

*Nicole - Can I have update
on what's happened
to products?*

file

THE WHITE HOUSE
WASHINGTON

April 18, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
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RUBY SHAMIR

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SUBJECT: ISSUES UPDATE

Please find brief updates on a variety of issues on which there has been action over the last two weeks.

Child Care. Since your child care event last Monday, there has been more good news on child care in the context of the Republican budget resolution. This week, when it looked as if the budget conferees would strip from the final budget agreement the Dodd-Jeffords amendment to boost child care subsidy funding by \$12.5 billion over ten years, Senators Dodd and Jeffords offered on the Senate floor a motion to instruct the conferees to include the funding increase. The motion passed with strong bipartisan support, 66-33, adding 10 Republicans to the 12 who had previously voted for Dodd's child care amendment. The final budget agreement includes specific mention of raising child care funding, though it reduces by more than half the amount Dodd and Jeffords sought -- the agreement calls for \$3 billion over 10 years in new subsidy funding and \$3 billion over 10 years in enhanced child care tax relief.

This represents an enormous step forward in achieving important pieces of our child care initiative this year. Although we strongly oppose the Republican budget resolution, and therefore should only show limited praise for its components, the President released a statement (attached) on the child care vote applauding the bi-partisan cooperation at work in the Congress on this issue. We will now turn our attention to working with the Senate Finance Committee, which has jurisdiction over child care subsidy and tax issues; fortunately, the Committee includes four Republicans who voted for the Dodd-Jeffords measure (Senators Jeffords, Hatch, Chafee, and Grassley).

PHOTOCOPY
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USA Accounts. On Wednesday, the President announced the details of our Universal Savings Accounts (USAs) initiative. The material that was released explained that these accounts would give 124 million Americans the opportunity to save and build wealth for their retirement and gave concrete examples of ways in which USAs would affect families of varying incomes. The documents noted that a married couple with two children and an income of \$40,000 could build up a total of \$2,000 a year in retirement savings, which could add up to \$253,680 over forty years in today's dollars. While it is too early to assess reviews of the initiative, the NEC is currently seeking validators, and coverage in Thursday's papers was primarily positive. The President's remarks from the event, and the summary of the initiative are attached.

Bankruptcy Reform. This week, the Senate Judiciary Committee began its mark-up of bankruptcy reform legislation, and the markup underscored the vast ideological differences between the parties. Several Democratic Senators expressed deep concern that the balancing provisions in last year's Senate bill have been stripped from the current bill. Senator Kennedy went so far as to declare "this bill stinks." Schumer, Torricelli, Feingold, and Leahy pressed for balance, as well. Of course, all the Republicans will vote for the bill in Committee, as will Democrats Torricelli, Biden, and Kohl. The Committee Democrats who we expect will vote no are Schumer, Kennedy, Feingold, and Leahy. Feinstein noted that she is leaning against the bill, but her vote is not yet clear.

In the House and the Senate, the bills' opponents are working to introduce "moderate" alternative bills around which Democrats can rally. Senator Durbin will soon introduce last year's Senate bill, and others are working to develop new moderate alternatives, as well. So far, the alternatives discussed may be too liberal to credibly influence the current negotiations; rather, they would serve as rhetorical juxtaposition to pending bills. Internally, the Administration is working to devise proposals that would substantially improve the current bills and provide Democrats with strong alternatives to support. We floated some of these proposals to Lisa Fenning on Friday.

The President's upcoming event on consumer financial protection will provide a forum for him and the Administration to press for balance in bankruptcy reform (such as through credit card disclosures, etc.). Because of your leadership in the Administration in this area and if your schedule permits, we strongly recommend your participation.

Brooklyn Families Agenda Roundtable Follow Up. As you will recall from the Brooklyn Families Agenda Roundtable in February, two participants had significant problems which we have followed up on.

- Mrs. Angelina Charriez spoke about her 75 year old mother, Ms. Morales, who worked as a teacher for many years and whose only income is her Social Security check; she receives no pension because years ago she neglected to fill out a form. Since the roundtable, things have turned around for Mrs. Charriez's family. Following the roundtable, Mrs. Charriez contacted Board of Education officials who have helped her tremendously, and she has just finished compiling all the paperwork to support her case

which she feels will succeed. She is enormously thankful to you for listening to her story and helping her, saying that the night before the White House invited her to join the roundtable, she had been praying that things would work out for her family. Days later her husband joked: "you went straight to the top-- you prayed to God, and got the help of First Lady Hillary Clinton." We will continue to monitor this case as her pension appeal progresses.

- Ms. Eileen Quinones is a single mother whose \$30,000 salary is too high to qualify her for subsidized child care, and yet she cannot afford quality child care for her 18 month old son Justin. Ellen Galinsky has been in touch with her, and has enlisted the help of other people who have been trying locate child care options, but we don't think Ms. Quinones's needs have been fully resolved at this time.

THE WHITE HOUSE
Office of the Press Secretary
(San Francisco, California)
April 15, 1999

I am pleased that Congress has made important progress this week to address the pressing child care needs of America's working families.

Significant new investments are needed to make child care better, safer, and more affordable for working families. My budget request includes substantial new resources to help working families pay for child care, increase the supply of good after-school programs, improve the safety and quality of care, and promote early learning.

Today, Senator Jeffords and Representative Gilman introduced, with bipartisan co-sponsors, the "Caring for America's Children" Act, which calls for significant new investments to make child care more affordable and improve child care quality. Other important legislation has been introduced in the House and the Senate during this congressional session, as well. And most important, this week the Congress demonstrated through votes on the Budget Resolution that there is strong bipartisan support for taking action on child care. I want to thank Senators Dodd and Jeffords for their strong leadership on this issue, and I look forward to working over the coming months with Members of Congress on both sides of the aisle to strengthen child care for America's working families.

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**PRESIDENT CLINTON
INTRODUCES
UNIVERSAL SAVINGS
ACCOUNTS**

Summary Documents

April 14, 1999

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PRESIDENT CLINTON INTRODUCES UNIVERSAL SAVINGS ACCOUNTS: PROVIDING MILLIONS OF AMERICANS A NEW OPPORTUNITY TO SAVE FOR RETIREMENT

April 14, 1999

Today, President Clinton announced his Plan to Provide Universal Savings Accounts for Most Americans. These accounts will give 124 million Americans the opportunity to build wealth and to save for their retirement through a progressive tax cut. A married couple that participated for 40 years, could accumulate over \$253,680 in today's dollars - enough to produce \$20,121 a year of after-tax income in retirement.

Currently, Too Few Americans have Additional Savings. Because Americans are living longer, it is more important than ever for them to build wealth for a secure retirement. Currently, over two-thirds of Americans rely on Social Security as their principal source of retirement income, and 18 percent rely on Social Security as their only source of income. Too few Americans are saving for their retirement. The typical family headed by someone 55-64 years of age has financial assets worth just \$32,000.

President Clinton Believes that Social Security Reform Needs to be Complemented with Actions to Strengthen Private Savings and Private Pensions. Social Security reform will ensure that Social Security remains a rock solid foundation for retirement security. Universal Savings Accounts will give working American families the opportunity to save for a secure retirement. Under this new program, 73 million people who do not participate in employer-provided pension plans would qualify for USAs, as well as 51 million people with pensions.

Here's How USAs Work:

- 98 million adults would receive an automatic government contribution to their Universal Savings Account every year.
- In addition to the automatic contribution, the government would match, dollar for dollar, voluntary contributions to the USAs by low and moderate income workers. Eligible workers with higher incomes would have a match rate of at least 50 percent.

USAs Provide a Progressive Approach for Retirement Savings for the Majority of Working Americans. The current tax system provides 66 percent of the tax benefits for pensions and retirement savings to taxpayers with incomes above \$100,000. In contrast, the USA proposal would provide 80 percent of its benefits to families with incomes below \$100,000. USAs makes the tax system more progressive by providing the most generous tax breaks for low and middle income workers-- who are the least likely to have access to employer pensions and who have the most difficult time saving.

USAs Will Help Make Additional Retirement Savings Universal. Each spouse in a married couple with family earnings over \$5,000 and adjusted gross income of less than \$100,000 who is between the ages of 18 and 70 will be eligible for a USA tax credit (single taxpayers must have adjusted gross income below \$50,000; head of household filers must have income below \$75,000). In addition, workers with higher incomes who do not have pension coverage are eligible for an account.

USAs Allow American Families to Build Wealth to Meet Their Retirement Needs. USAs give these workers an opportunity to build wealth and save for retirement.

- A couple earning \$40,000 would automatically receive \$600 of tax credits deposited into their accounts, even if this family contributed nothing to their accounts. After 40 years, with only automatic contributions their accounts would total \$76,104 (in today's dollars) and provide \$6,036 a year of after-tax retirement income.
- However, if each year this family saved \$700 (\$350 in the account of each spouse), then the government would provide a \$1,300 tax credit (\$650 each). After 40 years they would have wealth totaling over \$253,680 in today's dollars, enough to provide \$20,121 of after-tax income in retirement.

USA Tax Credits

A Family of Four with an Income of \$40,000

Consider a married couple with two children. One spouse makes \$40,000 a year working for a small business. The other spouse stays at home with their young children. Like millions of other families, they live paycheck to paycheck. Before payday, their bank account rarely has more than a couple hundred dollars.

How the New USA Accounts Work for this Family. The USA accounts are designed to deliver tax credits to help families save and build wealth for their retirement. This family would receive:

- **Automatic Tax Credit:** Every year the husband and wife would each receive an automatic annual tax credit of \$300, for a total of \$600. They would claim the tax credit on their tax return, and it would be deposited in their new USA accounts.
- **Matched Tax Cut:** As a powerful new incentive to save, this couple would receive an additional \$1 in tax credit for every dollar the couple saved -- up to \$700 (\$350 each) of savings would be matched. For each dollar the couple deposited in their USA accounts, they would receive a corresponding \$1 in a matching tax credit, which would also be deposited in their USA accounts.
- **This Adds Up to A Big Tax Cut for Retirement Savings and a Great Investment:** The couple's \$700 of savings would be supplemented by a \$1300 tax credit for a total of \$2000 a year in retirement savings. That's \$600 credited automatically (\$300 each) plus a \$700 savings credit (\$350 each). The USA credit almost triples the couple's contribution, and it allows for tax favored build up of account balances.

THE AUTOMATIC TAX CREDIT PROVIDES CORE SAVINGS SUPPORT

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matched Tax Cut</i>	<i>Total Annual Savings in USA</i>
\$600	\$0	\$0	\$600

- This savings could build to \$76,104 after 40 years -- assuming a 5 percent real rate of return.

THE MATCHING TAX CUT PROVIDES A POWERFUL INCENTIVE TO SAVE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matched Tax Cut</i>	<i>Total Annual Savings in USA</i>
\$600	\$700	\$700	\$2000

- This will provide a total tax credit of \$1,300.
- These savings could build to \$253,680 after 40 years -- assuming 5 percent real rate of return.
- And would provide \$20,121 of after-tax income in every year of retirement.

Building Wealth for Retirement. Regular savings over a lifetime combined with these tax credits will help working families build wealth and retirement security. If this family saved \$700 every year and received the maximum tax credit of \$1,300, after 40 years they would have a nest egg of wealth totaling \$253,680 in today's dollars. This would provide \$20,121 of after-tax income in every year of retirement from depositing only \$700 per year while they worked.

Benefits of USA Tax Credits Compared to the 10% Across-the-Board Tax Cut. This family would receive a much larger tax cut from the USA account tax credits than from the 10% across-the-board tax cut. While this family would receive just \$315 from the across-the-board tax cut, they would be eligible to receive \$1,300 from the USA account tax credits.

USA Tax Credits

A Family of Four with an Income of \$60,000

Consider a married couple with two children. One spouse makes \$60,000 a year working for a small business. The other spouse stays at home with their young children. Like millions of other families, they live paycheck to paycheck. Before payday, their bank account rarely has more than a couple hundred dollars.

