases, youth smoking would have to decline by one-third between 1999 and 2002 and by half between 1999 and 2004. Option 2: The same as Option 1, except the initial excise tax increase would be 35 cents, and it would be raised by 15 cents in 2003 and 2005 if youth smoking reduction targets weren't met. Option 3: The same as Option 1, but in addition, if youth smoking of a particular company's brands does not decline by one-third within three years and by half within five years, the company would pay an assessment for each additional underage smoker. This surcharge would be based on the lifetime profit the company would be expected to obtain from each youth smoker (estimated at $1,450 per child discounted to present value). Option 4: The same excise tax levels as Option 2, combined with the company-specific assessment in Option 3.

2. State Lookback. Although state officials said the purpose of the $246 billion state settlements with the tobacco industry was to reduce youth smoking, few states are investing settlement funds in programs to prevent youth tobacco use. This proposal would ensure that if the provisions of the state settlement (45 cent price increase, some limitations on marketing and promotion of tobacco products, and funding for a national foundation to reduce youth smoking) do not actually reduce youth smoking, then states would be required to spend settlement funds on youth smoking prevention programs. The spending provisions would be triggered if certain youth smoking reduction targets were not met.

3. Preventing Youth Smoking. We should support continued funding of tobacco prevention programs at CDC and FDA, and include an increase if possible. CDC would provide technical assistance, strengthen tobacco use science for public health action and work with partners to create global tobacco programs. FDA funding would go to enforcement and evaluation and product regulation.

4. Department of Justice Tobacco Litigation. The Department of Justice has initiated litigation against the tobacco industry to recover certain federal health expenditures caused by tobacco use. We could either propose $20 million for the Department of Justice to finance the litigation (the same unsuccessful strategy employed in the FY2000 budget) or include the shared costs of the litigation within the requests for HHS, Defense and VA, since the suit is intended to recover the smoking related costs incurred by the Federal government, of which these three departments experienced substantial costs. (Cost: $20 million).

Cynthia A. Rice 01/12/2000 03:32:48 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP

cc: J. Eric Gould/OPD/EOP@EOP, Eugenia Chough/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP

Subject: @!!* Bruce I need you to call Jack Lew re child support

Bruce -- Jack Lew has suddenly objected to one piece of our child support package, the piece which would help collect from self-employed individuals who are independent contractors and as a result OMB is in the process of taking this off the table. (I believe Jack is responding to concerns raised by John Spotilla of OIRA.) Unfortunately -- and I hate to do this to you -- but I need you to call Jack, and you need to call him ASAP. (If it's any solace I spent a long time on the phone with Peter Cove today.) Below are the issues and what I think are our best answers. Attached, fyi, is a draft description of our whole child support package.

Basic Description of the Policy

Employers would be required to report independent contractors, with contracts over $2,500, to the directory of new hires, just as they do for new employees. This information would then be used to locate deadbeat parents and garnish payments to them. Independent contractors, who are often self-employed individuals, are often the most difficult child support collection cases, and this initiative would add them to the new hire reporting system which has already located 3 million deadbeat parents in the past two years.

Possible Objections and Responses

Objection: This would be a burden on small business.

Response: The new hire system was designed to minimize burdens on employers. Only six pieces of data need to be submitted for each person and three of those are data about the company: 1) individual name 2) individual social security number 3) individual home address 4) employer name 5) employer tax id number and 6) employer address. Employers have been implementing this sytem without objection for several years now. It is true that this policy would expand this reporting to a new category of individuals, but the reporting burden itself is minimal. After all if the "live free and die state" of New Hampshire can implement this, we shouldn't have a problem.

Objection: It is unfair to impose this burden on business without consultation.

Response: This is not an EO in which we are acting unilaterally without public comment. Instead, we are proposing legislation, which will be vetted in the public, where any potential objections can be heard. HHS has worked closely with the employer community in implementing the new hire data base and they do not expect serious objections.

Objection: We don't need the revenue for the budget.

Response: This is not quite true, and beside the point. The point is that this proposal will collect more child support; it also keeps us from having to put in place a pay-for which HHS objects but we could live with.

Child Support Initiatives
01/10/00 - DRAFT

Collect More Child Support from Fathers Who Can Pay: The President's FY 2001 Budget will include several new initiatives to further crackdown on parents who owe child support and can afford to pay. These initiatives will collect $XX million more in support for children who need and deserve the support of both parents by:

Intercepting Gambling Winnings to Collect Past-Due Child Support. This initiative would seize gambling winnings from parents who owe back child support. Currently, gaming establishments are required to retain a portion of winnings for Federal tax purposes (28 percent of winnings above $5,000). Under this plan, gaming establishments would also check to see if individuals with winnings exceeding a threshold ($600 to $1,500 depending on the type of gambling) owe child support, and if they do, they would retain up to the full amount of the winnings or the amount of the child support arrearages, whichever is smaller, to pay to the children of the deadbeat gambler.

