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DOCUMENT NO.	FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
001	Memorandum	Historical Review of Domestic Energy Policy - From: Amy Farrell	11	N.D.	P5;
002	Memorandum	Medicare - From: Julie Goon	21	N.D.	P5;
003	Timeline	Medicare Reform	6	N.D.	P5;
004	Memorandum	Historical Review of 2008 Financial Crisis - From: Jonathan Swanson	13	N.D.	P5;
005	Appendix	Appendix C: The Administration's Unheeded Warnings About the Risks Posed by the GSEs	7	N.D.	P5;
006	Appendix	Appendix D: Tick-Tock Outline of Financial Markets Intervention	10	N.D.	P5; P6/b6;

COLLECTION TITLE:
Staff Secretary, White House Office of the
SERIES:
Von Der Heydt, Thomas (Tommy) - Bush Record Policy Memos
FOLDER TITLE:
National Economic Council: A Timeline (2001 - 2008) [1]
FRC ID:
14346

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 This document was prepared on Monday, October 22, 2012

THE WHITE HOUSE
WASHINGTON

NATIONAL ECONOMIC COUNCIL

A TIMELINE (2001–2008)

BUSH RECORD
POLICY MEMOS

1. Energy
2. Medicare
3. Financial Crisis
4. Economic Results
5. Health Care
6. Tax Cuts
7. Social Security

1

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ENERGY POLICY (2001-2008)

May 3, 2001

Responding to the electricity crisis in California, the President issues a directive to federal facilities to take appropriate action to conserve energy and review existing operating and administrative processes to find opportunities to further reduce use.

May 16, 2001

Vice President Cheney submits to the President the National Energy Policy report designed "to help bring together business, government, local communities and citizens to promote dependable, affordable and environmentally sound energy for the future."

May 18, 2001

The President issues two executive orders to zero in on government hurdles to energy conservation by directing agencies to consider and prepare a statement of energy effects from certain regulatory actions on energy supply and distribution, and to expedite projects that increase production, transmission, or conservation of energy.

November 13, 2001

Recognizing its important role in our nation's energy and national security, the President orders the Strategic Petroleum Reserve filled.

February 14, 2002

Energy Secretary Spencer Abraham unveils the Nuclear Power 2010 (NP2010) program, a costshared program with industry to demonstrate the untested regulatory process for new plants and to make the next generation of nuclear power plants ready for construction by completing their detail designs.

July 23, 2002

Following over a decade of scientific study, President Bush signed the Yucca Mountain Bill, allowing the US to take the next step in establishing a safe repository to store our nation's nuclear waste.

January 23, 2003

The President announces that the United States will join ITER, an ambitious international research project to harness the promise of fusion energy.

August 8, 2005

President Bush signs into law the first national energy plan in more than a decade, the Energy Policy Act of 2005 (EPAct). This comprehensive plan included provisions to encourage energy efficiency and conservation, promote alternative and renewable energy sources, reduce our dependence on foreign sources of energy, increase domestic production, modernize the electricity grid and encourage the expansion of nuclear energy. EPAct represented the culmination of efforts toward a national energy plan over the past five years, dating back to the National Energy Policy and several major pieces of legislation since then that failed to get to the President's desk.

February 6, 2006

Energy Secretary Samuel Bodman announces the formation of the Global Nuclear Energy Partnership (GNEP), a comprehensive strategy to enable the expansion of emissions-free nuclear energy worldwide by demonstrating and deploying new technologies to recycle nuclear fuel, minimize waste, and improve our ability to keep nuclear technologies and materials out of the hands of terrorists.

August 4, 2006

Secretary Bodman announces the rule implementing Standby Support, delay risk insurance for certain regulatory and litigation-related delays for new nuclear plants, one of the three financial provisions for nuclear power under the Energy Policy Act of 2005.

December 20, 2006

The President signs the Gulf of Mexico Energy Security Act (GOMESA), which authorizes Outer Continental Shelf (OCS) expansion, recognizes important interests of coastal States such as Florida, and provides a cap on costs to protect the Federal Treasury.