How the New USAs Work for this Family. USAs are designed to deliver tax credits to help families save and build wealth for their retirement. This family would receive:

- **Automatic Tax Credit:** Every year the husband and wife would each receive an automatic annual tax credit of \$150, for a total of \$300. They would claim the tax credit on their tax return and it would be deposited in their new USAs.
- **Matching Tax Credit:** As a powerful new incentive to save, this couple would receive an additional \$0.75 in tax credit for every dollar the couple saved -- up to \$972 (\$486 each) of savings would be matched.
- **This Adds Up to A Big Tax Cut for Retirement Savings and a Great Investment:** The couple's \$972 of savings would be supplemented by a \$1,028 tax credit for a total of \$2,000 a year in retirement savings. That's \$300 credited automatically (\$150 each) plus a \$728 savings credit (\$364 each). The USA credit more than doubles the couple's contribution, and it allows for tax favored build up of account balances.

THE AUTOMATIC TAX CREDIT PROVIDES CORE SAVINGS SUPPORT

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$300	\$0	\$0	\$300

- This savings could build to \$38,052 after 40 years -- assuming a 5 percent real rate of return.

THE MATCHING TAX CREDIT PROVIDES A POWERFUL INCENTIVE TO SAVE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$300	\$972	\$728	\$2000

- This will provide a total tax credit of \$1,028.
- These savings could build \$253,680 after 40 years -- assuming 5 percent real rate of return.
- And would provide \$20,121 of after-tax income in every year of retirement.

Building Wealth for Retirement. Regular savings over a lifetime combined with these tax credits will help working families build wealth and retirement security. If this family saved \$972 every year and received the maximum tax credit of \$1,028, after 40 years they would have a nest egg of wealth totaling \$253,680 in today's dollars. This would provide \$20,121 of after-tax income in every year of retirement from depositing only \$972 per year while they worked.

Benefits of USA Tax Credits Compared to the 10% Across-the-Board Tax Cut.

This family would receive a much larger tax cut from the USA account tax credits than from the 10% across-the-board tax cut. While this family would receive just \$547 from the across-the-board tax cut, they would be eligible to receive \$1,028 from the USA account tax credits.

USA Tax Credits

A Family of Four with an Income of \$80,000

Consider a married couple with two children. One spouse makes \$80,000 a year working for a small business. The other spouse stays at home with their young children.

How the New USAs Work for this Family. USAs are designed to deliver tax credits to help families save and build wealth for their retirement. This family would receive:

- **Matching Tax Credit:** As a new incentive to save, this couple would receive an additional \$.50 in tax credit for every dollar the couple saved -- up to \$1,333 (\$667 each) of savings would be matched.
- **This Adds Up to A Big Tax Cut for Retirement Savings and a Great Investment:** The couple's \$1,333 of savings would be supplemented by a \$667 tax credit for a total of \$2,000 a year in retirement savings. That's a \$667 savings credit (\$333 each). The USA credit increases the couple's contribution, and it allows for tax favored build up of account balances.

AT THIS INCOME LEVEL THE AUTOMATIC TAX CREDIT IS NOT AVAILABLE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$0	\$0	\$0	\$0

THE MATCHING TAX CUT PROVIDES A POWERFUL INCENTIVE TO SAVE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$0	\$1,333	\$667	\$2000

- This will provide a total tax credit of \$667.
- These savings could build \$253,680 after 40 years -- assuming 5 percent real rate of return.
- And would provide \$20,121 of after-tax income in every year of retirement.

Building Wealth for Retirement. Regular savings over a lifetime combined with these tax credits will help working families build wealth and retirement security. If this family saved \$1,333 every year and received the maximum tax credit of \$667, after 40 years they would have a nest egg of wealth totaling \$253,680 in today's dollars. This would provide \$20,121 of after-tax income in every year of retirement from depositing only \$1,333 per year while they worked.

Benefits of USA Tax Credits Compared to the 10% Across-the-Board Tax Cut.

This family would receive \$947 from a 10% across-the-board tax cut. At first glance, this might seem to be somewhat larger than the \$667 USA tax credit. However, the USA also provides for tax-free compounding of account balances, making the tax credit worth well over \$1000 to this family.

THE NEED FOR USAs

Making Savings For A Secure Retirement Available to More Americans

Currently, Too Few Americans Have Enough Savings For A Secure Retirement. Because Americans are living longer it is more important than ever for them to build the wealth necessary for a secure retirement. But there are gaps in the system that leave too many American families behind.

- **Social Security Provides A Core Foundation For Retirement And Reform is Necessary To Keep It Strong, But It Is Only One Leg of The Retirement Stool.** While providing basic economic security for older Americans, the program was never meant to provide enough to maintain the standard of living individuals had during their working years. Social Security replaces just one-half of pre-retirement income for an individual who earned \$17,000, and less than one-quarter of the income of an individual who earned \$72,600. Yet Social Security is the only source of income for 18 percent of elderly Americans, and the principal source of income for 66 percent of elderly Americans.
- **Pension Coverage Provides Additional Support, But Many American Workers Are Not Covered.**
 - Half of all American workers have no pension coverage at all through their current job. This situation is worse for workers in small businesses, where only 18 percent of people who work for organizations employing fewer than 25 workers have access to pensions through their current job.
 - Less than 20 percent of workers have their own IRA, and many do not contribute regularly.
 - Just one quarter of all workers are covered by 401(k) plans in their current job. And while two-thirds of people with earnings \$75,000 and over have 401(k)s, just 43 percent of those with earnings between \$35,000 and \$39,000 have 401(k)s.
 - While 91 percent of all families have some financial holdings, the median value of these holdings is just \$13,000. The median value of financial assets of families headed by someone over age 65 is just \$20,000.

The Tax Incentives For Retirement Savings Help Many American Families, But The Tax Benefits Are Skewed To The Better Off.

- Two thirds of existing pension tax subsidies go to families with incomes over \$100,000, while just one third goes to those making under \$100,000 and just 7 percent goes to families earning less than \$50,000.

USA Accounts provide a progressive tax credit so that the overall retirement system will be more balanced and give all American families an incentive to save.

- 80 percent of the tax benefits of USA Accounts go to those making *under* \$100,000.

SUMMARY OF UNIVERSAL SAVINGS ACCOUNT PROPOSAL

Universal Savings Accounts (USAs) are voluntary individual retirement savings accounts with a progressive tax subsidy.

✓**Automatic Government Contribution.** Workers and their spouses in low- or moderate-income households receive an automatic government contribution of \$300, in the form of a refundable tax credit deposited directly into their USAs. The automatic credit is phased out between \$40,000 and \$80,000 of adjusted gross income (AGI) for joint filers (\$20,000-\$40,000 for singles; \$30,000-\$50,000 for head of household filers).

✓**Government Match of Individual Contributions.** Voluntary individual contributions to a USA are matched by additional government contributions to the taxpayer's USA. The matches will also be in the form of a refundable tax credit deposited directly into the USA. Low- and moderate-income individuals receive a dollar-for-dollar match. The match rate phases down to 50 percent over the same income ranges as the phase-down for the automatic contribution, and then remains at 50 percent until the income level at which eligibility ends (\$100,000 for joint filers with pension coverage; \$50,000 for single filers with pension coverage; \$75,000 for head of household filers with pension coverage; no limit for people without pension coverage). Total contributions (including the credit) to an account are capped at \$1,000 per year.

✓**Eligibility.** To be eligible, a taxpayer must have at least \$5,000 of earnings (which can be combined earnings on a joint return) and must not be the dependent of another taxpayer. Thus, an individual without earnings can have a USA if his or her spouse earns at least \$5,000. Taxpayers younger than age 18 or older than 70 are ineligible. Taxpayers with an employer-sponsored retirement plan must have AGI of less than \$100,000 for joint filers (\$50,000 for single filers; \$75,000 for head of household filers). All eligible workers without an employer-provided pension would receive at least a 50 percent match, regardless of income.

✓**Investment Choice.** Individuals will have the option of investing their accounts in a universal retirement plan similar to the Federal Thrift Savings Plan (TSP), a 401(k)-type plan for federal government employees. Individuals would be able to choose among a limited number of broad-based investment options similar to those offered in the TSP and in many private sector 401(k) plans. We look forward to working with Congress and experts from the private sector to devise the best way to administer the accounts, as well as to explore whether it would be possible to provide account holders with the option of investing directly with private sector fund managers.

✓**Withdrawal Rules.** No amount could be withdrawn from a USA before age 65, unless the account holder dies. Once withdrawals commence after age 64, no additional contributions could be made to the account.

✓**Tax Treatment of Accounts.** Automatic and matching government contributions would not be taxable when deposited to accounts. Earnings would grow tax free until retirement. Withdrawals would generally be taxable, but 15 percent of each withdrawal would be excluded from taxes in order to approximate a tax-free return of an individual's own contribution. Voluntary USA contributions will not be tax deductible because the tax subsidy is provided in the form of the tax credit rather than a deduction, enabling the program to be more progressive.

✓**Coordination with 401(k)-type Plans.** Eligible employees will receive a government matching contribution deposited to their USA when they contribute either to their USA or to a 401(k)-type plan. The government match supplements any employer matching contributions. Therefore, USAs will not cause workers to shift contributions from private-sector 401(k)-type plans to USAs. In fact, USAs will encourage workers to save through 401(k)-type plans by giving the millions of workers who are currently eligible to contribute, but who fail to do so, a greater incentive to contribute without imposing administrative burdens on employers or plan administrators. Because contributions to a 401(k)-type plan are excludable from taxable income while USA contributions are not, joint filers with AGI of more than \$50,000 (\$25,000 for single filers; \$37,500 for head of household filers) who elect to receive government matches will be required to include in taxable income 80 percent of the portion of the 401(k) contribution that is matched.

✓**Protections for Women Including Divorcees and Widows.** The design of USAs recognizes that women are more likely to spend time out of the labor force than men and have lower average earnings than men, and ensures women will have the opportunity to accumulate significant savings in their USAs. First, spouses of workers are eligible for the USA tax credit even if they do not work. Second, the progressive credit formula targets the tax benefits to low and moderate income workers. We look forward to working with Congress and outside experts to determine what the best means are to ensure that women are protected in case of divorce or widowhood.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

April 14, 1999

REMARKS OF THE PRESIDENT
ON UNIVERSAL SAVINGS ACCOUNTS

The Rose Garden

3:09 P.M. EDT

THE PRESIDENT: Thank you very much. Andrew and Theresa and I were walking down here, and they were mildly nervous because they don't do this every day. But I think you did a very fine job. (Applause.) I want to thank them and their three sons for coming. I'd also like to thank Felicia Harris and her daughter, Alexis, who came because they're another representative family who will be benefitted by the USA Account proposal.

I thank Senator Barbara Boxer who is here and has had to stand up here alone because all of the House members who were supposed to be with her are back at the House voting, and I appreciate her being here. I want to thank Secretary Rubin for his leadership on this issue, along with Deputy Secretary Larry Summers and Secretary Shalala; Gene Sperling, my National Economic Counselor.

You know that we want to talk to you about a major issue relating to retirement security in the 21st century. I think it's important to start out by saying that this will be a very big deal to a lot more people. We all know that the number of people over 65 will double by the year 2030. By the year 2050, the average American will live to be 82 years old.

Now, keep in mind that in 1900, life expectancy was only 47 1/2 years. It took 4,000 years, the majority of all recorded history, to make a leap in longevity like the one we have seen in just one century. Now, as I get older, I remind everyone that this is a very high-class problem, and I like it better as the years go by. They are a precious gift.

President Roosevelt said, there is no tragedy in growing old, but there is tragedy in growing old without means of support. Historically, our people have relied upon three basic means of support. First, Social Security. It became the basic means of support and still alone is responsible for lifting almost half of our senior population out of poverty. But it was never supposed to be seniors' only means of support. And we see by the fact that the poverty rate among elderly single women is twice that of seniors in general what happens when Social Security is the only means of support.

Pensions are the second, and private savings are the third. Retirement, to be truly secure, needs a mix of all three.

Well, how strong are these building blocks for most Americans? First, Social Security. It's a rock-solid guarantee and it has been for generations. But for the 18 percent of the seniors, as I said, for whom Social Security is their only source of retirement income, life is still pretty tough.

