Lou Weisbach sends draft of proposal he and **Richard J. Boxer** have developed for a Bio-technological Advanced Research Projects Agency and asks that you call him after reviewing it.

10-21-00

FACSIMILE TRANSMITTAL SHEET

TO:	FROM:
Ms. Nancy Hernreich (for the President)	Lou Weisbach (847) 647-4800 (847) 647-4970 (fax)
COMPANY:	DATE: 10/6/00
FAX NUMBER: (202) 456-6703	TOTAL NO. OF PAGES INCLUDING COVER: 7
PHONE NUMBER: (202) 456-6610	RE:

Keep a copy in chron
give Lisel copy w/ note from Betty also

URGENT X FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

Nancy:

Can you please give this to President Clinton as soon as possible and have him call me after he reads through it?

Thank you,
Lou

C Jennings
Pls implement this
from HSAP so I can
call Lou—
RB

copied Jennings Podesta

Make copy for C. Jennings - Return this to me. 3

5980 W. TOUHY AVENUE, NILES IL 60714

FROM VISION TO REALITY

The grand challenge: To end diseases as we know them. To provide the leadership and impetus for the millennial transformation of biological science, and discover the early diagnoses, the cures and the prevention of many of the diseases that plague Americans. Understanding the genetic basis for diseases will require the synergy of information sciences, computer sciences, engineering, nano-technology, material sciences, physics, biology, and chemistry. Today, there is no concerted effort to pull all these disciplines together to create the tools and technologies to turn the promise of science into the revolution in medicine we all anticipate.

Finding the cure to major diseases would save lives, prevent misery, and help our economy. A major expense to business is health insurance, loss of time due to illnesses, disability due to illnesses, and associated health care costs. By finding the cures to major debilitating and deadly diseases, there will be significant savings.

A tax cut gives immediate gratification, but investing in basic science and clinical research will save lives and the economy will flourish by creating unimaginable new products resulting in new industries and jobs, and a far better quality of life in America. While a tax cut may lift a person's spirits temporarily, the cure to diseases will lift the spirits of mankind for generations to come.

The results of this effort will help all Americans, will change the course of history, and make America both better off and better.

- The government should be the catalyst to develop the infrastructure and provide the leadership and vision, but the energy, ingenuity, unique marketplace vision, as well as a percentage of the funds, must come from the private sector.
  - A public/private partnership
  - What is missing is an enterprise to support the development of tools, standards, and products that will bring the promises of our discovery engine to effecting change. To accomplish this goal requires investment across traditionally separated disciplines, a new approach to large scale technology research and a fluid mechanism to link government, academia, and industry.

- A Bio-technological Advanced Research Projects Agency will develop and fund the millennial transformation of biological sciences.
  - The federal government will provide initially $40 billion over 5 years from the surplus to a Trust Fund that will provide the infrastructure and the funding for the Agency.
    - This will be an independent agency to fund interdisciplinary approaches and technology oriented development across disparate scientific fields and to work across the boundaries of government, academia and the private sector.
    - **THIS IS NOT ANOTHER NIH**. It is an agency that is politically independent and insulated from the government, run by a board of directors, accountable to the American people, and will be unconstrained by political pressure or conventional thinking.
      - The nation needs a new organization that can bridge discovery and product development as the Manhattan Project demonstrated. You cannot change a culture within an existing organization and achieve totally new goals. It is better not to re-tool an old organization, but create a new one.
      - Science and the surplus have given us a golden opportunity. Our present scientific achievements may appear to lend themselves to creating new industries and applications, but there is no systematic connection to the essential mechanisms to achieve our goals.
      - Many existing discoveries are not converted into useable products because the existing paradigms do not lend themselves to convert discovery to products.
      - One of the goals will be to develop new tools, standards, technology, and products based upon new and existing discoveries. The products will change the world. This will require an interface between government, private industry, and academia.
      - The only way the organization can succeed is to attract the brightest people in the world, but many do not want to work for the government.
        - There is skepticism by many that the regulatory and bureaucratic burden of government agencies crushes creativity. Accountability and responsibility are not impediments, but government structures are burdens.

- The board of directors will hire the CEO and develop policies to achieve the goals.
    - When the goals are achieved, the money reverts back to the federal government and to the private contributors who invested in the Agency Trust Fund.
    - They will have great latitude and flexibility, but must keep the goal of achieving the charge.
- Politically independent and situated in Boston, San Francisco, New York-not in or near Washington.
- Potential methods to achieve the goals will be:
    - Granting funds to investigators
    - Directing its own research
    - Funding outstanding scientists without directing the research
    - Joint ventures with private industries and universities
    - Venture capital investments in new or existing companies.