January 23, 2007

The President announces the Twenty-in-Ten challenge in the 2007 State of the Union Address: reduce U.S. gasoline usage by 20% in ten years by setting a mandatory fuels standard to 35 billion gallons of alternative fuels by 2017 and increasing fuel economy standards for vehicles. He also calls for the doubling of Strategic Petroleum Reserve capacity to 1,500,000,000 barrels.

May 14, 2007

The President issues an executive order, Cooperation Among Agencies in Protecting the Environment with Respect to Greenhouse Gas Emissions from Motor Vehicles, Non-road Vehicles and Non-road Engines.

December 19, 2007

The President signs the Energy Independence and Security Act (EISA), major step forward in expanding the production of renewable fuels, reducing our dependence on oil, and confronting global climate change, which also includes the President's Twenty-in-Ten challenge.

May 19, 2008

In the face of overwhelming Senate and House support, the President signs H.R. 6022, the Strategic Petroleum Reserve Fill Suspension and Consumer Protection Act of 2008, which stops the fill of the Strategic Petroleum Reserve through the end of 2008.

June 3, 2008

The Department of Energy submits a license application to the Nuclear Regulatory Commission to construct the nuclear waste repository at Yucca Mountain.

September 8, 2008

The Nuclear Regulatory Commission dockets the Department of Energy's application for a nuclear waste repository at Yucca Mountain, triggering a three year review process to determine whether to move forward with a repository.

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Appendix A: Timeline of Financial Market Events

March 14: Bear Stearns secures funding agreement with JPMorgan and Fed.
July 11: IndyMac fails and is placed in FDIC conservatorship.
July 30: President signs Housing and Economic Recovery Act (GSE reform)

<u>September</u>
8: Conservatorship of Fannie & Freddie.
14: Merrill Lynch agrees to be taken over by Bank of America.
15: Lehman Brothers files for bankruptcy.
16: Fed agrees to lend $85 billion to AIG. Reserve Primary Fund breaks the buck.
18: President cancels travel and makes statement about market turmoil.
19: President calls for Congress to pass financial rescue legislation. Treasury announces money market guarantee. SEC temporarily prohibits short selling of financial companies.
21: Goldman and Morgan Stanley become bank holding companies.
24: President addresses nation and explains origin of financial crisis.
25: President meets with congressional leaders and presidential candidates at the White House; WaMu is closed by the FDIC, largest US bank failure.
29: House rejected $700 billion plan; Sarkozy calls for global summit.
30: President addresses nation and urges Congress to reconsider rescue plan. Money to finance the $25 billion for autos was approved in the continuing resolution, but actual dispersal is delayed because of regulation.

<u>October</u>
3: House passes revised $700 billion rescue plan, including higher deposit insurance limits ($250K).
10/11: President addresses nation and G7 meetings held at Treasury, as DOW closes down 18% on week.
14: Treasury announces $250 billion Capital Purchase Program and FDIC announces guarantee of unsecured bank debt.
18: President Bush agrees to host G20 Summit.

<u>November</u>
8: Reid and Pelosi sent a letter to Paulson urging him to use existing TARP authority to support the Big Three.
10: Fed and Treasury sweeten AIG aid, taking preferred stock and reducing lending fees.
12: Paulson addresses public about shifting focus of TARP to capital injections and consumer credit away from distressed asset purchases.
15: G20 Summit.
17: Senator Reid introduced a $100 billion economic stimulus that included $25 billion for automakers, to come out of the $700 billion TARP.
18/19: Bernanke and Paulson testify about the TARP; Big Three CEOs testify and come under fire for flying in private jets.
21: Reid and Pelosi send letter to auto execs requesting restructuring plans by Dec 2.
23: Treasury injects $20 billion into Citigroup and Fed guarantees $306 billion in assets.

December 4/5: Auto executives testify for a second time.

Appendix B: Substantive Background on Policy Actions

This appendix explains the major federal government responses to market conditions starting with Bear Stearns. For definitions of words or more extensive background on a particular item, follow the footnotes.

March 14: Bear Stearns

Synopsis: The New York Fed agreed to lend $29 billion to facilitate the acquisition of Bear Stearns by JPMorgan.