Booting Vehicles Owned By Parents Who Are Delinquent in Their Child Support. This plan would require States to put in place a policy recently adopted in Virginia to immobilize vehicles owned by parents who are delinquent in child support with the boots that clamp around a car's tire. Safeguards will be in place to ensure that people who are legitimately trying to pay are not targeted.

Strengthening Efforts to Collect Child Support Independent Contractors. The New Hire Reporting Program has been one of the most successful innovations in child support enforcement. The program matches all employees with parents who owe child support, locating where deadbeat parents work so their wages can be garnished. Since its inception two years ago, the program has found nearly 3 million parents who were delinquent in their child support payments. Under this new plan, employers would be required to report any independent contractors to the directory of new hires, just as they do for new employees. Independent contractors, who are often self-employed individuals, are often the most difficult child support collection cases. The information from matching this information could then be used to garnish the independent contractor's salary or used to locate information on them.

Denying Passports From Parents Who Owe $2,500 or More In Child Support. This proposal would deny passports to parents who owe more than $2,500 in outstanding child support arrearages. This is an expansion of the current Passport Denial Program, which rejects passport applications or renewal requests if child support arrearages exceed $5,000 and is currently denying 30-40 passports to delinquent parents per day.

Prohibiting the Participation of Medicare Providers Who Owe Child Support. This proposal would prohibit the enrollment of individuals who want to bill Medicare as providers and are delinquent in their child support payments. It would also allow the Secretary of HHS to terminate enrollment of individuals who want to bill Medicare and fail to make reasonable efforts to eliminate their delinquent child support balances.

Expanding the Scope of Federal Offsets. Currently the government can collect certain federal debts, but not child support, from Social Security, Black Lung and Railroad Retirement Benefits. This proposal would expand present law and permit the collection of child support along with other federal debts. Like the legislation which passed the House of Representatives in February 1999, the first $750 per month of these federal payments would be protected from offset.

Requiring More Frequent Updating of Child Support Orders. This proposal would require States to review support orders for families receiving TANF every three years and adjust them accordingly. New orders reflecting parents' updated salary information will bring more child support to children who need it.

Streamline Child Support Distribution Rules So Mothers Get More Reliable Child Support Income: The budget contains a two part proposal which simplifies the child distribution rules and also provides federal match to States that pass through up to $100 a month in child support directly to families on welfare. These proposals will provide more of a connection between what a father pays and what his family gets, providing parents with more of an incentive to cooperate with the child support system and providing children with more stable child support income. Currently, when a father pays support in a given month, whether or how much of that support goes to his children depends on a complex set of rules involving whether the child is or ever was on welfare, and whether the father owes past due support that accumulated before the mother and child were on welfare, while they were on welfare, or after they left welfare.

Funds to Prosecute the Worst Offenders: In 1998, the President signed into law the Deadbeat Parents Punishment Act, a measure he had long called to create new felony offenses for the worst child support offenders. This year's budget provides $5 million in additional resources in FY 2001 to fund an increase in U.S. Attorneys' legal support staff dedicated to child support to help prosecute the more egregious child support offenders – those who cross state lines in order to avoid paying support.

Put Fathers Who Owe Child Support to Work: To help low income fathers to work, pay child support, and reconnect with their children, the budget proposes to expand responsible fatherhood initiatives funded through the Department of Labor's Welfare to Work program. The FY 2001 budget will include a new Low-Income Families Transitions (LIFT) program to help hard-pressed working families succeed in the workforce and support their children, funded at $255 million in FY 2001, the program's first year. About half these funds will focus on fathers and other noncustodial parents who owe child support, to put them to work so they will support their children. These funds will put us on the path to ensuring that the approximately one million "deadbroke dads" who need to go to work in order to pay child support can do so. Preference will be given to applicants with a strong requirement that all noncustodial parents pay child support or go to work.

Ensure Fathers Returning from Prison Become Responsible: Through a new re-entry partnership proposal at the Department of Justice and a new ex-offender employment program at DOL, the budget will provide $110 million in FY 2001 to help men in prison become better fathers and prepare them for employment upon their release.

December 18, 1999

MEMORANDUM

TO: Gene Sperling, Bruce Reed

FROM: Chris Jennings and Jeanne Lambrew

SUBJECT: Background on Health Insurance Coverage Initiative

The attached document provides background information and policy descriptions of the new health insurance initiatives for the FY 2001 budget. It excludes non-coverage health initiatives that we are considering or carrying (e.g., long-term care initiative).

BACKGROUND

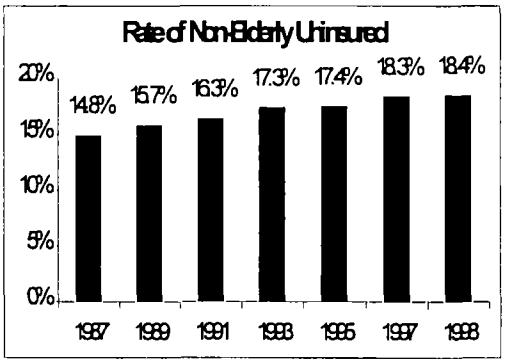
As the next page shows, there are compelling reasons why the FY 2001 budget should include a health insurance expansion initiative. Beyond being a major focal point of the Presidential election campaign, it is imperative that the Administration have a counter to Republicans' claim that their "access" provisions in their patients' bill of rights illustrates their greater commitment to this issue. Moreover, to support our critique that the Republicans' proposal does not significantly expand coverage and is weighted towards the wealthy, we need to have a package of health initiatives that more equitably distributes any tax relief and significantly expands coverage.