- This is separate and distinctly different (although there will be scientific collaboration and cooperation) from the budget of the National Institutes of Health (NIH). Vice President Gore is committed to the doubling of the NIH funds.
- The Gore Administration will commit the resources to the Trust Fund. The Agency will have sufficient resources to fund the projects that the Board of Scientific and Humanitarian Advisors and the Board of Directors believe are essential to create the tools needed to prevent, detect, diagnose, and cure disease. The money will be available to cross the finish line.
    - An emergency fund will be available to fund research that appears to be close to finding a fundamental answer to a particular disease.
- The Board of Directors will commit to raising funds to help in the investment efforts.
- Our present research infrastructure is constricted by the conventional thinking of the past and therefore cannot make the great leaps that must be made to alter how we treat, monitor, prevent, and cure disease, and how we develop new drugs. This will provide an intersection of fields that are presently funded, approached, and organized in totally separate agencies, into a well financed, focused and coordinated agency.
- The transformation of medicine: you don't need a doctor or a hospital to treat infectious diseases for which there is a vaccine. The same will be true for many other diseases.

- In diabetes, for example, an implanted tiny sensing and delivering servo-mechanism could restore freedom to the patient.

- There should be linkage between government, academia, and the private sector.
- A fundamentally different way of exploring for the answers to understand the biological and genetic basis of disease. In the new century we need to link chemistry, physics, material science, engineering, and informational science with biology.
- NASA has developed mechanisms to create engineering solutions and has invested huge amounts into computing power, but biology has not done this.

- A Board of Investors appointed by Congress and the President will have the responsibility of carefully investing the monies to increase the principle.
- A Board of Scientific and Humanitarian Advisors will decide the distribution of the grants
- A Board of Directors will include the greatest entrepreneurs and business leaders of our time.
- The scientists supported by the Agency will not have their pay restricted by the usual federal rules, but will be paid at the market price, to encourage our best and most promising scientists to enter and stay within the Agency.
- The Agency will offer payoff or forgiveness of government loans for education to young scientists who continue their work at the Agency.
- Private industry will be encouraged to invest in this trust fund.
  - Tax-deductible contributions and/or contributions not subject to the usual accounting rules that govern earnings.
  - Private foundations that are health-oriented will be encouraged to focus their gifts into this fund
  - This is very productive money for industry, for it is in their self-interest to have diseases cured.
    - Success of this project will lead to lower health care costs for the nation
    - Just as the eradication of polio saved lives and money, so too will the early diagnosis and cure, and hopefully the prevention of many of the debilitating and deadly diseases that plague our nation.
  - Our full employment economy has limited the number of skilled or professional employees. Because diseases typically strike the more experienced employees (older), this is an investment in the future for industries and America.

- Combine the long-term commitment of the Federal government with the creative efficiencies, enthusiasm for discovery, entrepreneurial advantages, profit motive, and computer ingenuity of private industry. This will promote an atmosphere of excitement and challenge to a project and a team. A public/private partnership may be able to speed the decision, procurement and budgetary processes. The Agency will be able to move quickly to develop new technologies or fund new ventures outside the Agency at the rapid pace of discovery and creativity.
- The President will inspire the nation and specifically members of the Agency to this challenge.

➢ This agency will link science and industry to create new technologies. Creativity demands speed. Imagine the innovations or cures that will happen. Using a new vehicle for bio-technical discovery, spin-offs will create new industries. The agency will become a platform developer.
- Technology platforms that turn discovery into applications, and applications into new industries.

➢ We must critically look at exactly how scientific discovery has been promoted in the past, and turn toward the future. Biotechnology and medical science are fragmented and inefficient and have no concentrated or focused mechanism for advancing basic science into the marketplace. The present system is linked to the past. Creating a new paradigm will ultimately lower the cost of scientific discovery, and lower the cost of health care.
- The telecommunications industry has the Bell Laboratories, for example. Presently, there is no linkage of science, technology, and industry in biomedicine. The amazing productivity and creativity in the telecommunications, computing, and information sciences industries must and will happen in biotechnology.
- The Manhattan Project was fundamentally an engineering problem. Biological problems will not only be solved in the scientific laboratories, but will come from engineering. We will continue to invest in the discovery side through doubling the NIH, but we need to start a federal investment program aimed at applications.
- A THIRD WAY
  - Government supported research, private supported research and a public/private partnership
  - Investigator-initiated research, mission-oriented research, and profit-motivated research.

- America responds to grand challenges: FDR saw the power of splitting the atom, and proposed the Manhattan Project. He told America we could work our way out of the Depression and defeat Hitler; Kennedy proposed the landing of a man on the Moon; and now we propose the eradication of many diseases.
    - The next great sphere is going to be the linkage between biologic science, physical science and information science.
    - The challenges are enormous. The human genome has been mapped, but it is like having a New York City telephone book with all the phone numbers, but no names. Presently, we can't read the genome, we can't make sense the molecules, and we have very, very inefficient ways of developing and delivering the drugs. This will give the consumer control of their health. It will require new technology that creates new sensing devices, creates new approaches to a new generation of medicines, new ways to image the body, and new ways to deliver drugs. This will not happen without a major commitment and investment. Grand challenges must be articulated to inspire those people who are working on them and the American people who are funding them. We are committing ourselves to changing the course of history, similar to our pledge of landing a man on the moon.