Loan terms: The $29 billion loan is collateralized by $30 billion of Bear Stearns assets, marked to market on March 14. JPMorgan agreed to absorb the first $1 billion in loses. The New York Fed loan is for a term of 10 years and the rate fluctuates with the primary credit rate, which was 2.5% at the time of the loan.[13]

September 7: Government Sponsored Enterprises

Synopsis: The GSEs' regulator announced that Fannie and Freddie had been taken into conservatorship and Treasury agreed to provide cash (as equity and as loans) to the companies as necessary.

Conservatorship: Conservatorship allowed the GSEs regulator, Director Jim Lockhart, to remove the current CEOs and board members and place the companies under his administration. This action was taken because Secretary Paulson, Chairman Bernanke, and Director Lockhart decided that Fannie's and Freddie's very low capital levels posed a systemic risk to the global financial markets – in other words, the failure of either GSE could severely destabilize financial markets. The goal of the conservatorship is to restore the companies to financial health and to give a "time out" to allow Congress to pass legislation that will eliminate the GSEs' public-private tension which was at the root of their problems (they were a private company that was assumed to be supported by the government).[14]

Positive net worth agreement: Treasury agreed to guarantee that Fannie and Freddie maintain a positive net worth. If at any time either company's liabilities exceed its assets, Treasury will inject cash in to the companies in exchange for "senior preferred stock". Treasury will be repaid before common and preferred stock holders and will receive a dividend and warrants (future equity) representing 79.9% of each company. Treasury has authority to inject up to $100 billion in to each company.[15] On November 14, Freddie Mac was the first GSE to receive a capital injecting, receiving $13.8 billion after a $25.3 billion third quarter loss.[16]

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[13] http://www.newyorkfed.org/newsevents/news/markets/2008/rp080324b.html
[14] http://www.treasury.gov/press/releases/reports/fhfa_consrv_faq_090708hp1128.pdf
[15] http://www.treasury.gov/press/releases/reports/pspa_factsheet_090708%20hp1128.pdf
[16] http://www.freddiemac.com/news/archives/investors/2008/3q08er.html

Back-stop credit facility: If either GSE has difficulty raising debt, the Treasury will lend at a penalty rate (Libor[17] +50bp).[18]

Mortgage security purchasing: The Treasury will purchase mortgage securities (MBS) from Fannie and Freddie to promote market stability and mortgage affordability.[19]

September 16: American International Group
Synopsis: The Federal Reserve and Treasury decided the disorderly failure (bankruptcy) of AIG could destabilize the broader financial system so AIG was given access to an $85 billion loan from the Federal Reserve Bank of New York. (AIG was later given access to additional cash; see below.)

Loan facility: The loan allows AIG to meet its obligations and sell some of its businesses in an orderly manner. AIG can borrow up to $85 billion when and if they need it. In exchange, the government receives 79.9% ownership of the company.[20]

- The loan facility is available for 24 months, at an interest rate of Libor plus 850bp (around 11.5% at announcement), and is collateralized by all of AIG's assets.
- The interests of taxpayers are protected by the terms of the loan, and the Federal Reserve is expected to be repaid.
- On October 8, AIG was given access to an additional $37.8 billion loan in exchange for collateral (investment-grade, fixed-income securities) from AIG's insurance company subsidiaries.[21]
- On November 11, AIG's rescue was restructured. Treasury purchased $40 billion of preferred shares under the TARP program. In tandem, the Federal Reserve reduced the credit facility created September 16 from $85 billion to $60 billion. The interest rate on the facility was changed from three month Libor plus 850 basis points to plus 300 basis points. In addition, the Fed established two lending facilities to purchase $52.5 billion of distressed assets from AIG. AIG will bear the first $6 billion of losses. Proceeds from these facilities will be used to terminate the Oct 8 $37.8 billion facility.[22]

September 19: Troubled Asset Repurchase Program
Synopsis: President Bush and Secretary Paulson announced the Administration was submitting legislation to Congress requesting authority to purchase troubled assets from financial institutions. This program is intended to address the root of the financial market stress by recapitalizing financial institutions. Through negotiations with Congress, a number of provisions were added to the original proposal (such as an insurance program,