The first thing we have to do is to make sure that Social Security will be there for the baby boomers. As I said in my State of the Union address, that's why we ought to set aside 62 percent of the surplus to save Social Security and at the same time, as Secretary Rubin said, to pay down our national debt.

We also need to be very mindful that Medicare is quite important not only to Social Security recipients who have that as their only source of income, but to a lot of other seniors as well. And we need to set aside enough money from the surplus to secure Medicare well into the next century.

Our budget plan pays down the debt and saves Social Security and Medicare. I look forward to working with Congress over the coming months to make some changes that are necessary to lengthen the life of both the Social Security and the Medicare

trust funds, to maintain our fiscal discipline and secure the health of our economy into the 21st century.

Now, what about the second building block -- private pensions? Half of all American workers, 73 million of them, have no employer-provided pensions whatever. IRAs and 401Ks are something they hear and read more and more about, but don't have for themselves. Currently, only one-third -- listen to this -- only one-third of the tax benefits for pensions and retirement savings go to families who earn less than \$100,000, even though they represent the vast majority of working people in the United States today.

The third building block is personal savings. Americans living longer than ever and moving from job to job, who may have defined contribution rather than defined benefit pension plans, more and more will need to increase their personal savings. Our national savings rate has doubled over the last six years because we're saving more in the government and not having deficits.

But personal savings has gone down over the last six years. Too few Americans are saving for their own retirement. For too many Americans, the hard work they do to provide for their families today, as you've just heard, makes it difficult for them to save for tomorrow. The typical family, headed by someone between the ages of 55 and 64, has financial assets worth just \$32,000. That won't support them very long in their retirement. For many Americans, as their lives stretch longer, their resources are stretched thinner.

I believe Americans who work hard their entire lives and raise their children should not have to have their retirement posed precariously on the edge of poverty. I believe that Americans, however, have to do more to save for their own future, but that Americans deserve the chance to do that.

Now, that's what this USA Account proposal is all about. It is a complete and comprehensive new plan to help Americans with retirement savings for the 21st century. It is the right way to provide tax relief for the American people, and it is the right way to increase savings and strengthen our economy, even as we help families like the ones we honor today.

Now, I proposed in the State of the Union address setting aside 12 percent of the surplus to establish these accounts. Let me say specifically what I think we ought to do. I propose that Americans be given the chance to open, voluntarily, Universal Savings Accounts. I propose that workers receive a refundable tax credit if their incomes are up to \$80,000 a year, deposited directly into their USA accounts, and as they save, that the government help them save further, matching their contributions on a sliding scale, depending on income, giving extra help to those least able to save.

Further, I propose that aid be given to people with incomes between the incomes of \$80,000 and \$100,000 a year, but on a reduced basis. And even for people with incomes over \$100,000 a year, if they have no other personal retirement savings or pensions, they should also be eligible for this help.

This would give many, many millions of Americans a new opportunity to invest in the growing American economy, to have some wealth and security in retirement. It will revolutionize savings not simply for older Americans, but especially, perhaps, for younger Americans, from their very first days in the work force. With USA accounts everyone in the USA will be able to save, especially if we get more and more congressional support as we go along. (Laughter.)

Now, let me go through the reasons that I believe that this is the right way to provide tax relief with the surplus, and I would like to go through some very specific things. First of all, Universal Savings Accounts do just what the name says, they make savings universal. It would be many workers' first, or certainly their best, opportunity ever to save. And by rewarding responsibility, USA Accounts would help set them on the road to further savings.

Second, USA Accounts make investment universal. Savings, of course, is about more than protecting what you have, it's about creating and building greater wealth for a better future. With these accounts, working families will have a chance to invest just as wealthier families do today. They can choose to invest in an interest-bearing account or a stock market mutual fund or a bond fund, just as they would with a government or private pension.

Third, they make real retirement security universal, extending it even to workers with low and moderate incomes who are least likely to be offered pensions by their employers and least likely to be able to save on their own. As I said earlier, I want to emphasize this again today -- only a third of all the tax benefits provided under all the laws of Congress of existing retirement plans go to families earning less than \$100,000.

You heard what our distinguished speaker said. Listen to this. I mean, does this family -- these look like the people you want to help, right? I mean, they're making America great. Only seven percent of existing tax benefits for retirement go to families with incomes of \$50,000 a year or less -- only seven percent.

Our plan more than doubles that. More than 80 percent of the tax benefits of USA Accounts will go to people making incomes of \$100,000 a year or less. It's the vast majority of the American people and it's the right thing to do. It is the kind of tax cut America needs, targeted toward working families, toward savings, and toward the future.

USA Accounts will add up. For example, if a couple earning \$40,000 saved just \$700 a year, matched by the government, a USA Account invested conservatively would be worth a quarter of a million dollars after 40 years. How many people making \$40,000 a year in this country today have a quarter of a million dollars in wealth? Think what this could do for America.

That means -- let me just say what it means practically -- it means that a person could retire and, just from this account, living over 80 years, have well over \$15,000 a year in income during retirement. That's the power of savings and compound interest.

But USA Accounts involve more than compound interest. They also add up to a larger stake in our society and its future. Families who own very few financial assets would now own a share of our nation's prosperity and in the remarkable economic growth they have done so much to create. People like Andrew and Theresa, people like Felicia Harris, people working hard, raising their children, thinking about their children's future, would have their first real chance to save for tomorrow while they are

working today.

With USA accounts we can say to a 25-year old just starting a family, you can start to save. With these accounts we can say to someone who has made a transition from welfare to work and is watching the stock market surge in value, you actually can have a stake in this wealth you are helping to create. We can say to working families, now you can think about your children's future, and your own.

So, as I stand here at the end of one century and the dawn of the next, and I think about what I would like family life to be like 10, 20, 30, 40 years from now, one of the things that I want very badly to do is to see our wealth more fairly shared by those who create it, and to see it shared in a way that makes sure that, as we live longer and longer, those of us who retire will not pose unconscionable financial burdens for our children and their ability to raise our grandchildren.

Saving Social Security and Medicare is a part of that. Having the right sort of tax cut is a part of that. The USA accounts increase savings, increase retirement security, and will give millions and millions and millions of families who are a big part of this remarkable recovery we have enjoyed for the last six years -- for the first time, those people will have a chance to actually own a piece of the American recovery they have done so much to create.

Thank you very much. (Applause.)

END

3:19 P.M. EDT

Bankruptcy Reform Markup Highlights Discord Over Bill

JUDICIARY

OPENING STATEMENTS by members of the Senate Judiciary Committee at a markup Thursday of bankruptcy reform legislation underscored the vast ideological differences between and within the parties that appear bound to plague the rest of the markup and ensuing floor debate.

The markup is scheduled to continue next week, possibly Thursday.

In addition to the bill's other troubles, a dispute over abortion Thursday threatened to scuttle the bill.

A proposal by **Sen. Charles Schumer**, D-N.Y., would require bankrupt people found to have violated laws protecting abortion clinics to pay those penalties. **Sen. Joseph Biden**, D-Del., said the plan could kill the bankruptcy legislation, the *Associated Press* reported.

The way "to make sure nothing happens [with legislation] is to say 'abortion,'" said Biden, who supports the bankruptcy overhaul bill.

At the same time, **Sen. Robert Smith**, R-N.H., is pushing an amendment that would prohibit doctors who declare bankruptcy from writing off penalties they owe from medical malpractice claims related to abortion.

While at least some GOP members of the committee say they harbor reservations about the overall bill — **Sen. Jeff Sessions** of Alabama is one — all of those present at Thursday's meeting made clear their intention to vote for the bill in committee.

The greatest range of opinion on the bill clearly rests on the Democratic side, where deep divisions were obvious.

Sen. Edward Kennedy, D-Mass., blasted the measure as a "special interest" bill that would hurt middle-class families — and excoriated bill sponsors for failing to include a number of consumer protections that would hold credit card companies partially responsible for skyrocketing personal debt.

"This legislation basically stinks," declared Kennedy.

Bill sponsors defended their decision to omit the provisions cited by Kennedy — noting that it was the only

way to avoid a joint referral with the Senate Banking Committee — and promised the debate would resume on the Senate floor.

But Kennedy, along with **Sens. Russell Feingold**, D-Wis., and **Dianne Feinstein**, D-Calif., raised numerous other problems with the bill. And while Feinstein remains something of a question mark as to how she will cast her vote in committee, neither Kennedy nor Feingold left any doubt as to their position.

Judiciary ranking member Patrick Leahy, D-Vt., also indicated he would vote no, while **Sen. Herbert Kohl**, D-Wis., announced he would vote for the bill, with reservations.

The bill's sponsors on the committee, including **Administrative Oversight and the Courts Subcommittee Chairman Charles Grassley**, R-Iowa, **subcommittee ranking member Robert Torricelli**, D-N.J., and Biden — whose home state contains the headquarters of such large credit card issuers as MBNA and First USA Bank — clearly intend to present a united front.

That, in turn, raises questions as to whether either side will have the votes to pass any significant amendments.

Although the committee will consider 26 amendments in all, speculation is the bill will leave the committee near its original form.

That apparently would suit **Judiciary Chairman Hatch**, as he urged all members to hold as many amendments as possible for the Senate floor — at which point, Hatch asserted, the bill will be given "plenty" of time.

In another banking-related development, a much anticipated meeting among Senate leaders in the financial services debate — including **Majority Leader Lott**, **Minority Leader Daschle**, **Banking Chairman Gramm** and **ranking member Paul Sarbanes**, D-Md., has been postponed until next week, according to sources.

These sources noted that the Kosovo conflict has made scheduling the bill strategy session difficult.

— BY PAMELA BARNETT

Childcare Tax Credit Push Is On

AFTER WINNING a promise in the budget resolution for childcare tax cuts, **Senate Health, Education, Labor and Pensions Chairman Jeffords** and **Sen. Christopher Dodd**, D-Conn., Thursday reintroduced legislation outlining a wish list of specific tax cuts.

Rep. Benjamin Gilman, R-N.Y., Thursday introduced a companion bill in the House. Their plan calls for \$36 billion in tax cuts over five years to help families pay for professional child care or to help subsidize a parent to stay at home.

Jeffords, **Senate Budget Chairman Domenici** and other Senate Republicans joined all 45 Democrats to support an amendment, eventually contained in the final budget resolution, calling for \$3 billion over five years in tax cuts for child care. Another \$3 billion is set aside to expand

an existing childcare block grant. While those levels are well short of the money required to fund their tax cut bill, Jeffords, Dodd and Gilman told a news conference that itemizing money for childcare tax cuts was a victory for their cause.

"Low-income working families need subsidies that are high enough so they have an opportunity to choose the type of child care they want for their children," Jeffords said.

The plan would increase the current \$500 child tax credit to \$900 per child, and increase a number of other tax credits and deductions for families needing child care.

There also would be a tax credit for businesses that contribute to child care for their employees.

Jeffords and Dodd tried to move similar legislation in the last Congress.

— BY MATTHEW MORRISSEY

THE WHITE HOUSE
WASHINGTON

April 18, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
NEERA TANDEN
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

Please find brief updates on a variety of issues on which there has been action over the last two weeks.

Child Care. Since your child care event last Monday, there has been more good news on child care in the context of the Republican budget resolution. This week, when it looked as if the budget conferees would strip from the final budget agreement the Dodd-Jeffords amendment to boost child care subsidy funding by \$12.5 billion over ten years, Senators Dodd and Jeffords offered on the Senate floor a motion to instruct the conferees to include the funding increase. The motion passed with strong bipartisan support, 66-33, adding 10 Republicans to the 12 who had previously voted for Dodd's child care amendment. The final budget agreement includes specific mention of raising child care funding, though it reduces by more than half the amount Dodd and Jeffords sought -- the agreement calls for \$3 billion over 10 years in new subsidy funding and \$3 billion over 10 years in enhanced child care tax relief.

This represents an enormous step forward in achieving important pieces of our child care initiative this year. Although we strongly oppose the Republican budget resolution, and therefore should only show limited praise for its components, the President released a statement (attached) on the child care vote applauding the bi-partisan cooperation at work in the Congress on this issue. We will now turn our attention to working with the Senate Finance Committee, which has jurisdiction over child care subsidy and tax issues; fortunately, the Committee includes four Republicans who voted for the Dodd-Jeffords measure (Senators Jeffords, Hatch, Chafee, and Grassley).