9-14-00

CJ Jennings

Personal

Copied
Jennings
Podesta

9-14-00

Preventive Medicine Research Institute

A non-profit public benefit institute dedicated to research, education, and service

Dean Ornish, M.D.
Founder and President
Preventive Medicine Research Institute
Clinical Professor of Medicine
School of Medicine, University of California, San Francisco
900 Bridgeway, Suite 1, Sausalito, California 94965
phone: 415/332-2525 x222; FAX: 415/332-5730
e-mail: DeanOrnish@aol.com

September 12, 2000

TO: President Bill Clinton

FROM: Dean Ornish, M.D. Dean

Rep. Charles Rangel has introduced a bill, H.R. 4107 (enclosed) that would authorize Medicare to pay for a limited number of patients who want to make comprehensive lifestyle changes as a direct alternative to bypass surgery or angioplasty. Over $30 billion were spent last year on bypass surgery and angioplasty in Americans over age 65, so the potential cost savings are enormous as confirmed by Guy King (who was HCFA's chief actuary 1978-1994) and, separately, by David Eddy, M.D., who is considered the leading cost-benefit analyst.

In our earlier demonstration project in eight different hospitals throughout the United States, we found that almost 80% of people were able to avoid bypass surgery or angioplasty for at least three years. Mutual of Omaha calculated saving almost $30,000/patient. More recently, Highmark Blue Cross Blue Shield has been both covering and offering the program. Of the first 300 participants, 299 of them avoided surgery, saving over $16,000/patient.

After six years of discussions with HCFA, I am frustrated that our Medicare demonstration project has run into a series of roadblocks that I discussed recently with Chris Jennings. I believe that the legislative route is the best way to proceed. We have bipartisan support for this lifestyle program from a disparate group of legislators ranging from Reps. Rangel, Archer, Hastings, and Burton to Senators Frist, Feinstein, Boxer, Gephardt, Rockefeller, Harkin, Mikulski, Robb, and others. As an indication of the bipartisan support, Rep. Burton (I know...) even held Congressional hearings last year to encourage HCFA to move forward. As far as I know, no one in Congress opposes this bill.

Earlier today was a meeting with Steve Lieberman, Joe Antos, and Jennifer Bullard of the Congressional Budget Office in Rep. Rangel's office. The CBO agreed that even if our lifestyle program had no benefit whatsoever, the total cost would not exceed $7 million in each of the first two years and $14 million in the next three years. They should be giving us a formal estimate in the next week or two.

I hesitate to ask you for anything, but I would be deeply grateful if you would make this legislation a priority in your year-end negotiation with Congress. We have an opportunity to do something that can benefit all Americans. Please call me if you have any questions or would like any additional information. Thank you so much, as always.

CHARLES B. RANGEL
[illegible] DISTRICT
NEW YORK
DEPUTY WHIP
COMMITTEE
WAYS AND MEANS
RANKING MEMBER
SUBCOMMITTEE ON TRADE
JOINT COMMITTEE ON TAXATION

Congress of the United States
House of Representatives
Washington, DC 20515–3215

[illegible] WASHINGTON, DC 20515-3215
[illegible] 202 225-4365
DISTRICT OFFICES
MS. LINIANE JONES
DISTRICT ADMINISTRATOR
163 WEST 125TH STREET
NEW YORK, NY 10027
TELEPHONE: (212) 663-3900
2310 FIRST AVENUE
NEW YORK, NY 10029
TELEPHONE: (212) 348-9630
PLEASE RESPOND TO
[illegible] CHECKED

September 12, 2000

To The Congressional Budget Office:

Unfortunately I was just called to the House floor to manage a bill. I will make every attempt to return before this meeting is over.

Thank you for making the time to participate in this meeting. I appreciate your coming here at such a busy time, and especially appreciate all the time and effort you have put into this bill thus far. It is important to me that it is passed this year, so I want to work with you today to revise the language in the bill. Representative Archer, President Clinton and many others support this bill.

Almost $20 billion were spent in 1997 on bypass surgery and angioplasty in Americans over 65, so there is a great potential for saving money. This legislation helps the American people by giving them an alternative to surgery. We understand that you are concerned about the lack of clarity and specificity in the language. We want to better understand your concerns so that we can draft language that addresses these and better reflects my original intent.

First, the details of the patient selection criteria were omitted from the original version of the bill that you reviewed. These have now been included. Because of this, the benefit will be limited to a much smaller number of eligible people and it will provide a much greater level of protection against the possibility of fraud and abuse.

Second, I have added language that will limit the number of participants who can be reimbursed for this benefit to no more than 1,000 patients in the first year, no more than 1,000 in the second year, no more than 2,000 patients in the third year, no more than 2,000 in the fourth year and no more than 2,000 in the fifth year. After three years, the benefit will end if the Secretary of Health and Human Services has determined that there has been a net cost compared to the current treatments.