In developing policies to be included in a health insurance initiative, we have not only included Administration and Congressional Democratic priorities, but recommended at least some of the Vice President's health care initiatives. This would show our shared vision of reform and would help validate that his initiatives are credible.

With these factors in mind, we recommend a targeted two-pronged health package: (1) a health coverage expansion initiative and (2) tax equity initiative. The two major parts of the health coverage initiative – finishing the job on enrolling uninsured children and extending access to their parents -- are described in greater detail in the attached documents. In addition, as discussed at this morning's meeting, we will work with Treasury to develop a better targeted, more equitable tax initiative than the Republicans, recognizing that all tax initiatives have little coverage impact.

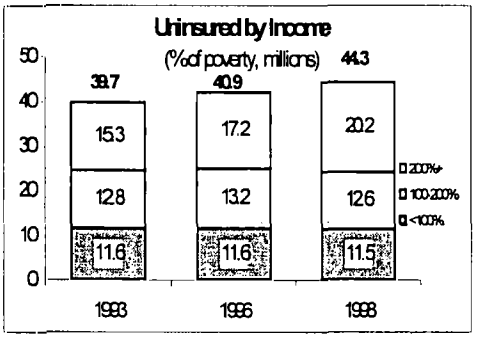
OVERVIEW OF HEALTH COVERAGE INITIATIVE

BACKGROUND



- **About 44.3 million Americans lack health insurance**. This is a 0.9 million increase from 1997 and about a 5 million increase from 1993. Although the new Children's Health Insurance Program (CHIP) will likely slow if not reverse the trend, the number of uninsured Americans is one of the few social indicators that has not improved under the strong economy.

- **Growing middle-class problem**. Three-fourths of the uninsured work or are in working families, with income above poverty. Although the uninsured rate remains highest among the poor (33 percent), it has been growing faster for the middle class. All income groups experienced increases in the uninsured rate since 1993, but this increase was 50 percent higher for the middle class than that of the poor.



In part, this reflects limited access to affordable insurance for some working families. Many work in small businesses, on contract or a temporary basis, or part-time – all of which have limited access to employer-based insurance. For others, the available options are just not affordable. Small businesses typically pay more for health insurance – which gets passed along to workers. Individual insurance can be prohibitively expensive or denied to families altogether in most states.

HEALTH COVERAGE INITIATIVE. The proposals fall into two broad categories:

- **Finishing the Job: Enrolling Uninsured Children.** One of the greatest health policy achievements of the President is the creation of the Children's Health Insurance Program. Now entering its third year, the success of this program in reducing the number of uninsured children will likely be used as a measure of success of this Administration. Thus, this initiative includes several policies to accelerate enrollment of uninsured children, focusing on school-based efforts and eligibility simplification.

- **Expanding Access to Affordable Insurance for Adults.** Building on the options available to children, this initiative would provide incentives for states to cover the parents of children eligible for or enrolled in Medicaid or CHIP. It would assume a number of proposals from previous budgets, like the small business coalition tax credit, the Medicare buy-in, Medicaid coverage of legal immigrants, and Medicare coverage for the working disabled (removing the limit on coverage in the Jeffords-Kennedy bill).

SUMMARY OF HEALTH INITIATIVE OPTIONS
(All Cost Estimates VERY Preliminary, Dollars in billions, 5 and 10 years)

POLICY	Proponent	Cost
CARRY OVER / PREVIOUSLY PROPOSED / ASSUMES IN		
Medicare buy-in: Allows people aged 62 to 65 to buy into Medicare; provides buy-in for displaced workers ages 55 +; provides COBRA to ages 55 + losing retiree health benefits.	WH, OMB, HHS	1.4 / 2.8
Medicare coverage for people with disabilities: Removes the 4 ½ year limit on Medicare imposed by Republicans in Work Incentives Improvement Act	WH, HHS	0 / 0.3
Medicaid option for legal immigrants: Gives states the option of covering certain legal immigrant children, pregnant women, and SSI recipients denied coverage in welfare reform	WH, OMB	1.5 / 3.8
Medicaid option for presumptive eligibility for children: Gives states the option of letting schools, child care referral centers, others provide on-site, temporary enrollment	WH, VP, OMB	0.6 / 1.5
Small business insurance initiative: Provides a new tax credit for small businesses who join coalitions; tax-exempt status for foundation contributions to create coalitions; technical asst.	WH, VP, Treasury	0.1 / 0.3
NEW PROPOSALS		
Enrolling uninsured children in Medicaid and CHIP: Includes conforming Medicaid with CHIP eligibility processes; eliminating prohibition on sharing school lunch program information w/Medicaid & CHIP (Lugar amendment); pilot project for outreach to homeless children and families	WH, VP, OMB, HHS	0.5 / 1.0
Parents of children eligible for Medicaid or CHIP: Gives states the option of getting enhanced match for covering parents of children eligible for their state programs	WH, VP, OMB*, HHS	15.0 / 45
Medicaid option to cover poor adults: Gives states the option of covering any adult, not just parents, with regular matching	HHS	?
Extending sunset for transitional Medicaid: Continue state requirement to provide one year of Medicaid coverage for people whose earning makes them ineligible (expires 10/01)	OMB	1 / 2.5
Tax credit for individual insurance: 15% tax credit for people purchasing individual insurance	WH, VP, Treasury	30 / 50
Tax credit for Medicare buy-in: 25% tax credit for people participating in the Medicare buy-in	Treasury for Podesta	?
Tax credit for COBRA coverage: 25% coverage for COBRA, split between employers and employees	Treasury	X / 15