USA Accounts. On Wednesday, the President announced the details of our Universal Savings Accounts (USAs) initiative. The material that was released explained that these accounts would give 124 million Americans the opportunity to save and build wealth for their retirement and gave concrete examples of ways in which USAs would affect families of varying incomes. The documents noted that a married couple with two children and an income of \$40,000 could build up a total of \$2,000 a year in retirement savings, which could add up to \$253,680 over forty years in today's dollars. While it is too early to assess reviews of the initiative, the NEC is currently seeking validators, and coverage in Thursday's papers was primarily positive. The President's remarks from the event, and the summary of the initiative are attached.

Bankruptcy Reform. This week, the Senate Judiciary Committee began its mark-up of bankruptcy reform legislation, and the markup underscored the vast ideological differences between the parties. Several Democratic Senators expressed deep concern that the balancing provisions in last year's Senate bill have been stripped from the current bill. Senator Kennedy went so far as to declare "this bill stinks." Schumer, Torricelli, Feingold, and Leahy pressed for balance, as well. Of course, all the Republicans will vote for the bill in Committee, as will Democrats Torricelli, Biden, and Kohl. The Committee Democrats who we expect will vote no are Schumer, Kennedy, Feingold, and Leahy. Feinstein noted that she is leaning against the bill, but her vote is not yet clear.

In the House and the Senate, the bills' opponents are working to introduce "moderate" alternative bills around which Democrats can rally. Senator Durbin will soon introduce last year's Senate bill, and others are working to develop new moderate alternatives, as well. So far, the alternatives discussed may be too liberal to credibly influence the current negotiations; rather, they would serve as rhetorical juxtaposition to pending bills. Internally, the Administration is working to devise proposals that would substantially improve the current bills and provide Democrats with strong alternatives to support. We floated some of these proposals to Lisa Fenning on Friday.

The President's upcoming event on consumer financial protection will provide a forum for him and the Administration to press for balance in bankruptcy reform (such as through credit card disclosures, etc.). Because of your leadership in the Administration in this area and if your schedule permits, we strongly recommend your participation.

Brooklyn Families Agenda Roundtable Follow Up. As you will recall from the Brooklyn Families Agenda Roundtable in February, two participants had significant problems which we have followed up on.

- Mrs. Angelina Charriez spoke about her 75 year old mother, Ms. Morales, who worked as a teacher for many years and whose only income is her Social Security check; she receives no pension because years ago she neglected to fill out a form. Since the roundtable, things have turned around for Mrs. Charriez's family. Following the roundtable, Mrs. Charriez contacted Board of Education officials who have helped her tremendously, and she has just finished compiling all the paperwork to support her case

which she feels will succeed. She is enormously thankful to you for listening to her story and helping her, saying that the night before the White House invited her to join the roundtable, she had been praying that things would work out for her family. Days later her husband joked: "you went straight to the top-- you prayed to God, and got the help of First Lady Hillary Clinton." We will continue to monitor this case as her pension appeal progresses.

- Ms. Eileen Quinones is a single mother whose \$30,000 salary is too high to qualify her for subsidized child care, and yet she cannot afford quality child care for her 18 month old son Justin. Ellen Galinsky has been in touch with her, and has enlisted the help of other people who have been trying locate child care options, but we don't think Ms. Quinones's needs have been fully resolved at this time.

THE WHITE HOUSE
WASHINGTON

June 22, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
NEERA TANDEN
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARHSA BERRY

SUBJECT: ISSUES UPDATE

Crime -- Juvenile Crime/Gun Bills. As you know, last week the House leadership divided the juvenile crime bill the Senate had passed into two bills – a gun bill and a juvenile crime bill. The gun bill was defeated by a vote of 147 to 280, with almost all Democrats voting against it. The bill contained a number of amendments throughout the process, including provisions to: (1) ban the importation of large capacity ammunition clips (voice vote); (2) require child safety locks for handguns (311-115); (3) ban juvenile possession of semiautomatic assault weapons (354-69); (4) ban violent juveniles from owning guns as adults (395-27); (5) allow current and former law enforcement officers to carry concealed weapons (372-53); (6) revise background check requirements for guns redeemed at pawnshops (247-181); and (7) allow D.C. residents to keep handguns in their homes (213-208). However, Democrats decided to oppose the final bill after the House passed the Dingell gun show amendment, which would weaken existing requirements for background checks, late Thursday night by a vote of 218-211, and rejected the McCarthy gun show substitute by a vote of 235-193.

Since the overall gun bill failed, the juvenile bill passed by the House (287-139) will proceed to conference without significant gun provisions. Before completing work on the juvenile crime bill, the House approved a number of amendments including an amendment which would allow states to post the Ten Commandments in public buildings, including schools (248-180); an IDEA amendment allowing schools to expel disabled students for bringing weapons to school; and a bipartisan Goodling amendment on juvenile prevention. In addition, they adopted the McCollum amendment by a vote of 249 to 181, which contained revisions of the federal juvenile justice system, such as increased mandatory minimums for such criminal activities as using kids to sell drugs and selling drugs to kids, amongst other prohibited activities.

The President is likely to make a public statement this Friday that will call on the Congressional Leadership to move the bills to conference. The President's senior advisors are also considering whether the President should eventually issue a veto threat against the bill if it does not contain a provision on gun shows.

Bankruptcy. The Senate will not take up the bankruptcy bill for floor action until after the July 4th recess. (Senator Lott pulled the bill to focus on various appropriations bills and other measures.) This delay, which means that the earliest floor action will be in mid-July, represents great news to opponents of the bill, who feared that the bill would be rushed through the Senate floor with Senators eager to break for recess. This delay also gives us time to polish the op-ed by you which highlights the flaw in the bill and look for a strategic placement. While you've been away, there has had some behind-the-scenes movement on the bill. Senator Torricelli continues to negotiate with Senators Grassley and Hatch, the key Republicans, on changes to be included in the manager's mark. Senator Torricelli, however, has been able to make only minimal improvements to the bill through this process. The one issue on which he has made some gains, however, is on credit card disclosures. Senator Torricelli has reached a deal with the credit card companies and the Republicans that is not sufficient to gain the Administration's support but is a move in the right direction.

In addition, Senators Grassley and Sessions have offered the Administration a deal on another important issue – reaffirmations. Under their proposal, we would agree to indicate support for an amendment that Senator Sessions will offer to include part of the Administration's reaffirmation proposal in exchange for eliminating from the current Senate bill a provision that Senator Sessions abhors. The language deleted bars creditors from threatening to do something they have no intention of doing, thus eliminating one basis for bringing suit to end abusive creditor practices. However, the language gained would help almost every debtor who is pressured to reaffirm a debt, by giving the court an analysis of whether they have the capacity to repay that debt before the court approves the reaffirmation. The Administration working group has concluded that the trade-off is a net gain for consumers. However, we are seeking a member-level commitment to preserve both parts of the deal in conference. Grassley and Sessions meet with Senators Lott and Hatch this Friday to see if they will agree to protect the agreement in conference. In general, however, continued meetings with Grassley and Hatch staff have not been productive. Although they have politely listened to our concerns, they have not moved on any of our key issues other than the reaffirmation proposal.

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Foster Care. We expect that the Foster Care Independence Act, sponsored by Johnson-Cardin, will reach the House floor this Thursday and pass easily. The White House will issue a Presidential statement on its passage. Similar to the proposal in the President's FY 2000 Budget that you unveiled in January, this bill would provide youth leaving foster care with access to health care and would expand and improve educational opportunities, training, housing assistance, counseling, and other support and services for these youth. We will forward to you a detailed memo about the bill's provisions shortly.

Adoption. There are three adoption-related events that we hope to schedule in the coming months (perhaps in tandem): (1) the release of the new adoption numbers and bonus dollars to states (with the President) in late July or Early August; (2) the unveiling of the new adoption stamp with Dave Thomas and the Post Master General in October; and (3) a follow-up meeting with foundation leaders on adoption issues. Unfortunately, we are not able to schedule the first two announcements for the same event (the bonuses must be released before October 1st, and the stamp must be unveiled mid-October). We can, however, schedule the foundation leaders meeting in tandem with either of the two announcements, and therefore invite the leaders to the event and the discussion.

Dean Ornish. Dean Ornish was successful with HCFA in securing a Medicare reimbursement demonstration project for his nutrition therapy.

Proposed Rule Change for Federal Procurement Regulations. You asked about a Washington Post article that charged that the Administration had not acted on a promise the Vice President made to the AFL-CIO that the Administration would require businesses contracting with the government to "maintain a safe workplace and respect civil, human, and union rights." Under current law, government contract officials have fairly wide latitude to decide which companies receive government contracts, but they must ensure that the business has a "satisfactory record of integrity and business ethics." The proposed rule change, expected to be released for public comment later this month or in early July, will clarify that phrase giving the contracting official the opportunity to make contracting determinations on the basis of tax, labor, health, safety, environmental and other laws. Opponents of this rule change charge that the contracting officials would not have the ability to determine objectively a business's level of compliance and that some businesses would be effectively "blacklisted."

New Markets. From July 5 to 8, the President will lead a bipartisan delegation of CEO's and Members of Congress to untapped markets in six U.S. cities to highlight his New Markets Investment Initiative and to identify the economic potential for investment in these underserved areas. The President will begin his trip in the Kentucky Highlands, to discuss investment in Appalachia. Then the President will proceed to Clarksdale, Mississippi, a rural community in the Mississippi Delta, East St. Louis, which is an empowerment zone community, and the Pine Ridge Indian Reservation in South Dakota, which is the first Enterprise Zone on a reservation. On Wednesday, July 7, the President will travel to South Phoenix, Arizona, an Enterprise Community with a large Hispanic population, and then to the Watts neighborhood in Los Angeles, where he will discuss the need to provide job training to disadvantaged youth, and the new market potential of a new, productive workforce. The President will end his trip at a CEO

Conference in Anaheim, California, to encourage private sector workforce investments in disadvantaged youth. Now that the sites have been determined, the President's staff is working to solidify commitments from the business community to announce during the trip. Cabinet participation in making announcements in other regions is expected.

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This report is especially significant because the participants managed to find substantial areas of common ground on both the significance of the problem and proposed solutions, despite historical differences regarding the role of marriage and competing theories of socioeconomic versus cultural factors in the breakdown of the black family. The report grew out of a conference last Fall sponsored by Morehouse College, with diverse participants including Bill Rasberry, William Julius Wilson, David Blankenhorn, and Wade Horn. Our FY 2000 initiatives address some of the recommendations in the report, including the enhanced focus on fathers in our Welfare-to-Work reauthorization that the President announced in January. The DPC will carefully review the recommendations to see what else we might do.

Young Child Poverty Rate. A report released recently by the National Center for Children in Poverty highlighted positive trends in both the number and rate of young children (under six) in poverty. Consistent with data we have highlighted before, the young child poverty rate declined from a high of 26 percent (6.4 million children) in 1993 to 22 percent (5.2 million children) in 1997. This decline came after a 52 percent increase between 1978 and 1993. With a higher proportion of poor young children with working parents and a declining percentage receiving public assistance, the study also confirms earlier findings that families are relying less on welfare and more on work. The report also finds: (1) without our 1993 EITC expansion, the 1997 young child poverty rate would have been 24 percent higher; (2) key determinants of young child poverty are single parenthood, low educational attainment, and part-time or no employment; and (3) the gap between races continues to narrow.

THE WHITE HOUSE
WASHINGTON

June 22, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
NEERA TANDEN
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
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Conference in Anaheim, California, to encourage private sector workforce investments in disadvantaged youth. Now that the sites have been determined, the President's staff is working to solidify commitments from the business community to announce during the trip. Cabinet participation in making announcements in other regions is expected.