Attached is a draft of the revised bill. I would welcome your input so we can now make appropriate revisions to address any remaining concerns. With best regards, I am

Sincerely yours,

CHARLES B. RANGEL
Member of Congress

CBR:ak

HIGHMARK

FOR IMMEDIATE RELEASE

Contact: Bob Crytzer
412.544.4221
rcrytzer@highmark.com

Latest results of Highmark Blue Cross Blue Shield's Dr. Dean Ornish Program for Reversing Heart Disease demonstrates outstanding lifestyle improvements by the men and women who took bold step in quest for longer, better, happier lives

The first health insurer in the United States to provide and pay for the Ornish program targets saving more than $16,000 in health care costs per participant while sparing people untold pain and suffering

Of 300 participants to date, none have died, suffered a heart attack or stroke or required bypass surgery or a heart transplant since entering the program

PITTSBURGH, Pa. (March 28, 2000) – Many of the 300 participants in Highmark Blue Cross Blue Shield's two-year-old Dr. Dean Ornish Program for Reversing Heart Disease couldn't walk across a room without experiencing shortness of breath or chest pain when they first entered the program. Moreover, many had already suffered heart attacks or undergone bypass surgery or angioplasty and were well on their way to another life-threatening cardiac event.

Today, the exercise and oxygen capacities of those same participants are up significantly. They're walking or running miles at a clip without gasping for breath or

suffering chest pain. (One participant recently climbed Mt. Kilimanjaro, which at 19,565 feet, is the highest mountain in Africa.)

The participants have lost weight and dropped overall body fat. Their cholesterol levels have fallen precipitously. Their blood pressure is down. Chest pain (angina) has decreased by 54%. None of them has suffered a heart attack or stroke. No participants have needed bypass surgery. Only one has had an angioplasty. One participant has avoided a heart transplant and a lifetime of anti-rejection drug therapy. No participants have died. These outcomes are remarkable given the baseline risk profile of the participants. (Please see attached chart on outcomes.)

What's more, their attitudes toward life in general have improved markedly. They're happier, less hostile and have learned how to cope with stress.

In short, they've resumed normal, everyday activities that most people take for granted, but ones they thought were lost forever.

"Highmark's Dr. Dean Ornish Program for Reversing Heart Disease has given me a new lease on life," said program participant Gerry Blair, a 55-year-old executive director of a Western Pennsylvania transit authority whose lifestyle was severely altered after suffering two heart attacks, repeated and painful chest pain, and undergoing bypass surgery and three angioplasties. "I haven't felt this good in years," Blair said. "I feel like I'm in my 20s."

"The Dr. Dean Ornish program is action that substantiates our mission: to help our members live longer and better," said Anna L. Silberman, a vice president at Highmark, and the person who brought the program to the company. "The success of the program is borne out in the avoidance of painful and expensive cardiac events. It's the right thing to do and it's the cost-effective thing to do. Health care dollars are being saved that

historically has been spent on by-pass surgery (average cost: $46,000 per person) and angioplasty (average cost: $31,000 per person).

Highmark estimates up to 80 percent of its Ornish participants would have needed heart surgery in the next five years if they hadn't joined the program.

Highmark's estimated cost savings per participant is $16,186.

"Highmark is to be congratulated for the outstanding results it is demonstrating in Western Pennsylvania," said Dean Ornish, M.D., creator of the only system scientifically proven to reverse heart disease without surgery or drugs.

Highmark Blue Cross Blue Shield is the first health insurer in the United States to provide the Dr. Dean Ornish Program for Reversing Heart Disease, which is for men and women who are searching for an option that may reduce the need for bypass surgery or angioplasty. The program is free to medically qualified members of all Highmark health insurance products, including SecurityBlue, Highmark's Medicare HMO. Scholarships are available to assist medically qualified nonmembers who want to participate in the program but do not have the financial resources.

Participants begin the program with an intensive 12-week regime (they meet twice a week for five hours) that includes aerobic exercise, stress management, a low-fat vegetarian meal plan (participants are allowed only 10 percent of their total calories from fat) and group support. Throughout the program, participants are carefully monitored by the program team, which includes a medical director, nurse case manager, behavioral health clinician, stress management instructor, exercise physiologist and registered dietitian.

Following the initial three months, participants progress to varying levels of program attendance based on individual risk factors. After one year, follow-up and ongoing support are always available.

The program is also conducted in the form of week-long retreats called Camp HealthPLACE for medically eligible individuals who cannot participate in the year-long treatment.

Candidates for the program include:

- Men and women who are contemplating bypass surgery or angioplasty but are seeking an option that may reduce the need for these procedures;
- Patients who have previously experienced one or more heart procedures and want to minimize the chances of repeating the process; and
- People with significant risk factors for cardiovascular disease, such as a strong family history, high serum cholesterol levels, high blood pressure or diabetes.

The objectives of the program are:

- Reduction of blockages in coronary arteries;
- Improvement of blood flow to the heart;
- Reduction in chest pain (angina);
- Reduction in serum cholesterol levels; and
- Improvement in exercise capacity, sense of well-being and satisfaction with life.

The program is the result of several scientific studies conducted over two decades by Dr. Ornish, president and director of the nonprofit Preventive Medicine Research Institute in Sausalito, Calif. Dr. Ornish and his colleagues have demonstrated that

comprehensive lifestyle improvements involving diet, exercise, stress management and group support can improve blood flow to the heart.