*OMB supports a less expensive version of this proposal.

Note: HHS has not yet formally weighed in on policies; these are preliminary positions

FINISHING THE JOB OF TARGETING AND ENROLLING UNINSURED CHILDREN

BACKGROUND

- **In 1998, over 11 million children were uninsured.** This is virtually the same as in 1997, and up from 9.6 million in 1993.

- **About 40 percent of poor children – nearly 5 million -- are uninsured.** The vast majority of these poor children are eligible for Medicaid. Their parents do not enroll them because: (a) lack of awareness of eligibility; (b) belief that work or not receiving welfare disqualifies them; (c) fear that legal immigrants could be deported if they enroll their children; and (d) complicated and burdensome application process.

- **Even fewer families know that their children may be eligible for CHIP.** Created in 1997, the Children's Health Insurance Program (CHIP) allows states to cover children in working-class families, through Medicaid, a separate program, or a combination. States are in varying degrees of implementing CHIP, but as of December 1999, about 2 million children were enrolled in CHIP. This is considerable progress in a short period of time, but there are millions more uninsured but eligible children not yet helped by this program. Some of the reasons are the same as for Medicaid, but education is an even greater issue in CHIP since it is new and targets families that typically do not receive such government assistance.

- **States have had varying degrees of success at insuring children.** The proportion of uninsured children ranges from 6 percent in Hawaii and Wisconsin to 24 percent in Texas and 25 percent in Arizona. This reflects both the different eligibility levels in states, but also the states' use of and commitment to aggressive outreach initiatives.

- **Uninsured children are often in programs like schools and child care that can help enroll them.** A number of programs, like the school lunch program, subsidized child care, Head Start, and others target the same children who are eligible for Medicaid and CHIP. According to some studies, a large proportion of uninsured children is enrolled in these programs.

PROPOSALS

The following are the policies that could be included in a children's health outreach initiative. The first was included in past budgets and accounts for most of the initiative's costs – about $0.6 billion over 5 years. The new ideas probably cost less than $500 million over 5 years. All except the homeless demonstration were included in the Gore health plan; the homeless outreach project is a Tipper Gore priority. With the exception of the homeless demonstration (which is still under review), all of the following provisions are endorsed by OMB, DPC, NEC, HHS, OVP and the First Lady's office.

- **On-site enrollment of uninsured children.** The Balanced Budget Act gave states the option to authorize certain workers to make presumptive eligibility determinations for children. "Presumptive eligibility" is temporarily enrolling apparently eligible children in Medicaid or CHIP during the formal application process. It both helps the child pending official enrollment and increases the likelihood that the family completes the application process. Currently, only "qualified providers" can make presumptive eligibility determinations: Medicaid providers, those determining eligibility for WIC, Head Start and Child Care & Development Block Grant services.

  This proposal would expand these sites to: schools, child care centers, homeless shelters, locations that determine eligibility for Medicaid, TANF, and CHIP, and other entities approved by the Secretary. It would specifically encourage states to use enrollment in their school lunch programs as a trigger for presumptive eligibility.

- **Option for using school lunch information for children's health insurance outreach (Lugar amendment).** Currently, school lunch programs are allowed to share enrollment information with other social programs, but not health insurance programs. The proposal would allow schools to elect to share school lunch applications with Medicaid and CHIP staff unless parents opt not to have such information disclosed. When shared, application information may be used only for the purpose of child health insurance outreach and enrollment. Several states, including Indiana and Washington, want to do this to make outreach more efficient.

- **Aligning Medicaid and CHIP and eliminating barriers to enrollment.** Complicated, long application processes for Medicaid may discourage enrollment. While most states have recognized this and simplified the process in CHIP, not all states have done so in Medicaid. To ensure that children do not fall through the cracks of different eligibility rules for Medicaid and CHIP, this proposal would require that states conform Medicaid eligibility for children to that of CHIP in the following respects: (1) dropping assets tests; (2) using mail-in application; (3) using a 12-month redetermination period; and (4) extending eligibility to children up to age 21. Thus, a state could not have simpler enrollment and redetermination processes for its CHIP program than it has for its Medicaid program.