Father Absence in Black America. A politically diverse coalition of black and white scholars, community and religious leaders, joined together last week to release a compelling report and call to action on the crisis of fatherlessness in the black community. Seventy percent of African American children are born to unmarried mothers, up from one-third when Senator Moynihan released his then-controversial report 34 years ago. They called for significant investments to improve the economic prospects and marriagability of black men, federal support for community-based fatherhood programs, and changes in policies which discourage marriage (such as the marriage penalty in the EITC). They also called on the black leaders to give the same priority to reuniting fathers and children as they have to civil rights, asked churches to focus on family healing, recommended that communities support faith-based marriage education and mentoring programs, and urged the criminal justice system to help reconnect fathers and children.

This report is especially significant because the participants managed to find substantial areas of common ground on both the significance of the problem and proposed solutions, despite historical differences regarding the role of marriage and competing theories of socioeconomic versus cultural factors in the breakdown of the black family. The report grew out of a conference last Fall sponsored by Morehouse College, with diverse participants including Bill Rasberry, William Julius Wilson, David Blankenhorn, and Wade Horn. Our FY 2000 initiatives address some of the recommendations in the report, including the enhanced focus on fathers in our Welfare-to-Work reauthorization that the President announced in January. The DPC will carefully review the recommendations to see what else we might do.

Young Child Poverty Rate. A report released recently by the National Center for Children in Poverty highlighted positive trends in both the number and rate of young children (under six) in poverty. Consistent with data we have highlighted before, the young child poverty rate declined from a high of 26 percent (6.4 million children) in 1993 to 22 percent (5.2 million children) in 1997. This decline came after a 52 percent increase between 1978 and 1993. With a higher proportion of poor young children with working parents and a declining percentage receiving public assistance, the study also confirms earlier findings that families are relying less on welfare and more on work. The report also finds: (1) without our 1993 EITC expansion, the 1997 young child poverty rate would have been 24 percent higher; (2) key determinants of young child poverty are single parenthood, low educational attainment, and part-time or no employment; and (3) the gap between races continues to narrow.

April 2, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
NEERA TANDEN

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

Welcome home. Below please find brief updates on a variety of issues on which there was some action during your trip.

Child Care Amendment to the Senate Budget Resolution. The Senate passed an amendment to its budget resolution increasing mandatory funding for the child care block grant by \$5 billion over five years and \$12 billion over ten years, with a corresponding decrease in any proposed tax cut. This action represents a significant step forward for the Administration's proposal to boost funding for child care subsidies for low-income families (funded in our budget at \$7.5 billion over five years). The amendment, pushed hard by Senator Dodd and co-sponsored by him and Senator Jeffords, also includes a non-binding provision stating that any child care tax relief (through expansion of the Child and Dependent Care Tax Credit) must benefit all working families (presumably by making the credit refundable) as well as assist stay-at-home parents who care for an infant. Twelve Republicans -- Senators Abraham, Campbell, Chafee, Collins, Dewine, Frist, Hatch, Jeffords, Roberts, Snowe, Specter, and Warner -- voted with all Democrats to pass the amendment.

The challenge now will be to build on this step and ensure the conference committee on the budget resolution retains this provision. The next many weeks will be important, and we are working to devise a strategy for effective public and behind-the-scenes action for you and the President to consider (the President noted on a recent memo from the Domestic Policy Council his enthusiasm to engage on this issue). Of course, as you know, the Administration staunchly opposes the overall budget resolutions of the House and Senate because of their significant cuts in key programs, thereby severely limiting our ability to praise the Congress in its budget work. Also, because the Republicans will be wholly in charge of the conference and Democrats will have little opportunity to influence the process, extreme visibility by you or the President (*i.e.* calling on Congress to preserve the amendment) might in fact be counterproductive in the near term.

Bankruptcy Reform. The bills are moving swiftly through both the House and the Senate. Both chambers plan to complete committee action after recess and take floor action in May. And, with both the Administration and our allies on the Hill having not yet mounted strong opposition to the current flawed bills, the outlook looks bleak, with the possibility that the President will be presented legislation that he will not want to sign, yet with sufficient support to override his veto. We have been working with the President's advisors to devise strategy to increase our leverage and reduce the likelihood of a veto override. A memo will go to the President shortly seeking his approval for this strategy, which includes: (1) exploiting publicly the vulnerabilities of the legislation (by attacking the bill's failure to tackle abuses by credit card companies and the lingering danger it presents to child support and alimony collection); (2) working with bill proponents and opponents (including Senators Torricelli and Grassley and Representative Nadler) to advance alternative provisions that would substantially improve the current bills; and (3) working with Senators Durbin, Kennedy, Leahy and others to develop a Senate floor strategy and identify message enhancement amendments which could motivate Republicans to compromise; and (4) working with Representatives Nadler, Conyers, Frank, Gephardt, and Bonior to produce a more palatable House bill, or, if that is not possible, to garner the 20-25 additional House votes to sustain the President's veto.

We will forward a copy to you of this memorandum to the President when it is completed, and will continue to work internally to gauge what role you might play in this process over the important next few months. The President is scheduled to unveil a package of consumer protection initiatives (the event was canceled during recess because a number of Democratic members wanted to participate) sometime soon. While we will not make inclusion of any *specific* consumer protection provisions a precondition to our support for bankruptcy reform legislation, the Administration will insist on some balancing provisions, and this event will be an important piece of the strategy to give Democrats something to rally around. If your schedule permits, we recommend your participation in this event.

Medicare. The President's senior advisors are in the process of developing the Administration proposal to strengthen and reform Medicare. They hope to send him their proposal in the next few weeks. Thus far, they have discussed premium support and a prescription drug benefit, and have reached no conclusions on either issue. (See attached materials on drug benefits.) However, on premium support, the senior advisors are leaning against a straight premium support proposal, though they may still adopt some reform measures that includes more choice, and moves more people to managed care. In terms of the drug benefit, the senior advisors have agreed that the benefit should be available to all beneficiaries (the Breaux plan had a generous drug benefit for all people below 135% of poverty) because Medicare has never provided an income-related benefit. Much of the discussion thus far has centered around whether to cap the benefit at some figure like \$2,000 or to uncap it, thereby ensuring catastrophic coverage. Next week, we are likely to take up income-related premiums and other topics. Again, no decisions have been made, though they hope to send the President a series of policy options by late April. As these discussions become more concrete, we will send you more detail on their nature.

The policy process around Medicare proceeds in light of the new Medicare Trustees Report, which projected that the life of the Medicare trust fund has been extended until 2015, seven

years longer than was projected in last year's report. (See attached statement by the President.) These new projections may well diminish the urgency of using the surplus to extend solvency further (which is currently our only bulwark against Republican tax cuts); they may well also make legislators in both parties reluctant to support provider cuts. Without significant provider cuts, proponents of more generous prescription drug benefits will push for tapping the surplus.

Ed-Flex Legislation and ESEA. The President's advisors have been working to drop from the conference report the amendment that was adopted as part of the Seance bill that would allow school districts to use their class-size reduction money to meet the requirements of IDEA. As of now, 35 Senators have signed a letter recommending that you veto the Ed-Flex bill if this provision remains, and over 200 House members voted in favor of the motion to instruct conferees to drop this provision. The President's senior advisors are recommending the President veto the bill if it is sent to him with the amendment.

In addition, the President's advisors are continuing to work through the legislation for the ESEA proposal. They now plan to roll out the bill in the third week of April, but these plans are still tentative. We will send you a memo next week that outlines the outstanding issues in the bill.

Equal Pay. You are scheduled to participate in an event with the President on April 7 to highlight the Administration's Equal Pay initiatives, and to mark Equal Pay Day, which is April 8. The event will consist of remarks by you and the President followed by a roundtable discussion that includes women and companies that have been party to or victims of equal pay violations. The President will announce some new efforts to step up Equal Pay enforcement (specifically new wage data collection measures), as well as reinforce his support for strong Equal Pay legislation and new funding for enforcement. We are working with Carol on your column for that week.

Prescription for Reading Easter Egg Roll Event. The Easter Egg Roll will feature our Prescription for Reading initiative, with "prescriptions" signed by you and the Surgeon General handed out to families participating at the South Lawn reading stations. Scholastic, Inc. has donated children's books with which to "fill" the prescriptions. Our Prescription for Reading partners are thrilled with this event, and we've invited a number of them to the White House reception.

THE WHITE HOUSE
WASHINGTON

March 30, 1999

BACKGROUND MEMORANDUM ON PRESCRIPTION DRUGS

FROM: Chris J. and Jeanne L.

This memo provides background for tomorrow's discussion on a Medicare prescription drug benefit. It describes the need for coverage, expenditure patterns, and the various moving parts of a new benefit. We have also attached an article by Laura D'Andrea Tyson on the topic.

BACKGROUND

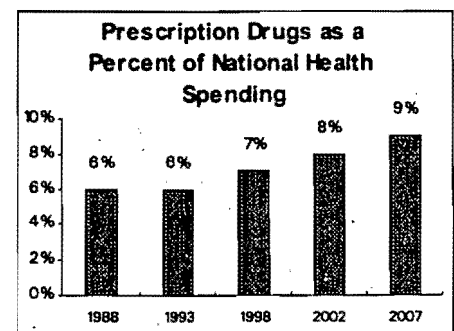
PRESCRIPTION DRUGS: A GROWING PART OF MODERN MEDICINE

Increasing reliance on drugs. Prescription drugs have become an essential part of health care, and are expected to play an even greater role in the next century. They serve as complements to medical procedures (e.g., anti-coagulants with heart valve replacement surgery); substitutes for surgery and other interventions (e.g., lipid lowering drugs that lessen need for bypass surgery) and new treatments where there previously were none (e.g., drugs for HIV/AIDS). Some of the major advances in public health -- the near eradication of polio and measles and the decline in infectious diseases -- are largely the result of vaccines and antibiotics. And, as the understanding of genetics increases, the possibility for pharmaceutical and biotechnology interventions will multiply.

Rising share of national health spending. The increased importance of prescription drugs is reflected in national health spending trends. In the past 10 years, spending on prescription drugs has risen as a percent of total spending by 20 percent. In the next 10 years, its share of national health spending is projected to increase by nearly 30 percent. This means that nearly one in ten health care dollars will be spent on drugs.

New drugs and growth in the pharmaceutical industry.

Although the need for drugs is growing, the rapid spending increase is also driven by the number of new drugs, which are introduced at high prices, particularly if there is no therapeutical alternative. Between 1994 and 1998, the FDA approved nearly 150 new drugs (a 140% increase from the 1960s), and one of the leading pharmaceutical associations estimates that over 350 biotechnology medicines are now in development. Also, in the last several years, the industry has made unprecedented investments in advertising, increasing demand for drugs. Sales by research-based pharmaceutical companies were \$125 billion in 1998, a 12 percent increase over 1997. Profits are expected to continue to grow.



MEDICARE BENEFICIARIES: GREATEST NEED FOR PRESCRIPTION DRUGS

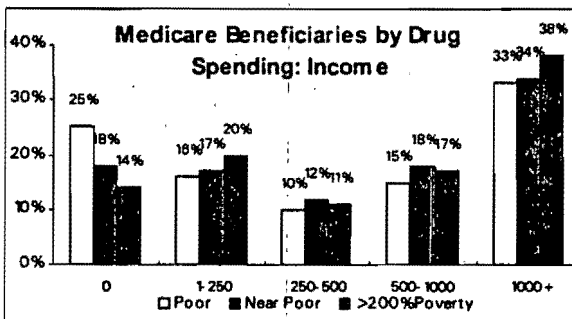
Elderly and people with disabilities rely more on prescription drugs. Over 85 percent of Medicare beneficiaries use at least one prescription drug in the course of a year. Although the elderly comprise 12 percent of the U.S. population, they account for over one-third of all prescription drug spending. The elderly's per capita spending on drugs is over three times as high as that of non-elderly adults, and nearly 10 times that of children. This reflects the greater prevalence of chronic conditions like arthritis and high blood pressure that are best managed through medication.

Despite their higher use of drugs, many Medicare beneficiaries pay higher prices for them. Beneficiaries without drug coverage pay significantly more than large HMOs, employers and the Veterans' Administration pay for the same drugs. Moreover, American senior citizens pay higher prices for drugs than citizens in other nations. For example, the average retail price for the top ten drugs for seniors are 72 percent higher in the U.S. versus Canada (use is higher in Canada as well).