Highmark's Dr. Dean Ornish Program for Reversing Heart Disease is delivered through its HealthPLACE division. HealthPLACE is a network of community-based wellness centers located throughout Western Pennsylvania. HealthPLACE provides health promotion programs, disease prevention services and the support individuals need to integrate positive behavior changes permanently into their lives. The centers offer a variety of health resources to the community including healthy cooking classes, cholesterol and cancer screenings, flu shots, seminars on relaxation techniques and a library of print and video materials.

With $7.4 billion in revenues and nearly 20 million customers nationwide, Highmark Inc. ranks among the country's top 10 health insurers. The company was created in 1996 through the consolidation of Blue Cross of Western Pennsylvania and Pennsylvania Blue Shield. Highmark's product portfolio includes traditional health insurance coverage, managed care health plans, life and casualty insurance and dental and vision programs. In Western Pennsylvania, the company does business as Highmark Blue Cross Blue Shield. In central and eastern Pennsylvania, Highmark operates as Pennsylvania Blue Shield.

Press releases and other information about Highmark Blue Cross Blue Shield and its products and services, including the Dr. Dean Ornish Program for Reversing Heart Disease, are available at *http://www.highmark.com* on the Internet.

###

106TH CONGRESS
2D SESSION

H. R. 4107

To amend title XVIII of the Social Security Act to provide for coverage of a program of coordinated lifestyle changes to reverse individuals at significant clinical risk for a heart attack under part B of the medicare program.

IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 2000

Mr. RANGEL introduced the following bill; which was referred to the Committee on Commerce, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

---

A BILL

To amend title XVIII of the Social Security Act to provide for coverage of a program of coordinated lifestyle changes to reverse individuals at significant clinical risk for a heart attack under part B of the Medicare Program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. COVERAGE OF LIFESTYLE CHANGES FOR INDIVIDUALS AT SIGNIFICANT RISK OF HEART ATTACKS.

(a) COVERAGE.—Section 1861(s)(2) of the Social Security Act (42 U.S.C. 1395x(s)(2)) is amended—

(1) in subparagraph (S), by striking "and" at the end;

(2) in subparagraph (T), by inserting "and" at the end; and

(3) by adding at the end the following new subparagraph:

"(U) services furnished under a coordinated lifestyle change program (as defined in subsection (uu)(1)) for certain individuals (described in subsection (uu)(2)) who are at a significant risk of a heart attack;".

(b) SERVICES DESCRIBED.—Section 1861 of such Act (42 U.S.C. 1395x) is amended by adding at the end the following new subsection:

"Coordinated Lifestyle Change Program

"(uu)(1) The term 'coordinated lifestyle change program' means a program of 1 year's duration that—

"(A) is designed for individuals described in paragraph (2);

"(B) consists of lifestyle changes, including a very low-fat, low-cholesterol diet, stress management

techniques, moderate exercise, and psychosocial support, without the use of cholesterol-lowering drugs;

"(C) has been validated to reverse disease in the majority of patients, as measured by quantitative coronary arteriography in a scientific study that is at least 5 years in duration and that used randomly-assigned control and experimental groups; and

"(D) is conducted by a medical facility that is experienced in conducting such a scientifically validated program, or whose staff has been trained by such a facility.

"(2) An individual described in this paragraph is an individual—

"(A) whose physician has recommended revascularization (in the form of angioplasty or coronary artery bypass graft surgery) in the near future (within3 weeks) and certifies that the individual has met the conditions of subparagraph (B) and (C); and is referring the patient to this program as a direct alternative to bypass surgery or angioplasty;

"(B) who has angina and has undergone at least one diagnostic study which demonstrates clinically significant ventricular myocardium at risk for infarction -such study shall include one of the following:

(I) a coronary angiogram (with estimated ejection fraction) demonstrating clinically significant lesions in coronary arteries;

(2) a nuclear imaging study showing a reversible perfusion defect;

(3) a stress echo study showing an inducible wall motion abnormality;

(4) a cardiac positron emission tomography scan with demonstrating a perfusion defect, or

(5) such other tests and test results as the Secretary may determine are appropriate.

"(C) The individual is not disqualified from the program under this subsection because of unstable angina, heart attack, dementia, unrelated life-threatening co-morbidities, or resides outside the service area of the program (generally defined as ninety minutes of commute)."

(c) PAYMENT.—Section 1833(a)(1) of such Act (42 U.S.C. 1395l(a)(1)) is amended—

(A) by striking "and" before "(S)"; and

(B) by inserting before the semicolon at the end the following: ", and (T) with respect to services furnished under a coordinated life-style change program (as defined in subsection (uu)(1)), the amount paid shall be 80 percent of the lesser of the actual charge for the services or the amount determined to be reasonable and related to the costs of furnishing such services (taking into account the period of time during which the services are furnished)".

Except that, no payment shall be made for more than

1,000 individuals in calendar years 2001 and 2002;

2,000 individuals in calendar years 2003, 2004, and 2005.