- **Demonstration for outreach to homeless children and families.** Many homeless people are eligible for programs like Medicaid, CHIP, and substance abuse and mental health services. However, given unique challenges like the lack of an address or phone number and a high incidence of mental illness and substance abuse, many do not access to needed services. This proposal creates a $10 million competitive grant program in Medicaid to states to test what approach works best to coordinate programs and increase enrollment of homeless children and families in Medicaid, CHIP, and other social services programs.

WORKING PARENTS: BUILDING ON MEDICAID AND CHIP

BACKGROUND

- **About 9 million uninsured parents have children eligible for or enrolled in Medicaid or CHIP.** According to one study, about 4 million uninsured parents have children current enrolled in either Medicaid or CHIP. In addition, about 80 percent of the parents of uninsured children are themselves uninsured. Most (5 million) of these uninsured parents have income below 200 percent of poverty, the general eligibility threshold for CHIP.

- **Eligibility is much lower for parents than children.** While all states cover poor children and most states cover children up to 200 percent of poverty (about $33,000 for a family of four), only 13 states cover parents at or above poverty. The median upper eligibility limit for parents in Medicaid is about 60 percent of poverty. In part, this is because states do not get the higher matching rate under CHIP for parents.

- **Access to health care may be hurt when parents are uninsured.** A recent survey found that 40 percent of families with a mix of members who are uninsured and covered by Medicaid (probably their children) experienced barriers to medical care – nearly 4 times the percent of privately insured families and higher than all-uninsured families. This is because families typically use the same providers when they have the same insurance coverage, improving continuity of care.

- **Covering parents would increase enrollment of uninsured children.** Families are more likely to learn about Medicaid and CHIP and to enroll their children in the programs if the whole family is eligible. As such, this option would likely reduce the number of uninsured children as well as parents.

- **Promotes welfare to work efforts.** Many families do not know about or participate in current Medicaid options and thus become uninsured when leaving welfare for work. Policies extending and promoting family coverage could help these families access affordable health insurance.

- **Supported by states and advocates.** The National Governors' Association support expanding CHIP to cover parents in its 1999 policy resolutions. The Center on Budget and Policy Priorities and Families USA, among others, recommend covering parents of Medicaid and CHIP children as strong next step in coverage expansions.

UPPER ELIGIBILITY IN MEDICAID/CHIP

	CHILDREN	PARENTS
	(Percent of Poverty)	
ALABAMA	200	22
ALASKA	200	83
ARIZONA	200	51
ARKANSAS	200	22
CALIFORNIA	250	100
COLORADO	185	45
CONNECTICUT	300	185
DELAWARE	200	108
DC	200	200
FLORIDA	200	34
GEORGIA	200	45
HAWAII	185	100
IDAHO	150	36
ILLINOIS	133	52
INDIANA	150	33
IOWA	185	93
KANSAS	200	43
KENTUCKY	200	54
LOUISIANA	150	23
MAINE	185	108
MARYLAND	200	46
MASSACHUSETTS	200	133
MICHIGAN	200	48
MINNESOTA	280	275
MISSISSIPPI	133	40
MISSOURI	300	100
MONTANA	150	73
NEBRASKA	185	43
NEVADA	200	90
NEW HAMPSHIRE	300	60
NEW JERSEY	350	47
NEW MEXICO	235	62
NEW YORK	192	59
NORTH CAROLINA	200	56
NORTH DAKOTA	100	74
OHIO	150	85
OKLAHOMA	185	37
OREGON	170	100
PENNSYLVANIA	200	71
RHODE ISLAND	300	193
SOUTH CAROLINA	150	58
SOUTH DAKOTA	140	70
TENNESSEE	200	67
TEXAS	200	32
UTAH	200	58
VERMONT	300	158
VIRGINIA	185	33
WASHINGTON	250	96
WEST VIRGINIA	150	30
WISCONSIN	185	185
WYOMING	133	69

From HHS; Center on Budget & Policy Priorities

PROPOSAL

This option, which is one of a number of the Gore health proposals, expands affordable health insurance to parents of children eligible for or enrolled in Medicaid and CHIP. Although states can – and some do – cover parents in Medicaid, they cannot cover parents in CHIP nor do they receive the higher Federal matching rate under CHIP for parents. This plan would encourage states to expand coverage for the entire family, not just children, by:

- **Providing higher Federal matching payments for expanding coverage to parents.** States that raise their eligibility for parents would receive higher Federal matching payments for these parents (e.g., if they covered parents up to 50 percent of poverty in 2000 but expanded to 150 percent of poverty in 2001, they would receive the higher matching rate for the parents with income between 50 and 150 percent of poverty). The higher matching rate would be the same as that under CHIP (about 15 percentage points higher than their Medicaid matching rate).