COMPARISON OF PRICES FOR DRUGS

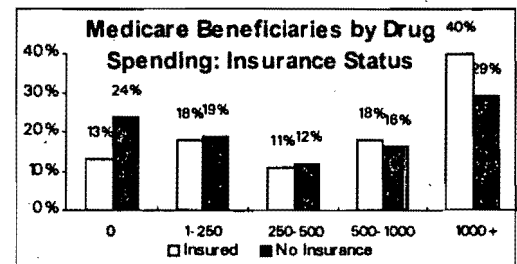
Drug	Use	Price for Preferred Customers	Regular Price
Prilosec	Ulcers	\$56.38	\$111.94
Zocor	Cholesterol	\$42.95	\$104.80
Procardia	Heart	\$67.35	\$126.86
Zoloft	Depression	\$123.88	\$213.72

Source: Minority staff report to Committee on Gov't reform



Distribution of beneficiaries' spending on drugs. According the HCFA actuaries' projections for 2000, over 50 percent of beneficiaries will have prescription drug spending of \$500 or more -- about 13 million have spending that is greater than \$1,000. This expenditure distribution varies somewhat by income. About one in four poor beneficiaries have no drug spending, compared to 14 percent of middle to high income beneficiaries.

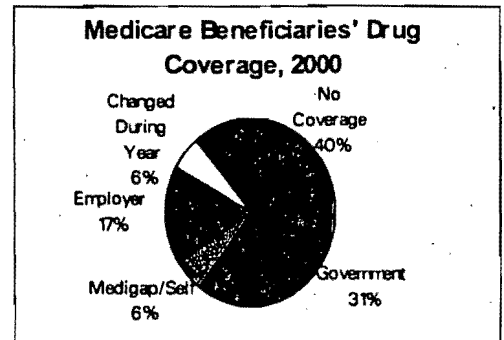
Drug spending also varies by whether beneficiaries have insurance coverage. In general, those with some type of insurance coverage (private or public) have higher spending and utilization than those with no insurance coverage for prescription drugs. Although beneficiaries with drug coverage are somewhat less healthy and thus may need more drugs, there appears to evidence that the lack of coverage discourages use of prescription drugs.



The distribution of drug spending also varies by what type of insurance coverage beneficiaries have. Nearly half (47 percent) of beneficiaries with employer-sponsored retiree coverage have more than \$1,000 in annual expenditures, versus 33 percent of those in Medicare managed care.

DRUG COVERAGE AMONG MEDICARE BENEFICIARIES

Private supplemental drug coverage: Only 23 percent of Medicare beneficiaries are expected to have private insurance for drug coverage (retiree coverage or Medigap) -- down from 38 percent in 1995. Whereas most people under age 65 have employer-based coverage, only about 17 percent have employer-sponsored retiree coverage. Another 6 percent of beneficiaries have Medigap or other private insurance that pays for prescription drugs. Both sources of coverage have been declining rapidly as the cost of coverage rises.



Retiree health insurance: Employer-sponsored retiree insurance, the most generous type of drug coverage for beneficiaries, is an important but eroding source of coverage. Between 1993 and 1997, the percent of large firms offering retiree health benefits for Medicare eligibles dropped about 20 percent (from 40 to 31 percent). The actuaries project that, by 2000, only 17 percent of beneficiaries will have this type of coverage in the absence of a new Medicare benefit.

Medigap: Medigap, the standardized private insurance supplement for Medicare, offers prescription drugs in 3 of its 10 standard plans. The standardized Medigap benefit includes a \$250 deductible, 50 percent coinsurance, and a cap on benefits spending of \$1,250 or \$3,000. Medigap premiums are expensive, ranging from \$402 to \$7,196 per year, depending on the state and type of coverage. The median premium for a 65-year old choosing a plan with prescription drug coverage is well over \$1,000 more than a Medigap plan without drug coverage (\$2,073 v \$913 in 1998). According to experts, virtually all Medigap drug coverage plans are underwritten, meaning that the premiums that they charge are based on the person's health.

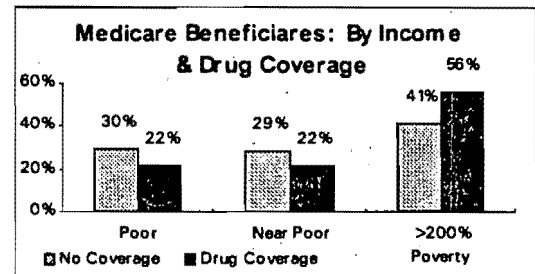
Medigap premiums in general have been rising rapidly. One study of Medigap in 3 states found that premiums for the two most popular plans rose by 12 and 20 percent between 1995 and 1996. At the same time, Medigap coverage has declined from about 40 percent in 1984-87 to 30 percent in 1996. The actuaries project that only 6 percent of beneficiaries will have Medigap drug coverage in 2000.

Public coverage: About 30 percent of beneficiaries have some type of government coverage.

Medicare managed care: About two-thirds of plans offer some type of drug coverage. Typical Medicare managed care plans have no deductibles and relatively low copayments, but limit the amount that they pay for benefits. In 1998, 58 percent had coverage that is greater than \$1,000 and 42 percent had coverage limited to \$1,000 or less. Increasing costs and reducing Medicare overpayments could reduce coverage in the future.

Medicaid: Only Medicare beneficiaries who are eligible for Medicaid through the Supplemental Security Income program or a medically needy (spend down) option are eligible for prescription drug coverage. These dual eligibles typically have income at or below 60 percent of poverty.

Beneficiaries without coverage for drugs. About 16 million beneficiaries (40%) are projected to have no drug coverage in 2000. Lack of drug coverage is not just a problem for low-income beneficiaries; 40 percent of beneficiaries without drug coverage have income above 200 percent of poverty (about \$17,000 for a single, \$23,000 for a couple in 2000). Nearly one in three (30 percent) of nonelderly Medicare



beneficiaries with disabilities does not have any coverage for prescription drugs. Older beneficiaries are less likely to have drug coverage, as are rural beneficiaries. Nearly half of rural beneficiaries have no insurance coverage for drugs.

CONSEQUENCES OF THE LACK OF DRUG COVERAGE

Less use of needed prescription drugs. The odds that Medicare beneficiaries use drugs to treat their health problems increases by 60 percent if they have insurance. Although it is difficult to distinguish appropriate from over-utilization, virtually all researchers acknowledge that the lack of insurance coverage for drugs results in underutilization of drugs, even essential drugs.

Greater institutionalization. One study found that elderly and disabled Medicaid beneficiaries experienced significant declines in the use of essential medicines (e.g., insulin, lithium, cardiovascular agents, bronchodilators) when their Medicaid drug coverage was limited. The increased cost of institutionalization exceeded the savings from reduced use of drugs by 20 fold. Another study found that elderly, ill Medicare beneficiaries whose Medicaid coverage was limited were twice as likely to enter nursing homes. A different study of stroke patients found that those treated promptly with drugs to thin clots had significantly lower health care costs.

Larger financial burden. Even after controlling for health status and income, elderly people with private insurance for drugs have half the financial burden for drugs as those without coverage. One percent of elderly households spend at least 25 percent of their household incomes on drugs. Rural elderly have costs that are 35 percent higher than urban elderly, and women have, on average, costs that are 20 percent higher than men, primarily because many are widowed and lower income. A 1993 survey found that 13 percent of elderly Americans reported having to choose between buying food and buying medicine.

Shorter lives. Given the importance of prescription drugs to modern medicine, the actuaries suggest that under-use of them by Medicare beneficiaries can reduce life expectancy. Ironically, this means that adding a prescription drug benefit could raise -- not lower -- costs of hospitalization and other services, since beneficiaries would live longer.

DESIGN PARAMETERS FOR A PRESCRIPTION DRUG BENEFIT

There are a number of major design features that affect the costs and coverage of a Medicare prescription drug benefit. These are outlined below.

Eligibility: One of the basic questions about a new drug benefit is who is eligible. Medicare benefits have never been limited to subsets of beneficiaries or means tested. However, the costs of a new Medicare drug benefit and concerns about substituting for existing private coverage were major reasons why some Medicare Commission members opposed a drug benefit. The Breaux-Thomas proposal did not include a new Medicare benefit. Instead, it recommended a new Medicaid (not Medicare) subsidized benefit for those with income below 135 percent of poverty (about \$11,000 for a single, \$15,000 for a couple). It would also require Medicare plans and Medigap to offer an unsubsidized drug option. The lack of a significant subsidy would raise major selection issues that would destabilize this insurance, since healthy beneficiaries would consider it unaffordable and mostly sicker beneficiaries would participate, driving up costs.

Providing low-income beneficiaries with a fully subsidized benefit is important -- and would, in fact, happen automatically if a new Medicare benefit were created. This is because, under current law, Medicaid pays for Medicare premiums for all beneficiaries with income below 135 percent of poverty. Unless this provision is changed, Medicaid would also pay for the Medicare premium for prescription drugs for low-income beneficiaries (note: in our cost estimates).

However, a low-income drug benefit will leave most beneficiaries vulnerable. Nearly 3 out of 5 beneficiaries who lack drug coverage have income above 135 percent of poverty. About 30 percent of these beneficiaries have drug expenditures that exceed \$1,000. This represents a considerable expense for beneficiaries with income between \$15,000 and \$20,000. Moreover, private coverage for drugs is unstable. The actuaries project that the proportion of beneficiaries with retiree coverage will decline from 28 to 17 percent between 1995 and 2000, and with Medigap from 10 to 6 percent. Although these declines are offset by increased enrollment in Medicare managed care, managed care plans are increasingly wary of offering a drug benefit.

For these reasons, Laura Tyson and other economists argue that the only efficient option is to extend drug coverage to all beneficiaries. Not only does this ensure that beneficiaries that need this coverage get it, but it limits the need for inefficient, expensive supplemental coverage.

Optional versus mandatory: Today, the Part B premium for Medicare is voluntary but, since the government pays 75 percent of the premium, virtually all beneficiaries take this option. In contrast, in 1988, when a catastrophic drug benefit was added to Medicare, all beneficiaries were required to pay the new premium. This mandatory premium was unpopular, particularly with beneficiaries with other, less expensive, and typically more generous coverage. This contributed to the subsequent repeal of this benefit.

Although proponents of a drug benefit would prefer that it be optional, there is one compelling reason to consider a mandatory benefit: costs. As with most insurance, a new optional drug benefit would create a "moral hazard", meaning that beneficiaries with high drugs costs are more likely to purchase the option. This results in a high average cost of the insurance which translates into higher premiums. Over time, healthier beneficiaries will be less willing to pay the higher premiums, causing the risk pool to shrink and the premiums to rise even more.

There are ways to reduce risk selection in an optional drug benefit. The most important would be to subsidize the premium for the benefit. Since nearly all beneficiaries use drugs, a reduced-price premium would encourage healthy beneficiaries to participate. The actuaries assume that even those with employer-sponsored retiree coverage would participate (employers would pay for the beneficiaries' share of the premium, and wrap around the Medicare benefit if their current benefit is more generous). Another way to ensure that an optional benefit is viable is to limit when beneficiaries can enroll. If beneficiaries can wait until they are sick to enroll, even a subsidized option could be subject to risk selection. Our actuaries assume that if there is at least a 50 percent premium subsidy and a one-time option to participate (when a beneficiary enrolls in Medicare), then all beneficiaries will participate in an optional benefit. It may also be possible to create transition rules for beneficiaries who lose their retiree coverage.

Premium subsidy: As described above, premium subsidies are important to participation in an optional drug benefit. At the same time, while they reduce the cost per beneficiary, they raise Federal spending in aggregate. The level of the premium subsidy was discussed extensively in the last days of the Medicare Commission. Laura Tyson and Stuart Altman, following logic of the actuaries, argued for at least a 50 percent subsidy. At one point, it appeared that the Commission would agree to a 25 percent subsidy for all beneficiaries, but in the end rejected it -- both on cost grounds and because of a reluctance to subsidize higher income beneficiaries.

One option that could address these concerns is an income-related premium for the optional drug benefit. It would have to be designed carefully, to avoid selection, but could both lessen the cost of the benefit and reduce government assistance for those who could afford it. It would make even more sense if there were an income-related Part B premium, simplifying the administration.