The limitation shall be waived in 2004 and 2005 if the following conditions are met:

(i) The Secretary shall conduct a study to be provided to Congress by July 1, 2003 of the individuals served in the program under this subsection during 2001;

(ii) The study determines that the total costs of services to such individuals under this title are either lower or the same as expected costs to such individuals if their heart condition had been treated by methods other than by a coordinated lifestyle change program. [To be amplified.]

(iii) The United States General Accounting Office shall review the study to assure that a full accounting of costs and savings from reduced surgery, hospitalization, pharmaceuticals, rehabilitation, and other savings are reported.

(d) PARTICIPATION AGREEMENTS.—Section 1866(e) of such Act (42 U.S.C. 1395cc(e)) is amended—

(1) by striking "and" at the end of paragraph

(1);

(2) by striking the period at the end of paragraph (2) and inserting "; and"; and

(3) by adding at the end the following new paragraph:

"(3) a medical facility described in section 1861(uu)(1)(D), but only with respect to the furnishing of services under a coordinated lifestyle change program (as defined in subsection (uu)(1))."

(e) EFFECTIVE DATE.—The amendments made by this section apply to services furnished on or after January 1, 2001.

O

THE PRESIDENT HAS SEEN
12-4-00

THE WHITE HOUSE

WASHINGTON Copied Jennings Lambrew Podesta

'00 DEC 4 PM 12:11

December 4, 2000

MEMORANDUM TO THE PRESIDENT

FROM: Chris Jennings, Jeanne Lambrew

THROUGH: Gene Sperling, Bruce Reed, Jack Lew, Martin Bailey, David Beier, Jon Talisman

RE: **Shortcomings of Republican Leadership's Health Tax Policies**

The Republican "Taxpayer Relief Act of 2000" contains several health care tax provisions that all of your senior advisors (DPC, NEC, OMB, CEA, HHS and Treasury) believe are not only largely ineffective and regressive, but have significant potential to destabilize the insurance market. Since the Republican Leadership has consistently rejected our offers to correct the flaws of these tax provisions and supplement them with more meaningful coverage and long-term care policies, we are writing to detail our policy concerns, summarize the political and strategic implications of accepting the Republican policies, outline where common ground is possible, and underscore our general belief that an acceptable compromise will be extremely difficult to achieve in the limited time remaining.

POLICY PROBLEMS WITH REPUBLICAN TAX POLICIES

The Republicans' tax bill contains several health policies that cost, according to the Joint Committee for Taxation, $86 billion over 10 years. These policies purport to reduce the number of uninsured and improve the financing of long-term care costs. However, as constructed, these provisions would not achieve these goals and could, in some cases, make the problems worse.

Tax deduction for individual health insurance. The bill allows people who purchase individual health insurance (or pay more than half of the premium for their employer insurance) to deduct their premium payments. This is the most costly policy ($48 billion over 10 years) and runs counter to the preference for tax credits by both Presidential candidates and the recent Health Insurance Association of America (HIAA)/Families USA proposal. Concerns include:

- Undermines employer-based insurance market. Tax incentives for individual health insurance would result in a weakened employer-based insurance market, potentially increasing the number of uninsured Americans. Unlike employment-based insurance plans, individual market insurers can – and often do -- selectively market to and enroll healthy individuals. This tendency to "cherry pick" coupled with the Republicans' proposed tax incentives would cause healthier and wealthier employees to abandon group insurance for individual insurance. Consequently, the average cost for the employees remaining in group plans would rise, as would premiums. This could result in low-wage employees dropping their coverage because they could no longer afford it. In addition, employers might stop offering coverage to workers if left with higher-cost workers. Thus, these tax policies would not only promote worse health insurance products (see description below), but could destabilize the employer-based insurance system for those who choose to remain in it.

- Helps few of the people who need help most. The individual health insurance deduction is not an efficient policy to reduce the number of uninsured for a simple reason: its assistance level increases with income while the likelihood of being uninsured decreases with income. One study found that over 90 percent of the uninsured either had no tax liability or were in the 15 percent bracket, meaning that the maximum assistance would be 15 cents on the dollar -- less than half of what a person in the highest income bracket would receive. And, since over 20 million people already have individual health insurance, over 90 percent of the Federal spending on the tax deduction would subsidize people who already have insurance. This means that it would cost over $18,000 per additional person insured through this approach. In contrast, extending CHIP to uninsured parents covers about 4 million parents at about one-fourth the cost per uninsured person.

- Requires increased regulation to ensure that policies are accessible and meaningful. The Republican policy creates a tax break for individual health insurance. While employer-based insurance has its flaws, it has overwhelming advantages: all employees pay the same premium regardless of their health or income; employers use their pooled purchasing power to reduce costs and increase choices; and access is not restricted. In contrast, in most states, individual insurers may charge higher premiums, limit benefits, or deny access altogether for people who are older or sicker. Serious insurance regulation would be required to make individual insurance equivalent to average employer-based insurance in terms of affordability and accessibility protections. The Republican proposal includes no such reforms. Thus, even if the tax deduction encouraged an uninsured person to purchase insurance, there may be no insurance option available.