- **Increasing CHIP allotments**. The higher Federal matching payments for expanding coverage to parents would come from the CHIP state allotments. Under CHIP, the enhanced Federal matching payments are available up to a limit know as an allotment (a fixed dollar amount allocated to each state based on need). Once the allotments are used up, states expanding through Medicaid receive the regular Medicaid matching rate for additional costs while states expanding through non-Medicaid programs may limit enrollment. States would not be allowed to limit enrollment of children unless they had already limited all enrollment of parents. To ensure adequate funding for this option, the state CHIP allotments would be increased, beginning in 2002 [amount depends on scoring]. States would get this increased allotment if their state plan for parents is approved and they already extended eligibility for children to at least 200 percent of poverty.

- **Enrolling the parents in the same program as their children**. Parents would be insured in the same program as their children; states could not cover a parent in a state-designed program when their children are currently eligible for Medicaid and vice-versa. States would cover lower-income parents before covering upper-income parents, as in CHIP.

FY 2001 Education Budget Settlement

~~With Policy Council Adds~~

(in millions)

Created Dec. 21, 4:00 PM

Department of Education	Enacted	Request	Passback	Agency Appeal	Potential Settlement Total	Potential Settlement Increase over Passback	Potential Settlement (+/-) Agency Appeal
Department of Education - Total Funding	35,703.235	41,488.838	35,703.235	39,494.718	40,190.534	4,487.299	695.816
After School	453.710	1,000.000	525.000	700.000	1,000.000	475.000	300.000
Next Generation Technology Innovation	0.000	170.000	148.660	170.000	160.000	11.340	-10.000
Community-Based Technology Centers	32.500	65.000	32.500	35.000	100.000	67.500	65.000
Title I Grants to States	7,941.397	8,800.000	8,141.397	8,507.400	8,357.500	216.103	-149.900
State Agency: Migrant	354.689	400.000	354.689	354.680	380.000	25.311	25.320
Comprehensive School Reform Demos	170.000	200.000	170.000	170.000	180.000	10.000	10.000
GEAR UP/CAMP	22.000	24.000	22.000	22.000	30.000	8.000	8.000
Impact Aid	910.500	914.171	730.000	855.000	772.000	42.000	-83.000
Class Size	1,300.000	1,700.000	1,500.000	1,500.000	1,750.000	250.000	250.000
Teaching to High Standards	826.000	1,700.000	503.000	1,473.000	1,000.000	497.000	-473.000
Safe and Drug Free Schools	605.750	691.000	605.750	655.800	655.750	50.000	-0.050
Arts in Education	11.500	10.500	11.500	11.500	23.000	11.500	11.500
Education for Homeless Youth	28.800	35.000	28.800	35.000	31.700	2.900	-3.300
Charter Schools	145.000	150.000	145.000	145.000	175.000	30.000	30.000
Rural Assistance	33.000	30.000	0.000	33.000	33.000	33.000	0.000
America Reads	260.000	386.000	286.000	286.000	286.000	0.000	0.000
Indian Education	77.000	91.735	77.000	91.735	115.500	38.500	23.765
Bilingual Education Instructional Services	162.500	180.000	162.500	166.500	180.000	17.500	13.500
Foreign Language Assist.	8.000	18.000	8.000	18.000	12.000	4.000	-6.000
Special Education	6,036.646	6,676.325	6,035.146	6,638.411	6,370.146	335.000	-268.265
Assistive Technology	34.000	41.000	34.000	41.000	68.000	34.000	27.000
IDEA IRR	86.500	100.000	86.500	91.500	91.500	5.000	0.000
Rehab Services and Disability Research	248.045	506.313	248.045	291.199	258.199	10.154	-33.000
National Technical Institute for the Deaf	48.151	51.742	48.151	51.832	50.726	2.575	-1.106
Gallaudet University	85.980	88.015	85.980	87.733	87.480	1.500	-0.253
Gallaudet Institute for Literacy	6.000	6.500	6.000	6.000	6.500	0.500	0.500
Vocational Education	1,055.650	1,200.000	882.683	1,121.200	1,055.650	172.967	-65.550
Adult Education National Activities	14.000	101.000	39.000	42.000	89.000	50.000	47.000

FY 2001 Education Budget Settlement
With Policy Council Adds
(in millions)