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[17] **LIBOR**: The London Interbank Offering Rate, is the rate at which banks lend each other money. There are many durations of LIBOR (overnight, 1 week, 1 month, etc). The LIBOR rate is calculated every day by the British Banking Association. See this Bloomberg page for an introduction: http://www.bloomberg.com/apps/data?pid=avimage&iid=iSsHtOduiRgo
[18] http://www.treasury.gov/press/releases/reports/gsecf_factsheet_090708.pdf
[19] http://www.treasury.gov/press/releases/reports/pspa_factsheet_090708%20hp1128.pdf
[20] http://federalreserve.gov/newsevents/press/other/20080916a.htm
[21] http://www.federalreserve.gov/newsevents/press/other/20081008a.htm
[22] http://www.federalreserve.gov/newsevents/press/other/20081110a.htm

oversight provisions, and limitations on executive compensation), and the final bill, the Emergency Economic Stabilization Act, was passed October 3.[23]

Emergency Economic Stabilization Act: Treasury has $700 billion of authority to buy or insure troubled assets and purchase the equity in financial institutions.

- Because the Treasury is buying assets with the $700 billion, when the assets are resold, the Treasury will pay off much, if not all, of this debt.
- The legislation also temporarily increased the limit on federally insured deposits from $100,000 to $250,000. This applied to both FDIC-insured accounts and Credit Union accounts.
- Because of changing market conditions, capital injections were pursued rather than purchasing troubled assets, as had originally been intended. Capital injections were announced through the Capital Purchase Program on October 14.

<u>September 19: Guarantee Program for Money Market Funds</u>
Synopsis: Treasury announced it will temporarily guarantee money market funds. Treasury took this action after a money market fund "broke the buck" (returned less than $1 for every $1 invested). The guarantee program will return confidence to this market and prevent investors from suddenly pulling their investments from money market funds. Treasury opened the guarantee program on September 29.[24]

- Money market funds are considered very safe investments – they do not pay a high return but they aim to never lose money. Before the week of Sept 15, only one fund had ever "broken the buck" (lost money).
- To participate, money market mutual funds pay a fee.
- For investors, these means that for every $1 invested in a money market fund (as of September 19) they will get $1 back, even if a money market fund unexpectedly terminates.
- The program is supported by $50 billion from the Treasury's Exchange Stabilization Fund and will exist for an initial 3 month term, after which the Secretary can extend it until September 18, 2009.
- On November 24, the Secretary extended the program until April 30, 2009.

<u>September 19: Short selling prohibition</u>
Synopsis: The Securities and Exchange Commission announced it was prohibiting short selling in financial companies. Short selling is a way investors bet a stock will decline, and plays an important role in facilitating hedging, adding liquidity to markets, and mitigating market bubbles. Short selling can also be abused by manipulators who sell a stock short and spread lies about a company's prospects. The SEC decided that in the current market environment short-selling was contributing to sudden price declines disconnected to fundamental valuations.[25]

- The prohibition was initially effective until October 2, and was extended through October 8.

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[23] http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:h1424enr.txt.pdf
[24] http://www.treasury.gov/press/releases/hp1161.htm
[25] http://www.sec.gov/news/press/2008/2008-211.htm

- Two days earlier, the SEC had taken steps to prevent "naked short selling". In naked short selling, an investor doesn't actually borrow the stock and fails to deliver it to the buyer (this potentially allows more than one investor to short the same stock).
- The SEC also is requiring institutional money managers to report short sales.