Medical savings accounts. The bill also extends the medical savings accounts (MSA) demonstration for two years. This demonstration, created in 1996, expires at the end of December. It allows self-employed or workers in small businesses to purchase high-deductible ($1,500 individual, $3,050 for a family) health insurance and set up tax-advantaged MSAs. The demonstration allowed up to 750,000 participants, but fewer than 50,000 people joined and even fewer uninsured were helped. Republicans argue that the demonstration was too tightly constrained. While extending the demonstration under the current terms would likely do little harm, it keeps the door open for modifications and expansions that could significantly increase the ability for healthy, wealthy people to use them to withdraw from group insurance and create tax shelters.

Long-term care tax deductions. The bill also includes two new deductions: 100 percent of premium payments for individual long-term care insurance and a $3,000 deduction (phasing up to $10,000 by 2008) for families who care for a relative with long-term care needs. In October, you indicated that you would support the long-term care insurance deduction if it were paired with your $3,000 tax credit for people with long-term care needs or their caregivers. However, the Republicans have replaced your long-term care tax credit with a dedution which is poorly targeted and inequitable. For example, a woman caring for her husband with Alzheimer's would get $1,500 if her income is $30,000 -- half of your credit amount -- while a similar woman whose income is $80,000 would get more than twice the subsidy ($3,100).

POLITICAL ENVIRONMENT FOR COMPROMISE ON HEALTH TAX POLICIES

The main strategic problem posed by engaging with the Republican Leadership on health tax policies this year is that we may be less likely to achieve more workable tax policies (e.g., credits) combined with more effective coverage policies (CHIP expansion). There is a growing sense that passage of some type of tax-based policies is inevitable, notwithstanding their ineffectiveness, potential for disruption of the insurance market, and regressivity. This is because they address a legitimate equity issue, benefit mostly middle-income insured people, and use a politically attractive approach (tax breaks).

The real question is whether the Republican tax policies can be passed as part of a larger health care bill that would modify their worst flaws and include more effective policies such as your parents' coverage and long-term care credit proposals. Needed modifications to the Republican Leadership health policies include replacing tax deductions with tax credits, insisting on appropriate individual market insurance reforms or using employer-based insurance, and adding Medicaid or CHIP expansions that would more effectively target and cover greater numbers of uninsured people. Because of political constraints (Republicans have no desire / no time to negotiate on this issue at this time), prospects for an acceptable compromise are quite dim this year.

However, the environment for such a deal should significantly improve next year due to a number of factors including: need to reach bipartisan accommodations; precedent for such combinations in both coverage expansions (e.g., Health Insurance Association of America and Families USA proposal) and long-term care (Grassley-Graham proposal from last March to pair your tax credit with a deduction for long-term care insurance; supported by AARP, Alzheimer's Association, HIAA); support of credits over deductions by some key Republicans (e.g., Governor Bush); and a strengthened representation of Democrats in the Senate where your parents' policy had 51 votes already. In addition, tax credits' primary opponent -- Congressman Archer – will have retired. For these reasons, the Democratic Leadership wants to hold off on negotiating the health tax policies in this session.

THE WHITE HOUSE

WASHINGTON

December 4, 2000

MEMORANDUM TO THE PRESIDENT

FROM: Chris Jennings, Jeanne Lambrew

THROUGH: Gene Sperling, Bruce Reed, Jack Lew, Martin Bailey, David Beier, Jon Talisman

RE: **Shortcomings of Republican Leadership's Health Tax Policies**

The Republican "Taxpayer Relief Act of 2000" contains several health care tax provisions that all of your senior advisors (DPC, NEC, OMB, CEA, HHS and Treasury) believe are not only largely ineffective and regressive, but have significant potential to destabilize the insurance market. Since the Republican Leadership has consistently rejected our offers to correct the flaws of these tax provisions and supplement them with more meaningful coverage and long-term care policies, we are writing to detail our policy concerns, summarize the political and strategic implications of accepting the Republican policies, outline where common ground is possible, and underscore our general belief that an acceptable compromise will be extremely difficult to achieve in the limited time remaining.

POLICY PROBLEMS WITH REPUBLICAN TAX POLICIES

The Republicans' tax bill contains several health policies that cost, according to the Joint Committee for Taxation, $86 billion over 10 years. These policies purport to reduce the number of uninsured and improve the financing of long-term care costs. However, as constructed, these provisions would not achieve these goals and could, in some cases, make the problems worse.