Created Dec. 21, 4:00 PM

Department of Education	Enacted	Request	Passback	Agency Appeal	Potential Settlement Total	Potential Settlement Increase over Passback	Potential Settlement (+/-) Agency Appeal
Adult Education State Grants	450.000	515.000	450.000	525.000	465.000	15.000	-60.000
Pell Grants Max Award (non-add)	*$3,300*	*$3,525*	*$3,350*	*$3,500*	*$3,500*	*$150*	0.000
Pell Grants	7,700.000	8,715.000	8,180.000	8,358.700	8,358.700	178.700	0.000
Pell Surplus	238.000	N/A	N/A	129.300	129.300	N/A	N/A
Perkins Loans: Loan Cancellation	30.000	30.000	30.000	96.000	60.000	30.000	-36.000
SEOG	631.000	663.000	631.000	731.000	691.000	60.000	-40.000
Strengthening Institutions Part A	60.250	70.000	60.250	70.000	63.000	2.750	-7.000
Strengthening Tribal Colleges	6.000	9.000	6.000	9.000	9.000	3.000	0.000
Strengthening HB Grad. Inst.	31.000	32.768	31.000	33.000	32.500	1.500	-0.500
Strengthening HBCUs	148.750	160.000	148.750	160.000	169.000	20.250	9.000
Developing HSIs	42.250	50.000	42.250	50.000	62.500	20.250	12.500
Minority Science Improvement	7.500	9.500	7.500	9.500	8.500	1.000	-1.000
TRIO	645.000	690.000	645.000	745.000	725.000	80.000	-20.000
GEAR UP	200.000	360.000	240.000	300.000	325.000	85.000	25.000
Byrd Scholarships	39.859	41.001	39.859	41.001	41.001	1.142	0.000
Learning Anytime Anywhere Partnerships	23.940	30.000	15.000	15.000	30.000	15.000	15.000
Teacher Quality and Recruitment	98.000	200.000	98.000	200.000	98.000	0.000	-102.000
Child Care Access Means Parents in School	5.000	10.000	5.000	10.000	15.000	10.000	5.000
Howard University	219.444	227.000	219.444	227.000	224.000	4.556	-3.000
IES Research and Dissemination	168.567	250.000	168.567	218.567	193.567	25.000	-25.000
Statistics	68.000	90.000	68.000	68.000	82.500	14.500	-5.500
America's Test	0.000	15.000	0.000	3.000	5.000	5.000	2.000
HBCU Capital Financing	0.207	0.208	0.207	0.207	0.208	0.001	0.001
Program Administration	383.184	427.000	383.184	427.000	403.184	20.000	-23.816
Office for Civil Rights	71.200	78.605	71.200	78.605	76.000	4.800	-2.605
Office of the Inspector General	34.000	37.000	34.000	37.000	35.500	1.500	-1.500
Other ED Programs (unallocated)	N/A	N/A	N/A	N/A	N/A	2.000	N/A
New Initiatives							
High School Reform	45.000	125.000	125.000	125.000	125.000	0.000	0.000
Strengthening TA Capacity Grants	28.000	60.000	28.000	60.000	38.000	10.000	-22.000
Awards and Recognition	0.000	5.000	0.000	0.000	50.000	50.000	50.000
21st Degree	0.000	0.000	0.000	0.000	40.000	40.000	40.000
On-line	0.000	0.000	0.000	0.000	10.000	10.000	10.000

3:06 PM 12/21/1999

From: Eric_P._Liu@opd.eop.gov <Eric_P._Liu@opd.eop.gov>
To: epliu@msn.com <epliu@msn.com>
Date: Tuesday, December 21, 1999 9:23 PM
Subject: Thursday announcement

---------- Forwarded by Eric P. Liu/OPD/EOP on 12/21/99 09:21 PM ----------

Karen Tramontano
12/21/99 06:17:28 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP

cc:
Subject: Thursday announcement

let me know what you think?
---------- Forwarded by Karen Tramontano/WHO/EOP on 12/21/99 06:17 PM ----------

Loretta M. Ucelli
12/21/99 06:16:07 PM

Record Type: Record

To: Karen Tramontano/WHO/EOP@EOP

cc:
Subject: Thursday announcement

---------- Forwarded by Loretta M. Ucelli/WHO/EOP on 12/21/99 06:16 PM ----------

Stephanie A. Cutter
12/21/99 12:18:09 PM

FY 2001 Education Budget Settlement
With Policy Council Adds
(in millions)

Created Dec. 21, 4:00 PM

Department of Education	Enacted	Request	Passback	Agency Appeal	Potential Settlement Total	Potential Settlement Increase over Passback	Potential Settlement (+/-) Agency Appeal
SAT/ACT Test Prep	0.000	0.000	0.000	0.000	10.000	10.000	10.000
School Renovation	0.000	0.000	0.000	0.000	1,385.000	1,385.000	1,385.000
SUBTOTAL	35,703.235	41,488.838	35,703.235	39,494.718	40,210.534	4,507.299	-513.259
Savings							
GAANN (cut to the Javits Program)					-10.000	-10.000	
Troops to Teachers (moved to Title II)					-10.000	-10.000	
TOTAL					40,190.534	4,487.299	
Total Offsets						2,554.000	
Downments and Smalls						-98.966	
Remaining Offsets						2,455.034	
Settlement Increase from Passback Remaining Offsets						2,032.265	

1385
-50
1335

1385 115

$40M

Record Type: Record

To: Douglas B. Sosnik/WHO/EOP@EOP, Loretta M. Ucelli/WHO/EOP@EOP, Jennifer M. Palmieri/WHO/EOP@EOP

cc:
Subject: Thursday announcement

Below are some food security announcements that we could put out on Thursday since there's no message opportunity that day.

Please let me know what you think. Thanks.

ANNOUNCEMENTS / DELIVERABLES: SUPPORTING COMMUNITY FOOD SECURITY ACTIVITIES

These announcements are further Administration efforts to combat hunger and bolster community food security.