Cost sharing: In addition to the premium subsidy, the cost of a Medicare drug benefit depends on its cost sharing structure. There are four major moving parts of a drug benefit: its (1) deductible, (2) coinsurance or copayments, (3) limits on out-of-pocket spending or stop-loss protection, and (4) cap on benefit payments. The cost sharing for Medicare beneficiaries with drug coverage varies dramatically. Employer-sponsored coverage is probably the most generous. Mirroring coverage for their under-65 workers, it typically has no separate deductible for drugs, low copayments, stop-loss protection, and no limit on benefit payments. Medigap, in contrast, has a separate, \$250 deductible, 50 percent coinsurance, and a cap on how much the plan will pay. Medicare managed care usually has low to no deductible and copayments, controlling costs by limiting the amount that plans pay.

EXAMPLES OF DRUG BENEFIT COST SHARING

<u>Option</u>	<u>Deductible</u>	<u>Copay</u>	<u>Stop-Loss</u>	<u>Benefits Cap</u>
FEHBP*	\$50	20%	(\$3,750)	None
Retiree **	(\$300)	\$5/15	(\$1,750)	None
Medigap	\$250	50%	None	\$1250/3000
Kaiser DC:	\$0	\$5/20	None	\$1,000

Limits in parentheses are for all services, not just drugs

* Blue Cross/Blue Shield standard option

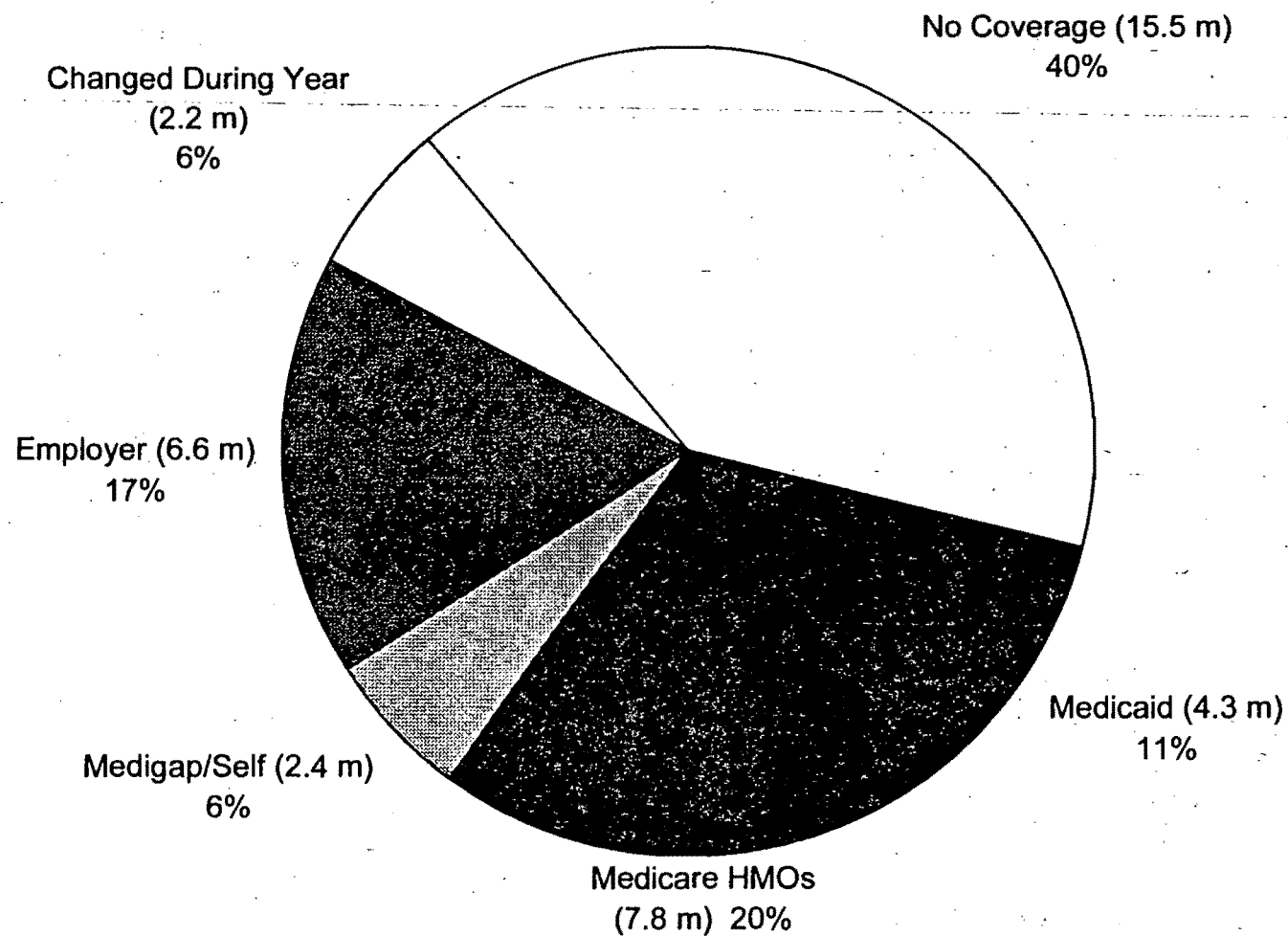
** Typical retiree plan

MEDICARE PRESCRIPTION DRUG BENEFIT

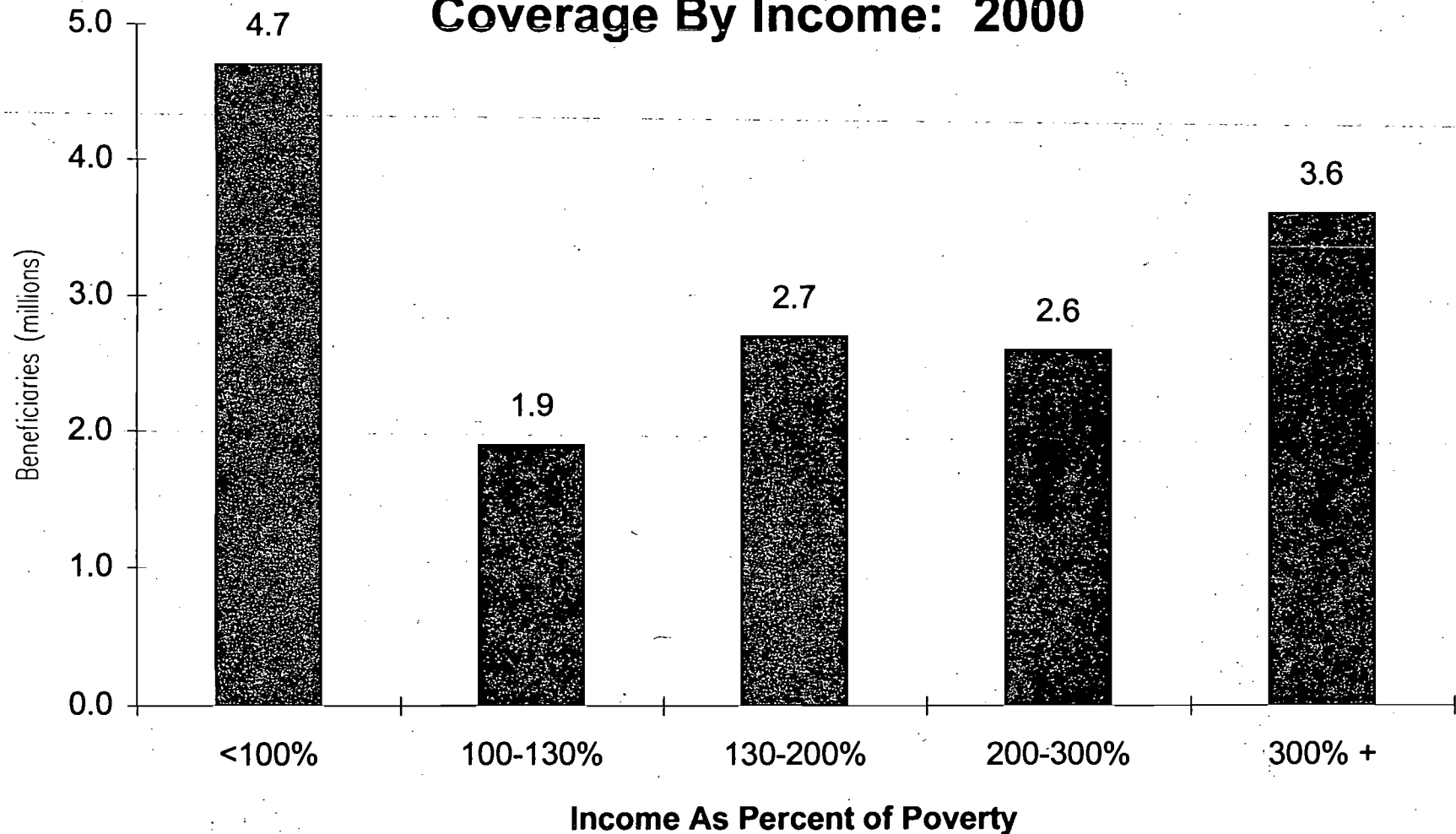
MAJOR PARAMETERS AFFECTING COSTS

AGENDA: March 29, 1999

Medicare Beneficiaries By Drug Coverage: 2000



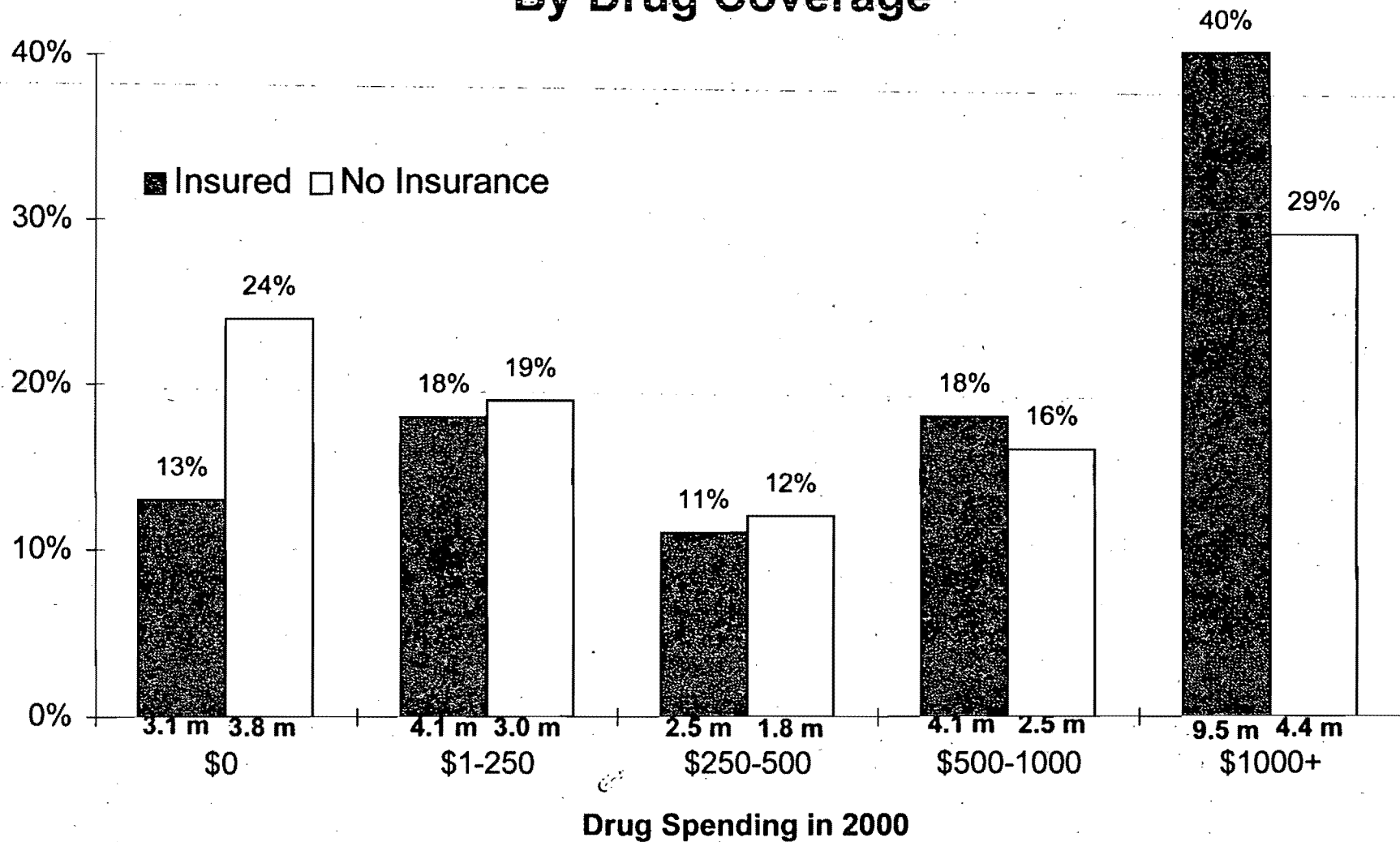
Medicare Beneficiaries Without Any Drug Coverage By Income: 2000