Tax deduction for individual health insurance. The bill allows people who purchase individual health insurance (or pay more than half of the premium for their employer insurance) to deduct their premium payments. This is the most costly policy ($48 billion over 10 years) and runs counter to the preference for tax credits by both Presidential candidates and the recent Health Insurance Association of America (HIAA)/Families USA proposal. Concerns include:

- Undermines employer-based insurance market. Tax incentives for individual health insurance would result in a weakened employer-based insurance market, potentially increasing the number of uninsured Americans. Unlike employment-based insurance plans, individual market insurers can – and often do -- selectively market to and enroll healthy individuals. This tendency to "cherry pick" coupled with the Republicans' proposed tax incentives would cause healthier and wealthier employees to abandon group insurance for individual insurance. Consequently, the average cost for the employees remaining in group plans would rise, as would premiums. This could result in low-wage employees dropping their coverage because they could no longer afford it. In addition, employers might stop offering coverage to workers if left with higher-cost workers. Thus, these tax policies would not only promote worse health insurance products (see description below), but could destabilize the employer-based insurance system for those who choose to remain in it.

- Helps few of the people who need help most. The individual health insurance deduction is not an efficient policy to reduce the number of uninsured for a simple reason: its assistance level increases with income while the likelihood of being uninsured decreases with income. One study found that over 90 percent of the uninsured either had no tax liability or were in the 15 percent bracket, meaning that the maximum assistance would be 15 cents on the dollar -- less than half of what a person in the highest income bracket would receive. And, since over 20 million people already have individual health insurance, over 90 percent of the Federal spending on the tax deduction would subsidize people who already have insurance. This means that it would cost over $18,000 per additional person insured through this approach. In contrast, extending CHIP to uninsured parents covers about 4 million parents at about one-fourth the cost per uninsured person.

- Requires increased regulation to ensure that policies are accessible and meaningful. The Republican policy creates a tax break for individual health insurance. While employer-based insurance has its flaws, it has overwhelming advantages: all employees pay the same premium regardless of their health or income; employers use their pooled purchasing power to reduce costs and increase choices; and access is not restricted. In contrast, in most states, individual insurers may charge higher premiums, limit benefits, or deny access altogether for people who are older or sicker. Serious insurance regulation would be required to make individual insurance equivalent to average employer-based insurance in terms of affordability and accessibility protections. The Republican proposal includes no such reforms. Thus, even if the tax deduction encouraged an uninsured person to purchase insurance, there may be no insurance option available.

Medical savings accounts. The bill also extends the medical savings accounts (MSA) demonstration for two years. This demonstration, created in 1996, expires at the end of December. It allows self-employed or workers in small businesses to purchase high-deductible ($1,500 individual, $3,050 for a family) health insurance and set up tax-advantaged MSAs. The demonstration allowed up to 750,000 participants, but fewer than 50,000 people joined and even fewer uninsured were helped. Republicans argue that the demonstration was too tightly constrained. While extending the demonstration under the current terms would likely do little harm, it keeps the door open for modifications and expansions that could significantly increase the ability for healthy, wealthy people to use them to withdraw from group insurance and create tax shelters.

Long-term care tax deductions. The bill also includes two new deductions: 100 percent of premium payments for individual long-term care insurance and a $3,000 deduction (phasing up to $10,000 by 2008) for families who care for a relative with long-term care needs. In October, you indicated that you would support the long-term care insurance deduction if it were paired with your $3,000 tax credit for people with long-term care needs or their caregivers. However, the Republicans have replaced your long-term care tax credit with a deduction which is poorly targeted and inequitable. For example, a woman caring for her husband with Alzheimer's would get $1,500 if her income is $30,000 -- half of your credit amount -- while a similar woman whose income is $80,000 would get more than twice the subsidy ($3,100).

POLITICAL ENVIRONMENT FOR COMPROMISE ON HEALTH TAX POLICIES

The main strategic problem posed by engaging with the Republican Leadership on health tax policies this year is that we may be less likely to achieve more workable tax policies (e.g., credits) combined with more effective coverage policies (CHIP expansion). There is a growing sense that passage of some type of tax-based policies is inevitable, notwithstanding their ineffectiveness, potential for disruption of the insurance market, and regressivity. This is because they address a legitimate equity issue, benefit mostly middle-income insured people, and use a politically attractive approach (tax breaks).

The real question is whether the Republican tax policies can be passed as part of a larger health care bill that would modify their worst flaws and include more effective policies such as your parents' coverage and long-term care credit proposals. Needed modifications to the Republican Leadership health policies include replacing tax deductions with tax credits, insisting on appropriate individual market insurance reforms or using employer-based insurance, and adding Medicaid or CHIP expansions that would more effectively target and cover greater numbers of uninsured people. Because of political constraints (Republicans have no desire / no time to negotiate on this issue at this time), prospects for an acceptable compromise are quite dim this year.

However, the environment for such a deal should significantly improve next year due to a number of factors including: need to reach bipartisan accommodations; precedent for such combinations in both coverage expansions (e.g., Health Insurance Association of America and Families USA proposal) and long-term care (Grassley-Graham proposal from last March to pair your tax credit with a deduction for long-term care insurance; supported by AARP, Alzheimer's Association, HIAA); support of credits over deductions by some key Republicans (e.g., Governor Bush); and a strengthened representation of Democrats in the Senate where your parents' policy had 51 votes already. In addition, tax credits' primary opponent -- Congressman Archer – will have retired. For these reasons, the Democratic Leadership wants to hold off on negotiating the health tax policies in this session.