1) USDA is launching a ?2000 in 2000" campaign aimed at generating, by the end of next year, 2,000 new government, nonprofit, and private sector commitments to fight hunger and increase food security. USDA will provide technical assistance to help entities fulfil these commitments.

2) Three new USDA guides to be used by individuals and organizations to combat hunger. The first USDA guide details how organizations can obtain funding and other resources to bolster community food security. The second guide provides examples of volunteer activities that any citizen or group could undertake to fight hunger. The third USDA guide provides communities with detailed questions they can ask about improving the effectiveness and utilization of Federal nutrition assistance programs at the grass-roots level.

3) Release of joint USDA/EPA guide on how food recovery and donations help protect the environment. This guide provides a good example of how ?livable? communities can reduce solid waste at the same time they fight hunger.

4) Announcement of updated USDA field gleaning numbers, now likely to be over 7.5 million pounds. This USDA Initiative, which has already received a Vice-Presidential Hammer Award, works with volunteer groups to recover and distribute excess food from farms and other sites.

12/16/99

Summary

Fathers Grants

Put Fathers Who Owe Child Support to Work: To help low income fathers to work, pay child support, and reconnect with their children, we could expand our responsible fatherhood initiatives through the Department of Labor's Welfare to Work program by providing new competitive grants to states, localities, non-profit and faith-based groups. Currently, we estimate there are about one million "deadbroke dads" who need a job in order to pay child support. Funding of approximately $2 billion over 10 years ($2,000 per person) could put all these fathers to work and ensure they fulfill personal responsibility contracts and support their children. We could propose to give competitive grants only to states or localities that implement a requirement that all noncustodial parents pay child support or go to work.

Low Income Working Families Grants

Support Low-Income Working Families Succeed on the Job and Move up the Career Ladder: To help low-income working families succeed in the workforce, these grants would ensure working families get supports they need to retain their jobs (such as food stamps, Medicaid, child care, and EITC) and help they need advancing in the workforce. These grants would help low-income working families up to 200% of poverty, including former welfare recipients and individuals with disabilities through competitive grants to local governments (including workforce boards and one-stops), community- and faith-based groups, and states.

Priority would be given to projects that demonstrate strong partnerships with other entities providing both employment and work supports (such as food stamps, Medicaid, child care, EITC, substance abuse and mental health treatment), and to applicants who leverage existing public resources available for these purposes (such as TANF, Workforce Investment Act funds, SAMHSA substance abuse and mental health funding, as well as employer and foundation commitments). Applicants would be expected to use rely primarily on existing resources for skills training and work supports. For example, they would first use PELL grants or WIA funds for training, and CCDF or TANF resources for child care. The grants funds would be used primarily for case management, coordination, outreach, and filling other service gaps where they exist.

Additional Background

Depending on overall funding levels, whether these end up on the mandatory or discretionary side, and final decisions about major themes, we could package these in several ways:

1) Grants for fathers and for low-income working families could both be funded under a single competitive grant funding stream with a targeted amount designated for each purpose, or they could be two separate funding streams

2) We make the grants discretionary or mandatory.

3) We could include both fathers and low-income working families grants under a general heading of Welfare-to-Work (and describe as the next generation of welfare to work, or steps to sustain the success of welfare reform). This would help show we are refining rather than abandoning our commitment to Welfare-to-Work and to the mayors. Alternatively, we could focus on promoting responsible fatherhood and helping low-income working families succeed.

4) Within whatever funding levels we end up with, we should also: a) extend the spending deadline for current grantees to help serve more long-term welfare recipients and others with approximately $2 billion in existing funds (still being scored by OMB) and b) continue our FY 2000 commitment for Welfare-to-Work formula grants for tribes, at $30 million. We may also want to provide up to $5 million for technical assistance and sharing best practices among current and new grantees to ensure the most effective use of these funds.

The current WtW structure is basically fine for the fathers grants. Possible changes we could propose include:

- allow states to comply for competitive grants (since they'll be getting no new formula funds and some may want to do responsible fatherhood initiatives – though of course they can also do through TANF).
- slightly expanding allowable activities to highlight that, in addition to helping fathers go to work, funds could also be used to help them become better fathers through parenting and other softer skills. (WTW funds can and are being used for these things under the categories of job retention and post-employment services)

The current WtW structure might need more tweaking for the low-income working families grants:

- might want to expand eligibility to include the working poor who may not be former welfare recipients (for example, up to 200% of poverty). Currently, each grantee must spend at least 70% of its funds on long-term recipients or low-income non-custodial parents (mostly fathers), and can spend no more than 30% of its funds on poor custodial parents (mainly mothers) who are not welfare recipients.
- Possibly allow states to apply directly.
- Could highlight that activities include ensuring these families have access to supports such as food stamps, Medicaid, child care, EITC, etc though this should not required a legislative change as it should be accommodated under post-employment or retention services.
- Existing participant and financial reporting and cost categories might need to be examined to ensure they appropriately support these grants.