Poverty for a Single: About \$8,500; Couple: \$11,000

Note: Breaux-Thomas coverage to 135% of poverty: \$11,000 for a Single, \$15,000 for a Couple

Medicare Beneficiaries' Drug Spending: By Drug Coverage



PARAMETERS AFFECTING COST

ASSUMPTIONS

- **Eligibility**
 - All Beneficiaries (versus low-income beneficiaries only)
- **Premiums**
 - Voluntary, Limited Enrollment Options
 - 50% Subsidy
- **Covers All Drugs**
- **Management**
 - Pharmacy Benefits Managers (PBMs): 13 percent discount
 - Allow beneficiaries to purchase at discounted rates

COST SHARING AND BENEFIT LIMITS

- **Deductible**
- **Coinsurance**
- **Benefit Payment Limits or Caps**

COST OF OPTIONS: DIFFERENT CAPS & COST SHARING

(Fiscal Years, Dollars in Billions)

<u>OPTIONS:</u>	<u>2000-04</u>	<u>2000-09</u>
HIGH		
◦ <u>Uncapped</u> : \$250 deductible, 25% copay (\$41/mo)	75	243
◦ <u>Capped</u> : \$0 deductible, 10% copay, \$2,000 cap (\$47/mo)	73	219
MEDIUM		
◦ <u>Uncapped</u> : \$500 deductible, 25% copay (\$34/mo)	63	208
◦ <u>Capped</u> : \$100 deductible, 10% copay, \$2,000 cap (\$43/mo)	67	202
LOW		
◦ <u>Uncapped</u> : \$500 deductible, 50% copay (\$24/mo)	51	175
◦ <u>Capped</u> : \$250 deductible, 20% copay, \$2,000 cap (\$35/mo)	55	167

Assumes: Implemented in 2001 (no cost in 2000); 50% premium subsidy; all beneficiaries participate; PBM management

ILLUSTRATION OF MEDIGAP COST SHARING

OPTION	SPENDING					
	\$0	\$250	\$500	\$1,000	\$2,500	\$5,000
Distribution 100% (38.8 million)	18% (6.8 m have \$0 spending)	18% (7.1 m spend \$1-250)	11% (4.4 m spend \$250-500)	17% (6.6 m spend \$500-1000)	24% (9.2 m spend \$1000-2500)	12% (4.7 m spend > \$2500)
MEDIGAP PLAN H						
\$500 Deductible	\$0	\$250	\$500	\$500	\$500	\$500
50% Copay	\$0	\$0	\$0	\$250	\$1,000	\$2,250
\$1,250 Cap	\$0	\$0	\$0	\$0	\$0	\$1,000
Total	\$0	\$250	\$500	\$750	\$1,500	\$3,750
Cost (+)/Savings (-) Impact:	+\$0	+\$0	+\$0	-\$250	-\$1,000	-\$1,250
<i>With Premium:*</i>	+\$1,000	+\$1,000	+\$1,000	+\$750	+\$0	-\$250

* According to one study, the Medigap premium for Plan H for an average 65-year old was \$2,073 in 1998, compared to \$913 in Plan D, which is virtually the same except for drug coverage. This premium reflects both adverse selection and high administrative costs typically associated with Medigap.

Note: The savings to the beneficiary will be \$1,250 for all beneficiaries with spending greater than \$2,750 (\$1,750 in cost sharing and \$1,000 in premiums)

ILLUSTRATION OF HOW COST SHARING AFFECTS BENEFICIARIES

OPTION	SPENDING					
	\$0	\$250	\$500	\$1,000	\$2,500	\$5,000
Distribution 100% (38.8 million)	18% (6.8 m have \$0 spending)	18% (7.1 m spend \$1-250)	11% (4.4 m spend \$250-500)	17% (6.6 m spend \$500-1000)	24% (9.2 m spend \$1000-2500)	12% (4.7 m spend > \$2500)
UNCAPPED (\$63 b / 5)						
\$500 Deductible	\$0	\$250	\$500	\$500	\$500	\$500
25% Copay	\$0	\$0	\$0	\$125	\$500	\$1,125
\$0 Cap	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$250	\$500	\$625	\$1,000	\$1,625
Cost (+)/Savings (-) Impact: With New Premium:*	+\$0 +\$420	+\$0 +\$420	+\$0 +\$420	-\$375 +\$45	-\$1,500 -\$1,080	-\$3,375 -\$2,955
CAPPED (\$67 b / 5)						
\$100 Deductible	\$0	\$100	\$100	\$100	\$100	\$100
10% Copay	\$0	\$15	\$40	\$90	\$240	\$490
\$2,000 Cap	\$0	\$0	\$0	\$0	\$160	\$2,410
Total	\$0	\$115	\$140	\$190	\$500	\$3,000
Cost (+)/Savings (-) Impact: With New Premium:*	+\$0 +\$420	-\$135 +285	-\$360 +\$60	-\$810 -\$390	-\$2,000 -\$1,580	-\$2,000 -\$1,580

* About \$35 / month or \$420 per year. For comparison, beneficiaries with Medigap typically pay \$1,000 additional premium for drug coverage.

Notes: "+" indicates increased beneficiary payments; "-" indicates reduced payments. Premium estimates rough approximations; assumes that all beneficiaries do not now pay premiums; does not include discounts.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

March 30, 1999

REMARKS BY THE PRESIDENT
ON RELEASE OF 1998 SOCIAL SECURITY TRUSTEES REPORT

Rose Garden

2:57 P.M. EST

THE PRESIDENT: Thank you very much. Please be seated. (Applause.) I welcome all of our guests here, as well as the members of the administration. And I thank those who have joined me here on the platform for this important announcement.

Twice in the last six years, we have strengthened our nation's future in the 21st century by addressing serious, great fiscal challenges to America. In 1993, we met the threat of mounting deficits and a stagnant economy with an economic plan of fiscal discipline, expanded trade and investment in our people.

Thanks to that action, the red ink of the federal budget has turned to black, and we are enjoying the longest peacetime expansion in our nation's history.

In 1997, we reaffirmed our commitment to fiscal discipline with the bipartisan balanced budget agreement. It took important steps to improve Medicare, savings tens of billions of dollars in costs while expanding benefits for recipients and choices.

Today, we have new evidence that those determined actions were the right ones. I have just been briefed by our four Social Security and Medicare Trustees for the administration -- Secretaries Rubin, Shalala, Herman, Social Security Commissioner Apfel, who here with me today. The Trustees have issued their annual report on the future financial health of these vital programs. The

Trustees Report shows that the strength of our economy has led to modest but real improvements in the outlook for Social Security. They project that economic growth today will extend the solvency of the Social Security trust fund to 2034 -- two years longer than was projected in last year's report.

After that date, however, the trust fund will be exhausted, and Social Security will not be able to pay the full benefits older Americans have been promised. Therefore, still I say we must move forward with my plan to set aside 62 percent of the surplus for Social Security, investing a small portion in the private sector for better return, just as any private or state government pension would do.

As I said in my State of the Union address, we then must go further, with difficult but achievable reforms that put Social Security on a sound footing for 75 years; that lift the earnings limitations on what seniors can earn; and that do something about the incredible problem of poverty among elderly women living alone.

The trustees have also told us that today the future for Medicare has improved even more. The trustees project that the life of the Medicare trust fund has been extended until 2015.

That's seven years longer than was projected in last year's report. These improvements are only partially due to the stronger economy. According to the trustees, they are also the result of the difficult but necessary decisions made in 1997; and to our successful efforts to fight waste, fraud, and abuse in the Medicare program.

Now, this Trustee Report is very good news. We should be pleased; Americans can be proud. But we should not be lulled into thinking that nothing more needs to be done, because the improvements we see today, themselves, did not happen by accident, but instead came as a result of determined action to make sure that the problems were not allowed to get out of hand.

When I became President six years ago, Medicare was actually projected to go bankrupt this year. We worked hard in 1993 and 1997 to make sure that didn't happen. Some of the actions we took at the time were not particularly popular, but we knew they had to be done. They helped to strengthen Medicare, and they laid the foundations from the difficult challenges we still must face.

Social Security and Medicare face long-term challenges, as all of you know, with the baby boom aging, with medical science extending the lives of millions, with the number of elderly Americans set to double by 2030. Even with today's good news, Social Security will run out of money in 35 years, Medicare in 16 years. We cannot -- we will not -- allow that to happen.

For three decades, Medicare has protected seniors and the disabled while expressing the values of care and mutual obligations that bind families and the generations of Americans together. Since my State of the Union address, I have called for devoting 15 percent of our surplus to strengthening Medicare, while modernizing the program with real reforms and helping seniors with prescription drugs.

When the Medicare Commission completed its work two weeks ago, I said we must build on their recommendations by adopting the best practices from the private sector while also maintaining high-quality services, continuing to provide every citizen with a guaranteed set of benefits, and making prescription drugs more accessible and affordable to Medicare beneficiaries.

Now we must build on the good news we have received today. We must extend the life of Medicare even further, modernize the program even more, and make prescription drugs even more accessible and affordable. Medicare cannot remain static in the face of the sweeping changes in our nation's health care system, a system today that relies increasingly on prescription drugs.

Today, 13 million seniors each spend more than \$1,000 a year, out of pocket, for prescriptions. Let me say that again -- 13 million seniors today spend more than \$1,000 a year out of pocket for prescription medication. At the same time, seniors who have no drug coverage do not benefit from the lower prices that insurance firms often can negotiate from pharmaceutical companies. The higher prices these seniors pay are in effect a hidden tax. We must find a way through Medicare to inject more competition into the health care system and to provide a prescription drug benefit.

Now, I know that some might say this good news means that we can simply delay reform. Nothing could be further from the truth. Strengthening and modernizing Medicare requires tough but achievable changes. And now is the time to make those changes -- now when our economy is strong; now when our people have renewed confidence; and now when we have time on our side so

that modest changes today can have major impacts in the years ahead.

Nothing in this report lessens the need to devote 15 percent of the surplus to strengthening Medicare. But nothing in this report lessens the need to make tough but achievable reforms either. And nothing in this report lessens the need to help seniors with a prescription drug benefit. If we wait we will be condemning ourselves to future changes that will be much more costly and wrenching and much less satisfying in the end.

Today we face a choice that is a test of our wisdom as a self-governing people and a test of our vision of 21st century America. Will we seize this moment of prosperity? Will we devote these surpluses to strengthening Medicare, to strengthening our future? Or will we rush and do the most appealing prospect of the moment, a tax cut that will explode in later years and avoid our generation's responsibility and put the future of Medicare at risk?

The Trustees Report is welcome news, but it also contains a clear lesson -- tough, disciplined action is good economics. It's good for Social Security; it's good for Medicare; it's good for America. It's very good for our children's future and for the future of our families across the generations.

We can extend the life of Social Security and Medicare, and have an appropriate, affordable amount of tax relief specially targeted to the neediest working families and middle class families. But we have to apply the lessons we have learned in the last six years to the first years of the 21st century. I am determined to see that we do so this year. And the Trustees Report should make it easier for us to fulfill our responsibilities.

Thank you very much. (Applause.)