September 30: Fair Value Accounting

Synopsis: The Securities and Exchange Commission and the Financial Accounting Standards Board jointly offered clarifications on fair value accounting. The announcement was not a fundamental change in policy but rather clarified that existing policy states that firms do not need to rely solely on market prices in distressed markets.[26]

- Accounting standards require that firms value some of their assets a "fair value". In normal market conditions, this means a firm uses market prices. However, in distressed markets, market prices may be unavailable or, if they are available, the values may reflect fire-sale prices that do not reflect fundamental value.
- The announcement re-affirmed that management can use internal assumptions to measure fair value when relevant market evidence does not exist. This means that in a distressed market assumptions about expected cash flows can be used in addition to market prices.
- On October 3, the Financial Accounting Standards Board offered further clarification by giving illustrative examples for determining fair value in a market that is not active.[27]
- On October 7, the SEC began work on a study on "mark-to-market" accounting, as authorized by the Emergency Economic Stabilization Act. The study will explore the effects of mark-to-market accounting in the current financial situation.[28]

October 14: Capital Purchase Program

Synopsis: The Treasury announced the voluntary $250 billion Capital Purchase Program to encourage financial institutions to build capital and unfreeze the flow of credit.[29]

- Treasury will purchase up to $250 billion of perpetual senior preferred shares on uniform terms.
- Dividend: The shares pay 5% per year for five years and 9% thereafter.
- Warrants: The Treasury receives warrants equal to 15% of the preferred share issuance, and the strike price is the market price for the common on the day of the sale. The strike price falls 15% every six months up to a maximum of 45%.

November 20: Reserve Fund's US Government Money Market Fund

Synopsis: In September the Reserve Fund's money market funds came under severe stress, and on September 17 the SEC allowed the Reserve Fund to suspend share redemptions in its US government money market fund. On November 20, in order to

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26 http://www.sec.gov/news/press/2008/2008-234.htm

27 http://www.fasb.org/fasb_staff_positions/prop_fsp_fas157-d.pdf

28 http://www.sec.gov/news/press/2008/2008-242.htm

29 http://treasury.gov/press/releases/hp1207.htm

allow the fund to liquidate orderly, the Treasury agreed to purchase any remaining securities from the fund that it is unable to sell in the following 45 days.[30]

November 23: Citigroup

Synopsis: After Citi suffered a 60% decline in its stock the previous week, the Treasury, FDIC, and Federal Reserve announced they would cover losses on a pool of $306 billion of Citigroup assets, and the Treasury announced it would inject an additional $20 billion of capital from TARP.[31]

- Asset guarantee: $306 billion of residential and commercial real estate is guaranteed. Citi absorbs the first $29 billion of loses, and further loses are shared (90% gov't; 10% Citi). Treasury absorbs the next $5 billion through TARP, and FDIC absorbs the following $10 billion. Further shared loses are funded by a non-recourse loan from the Federal Reserve. The interest rate on the loan is OIS[32] + 300bp (about 3.5% on 11/25), and interest payments are with recourse to the institution. The guarantees last 10 years for residential assets and 5 years for non-residential assets.
- Fee for guarantee: In exchange for the asset guarantee, Citi issues $7 billion of preferred stock with an 8% dividend rate (Treasury receives $3 billion; FDIC receives $4 billion).
- Restrictions: Citi is prohibited from paying common stock dividends in excess of $0.01 for three years without Treasury, FDIC, Fed consent. (Last dividend was $0.16.) In addition, executive compensation and bonuses must be approved by the government.
- Capital Purchase Program: Treasury injected an additional $20 billion of TARP money in exchange for perpetual preferred shares that pay 8% dividends. The Treasury also receives $2.7 billion of warrants with an exercise price of $10.61 and term of ten years (Citi price on 11/25: $6.32).

November 25: Consumer ABS Lending Facility

Synopsis: Treasury and the Federal Reserve announced a lending program to support non-mortgage asset-backed paper in order to support lending to consumers and small businesses.[33] Consumer asset backed securities are a source of liquidity for consumer lending such as auto loans, student loans, and credit cards. This market nearly froze in October and this lending facility will help keep consumer lending affordable.

- The Federal Reserve will lend up to $200 billion in one-year loans in exchange to AAA-rated ABS originated by consumer and small business loans.
- The loans are offered in a fixed amount each month, and interest will be determined by an auction process.
- The Treasury will provide $20 billion of credit protection to the Federal Reserve.[34]

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[30] http://treasury.gov/press/releases/hp1286.htm
[31] http://treasury.gov/press/releases/hp1287.htm
[32] OIS stands for Overnight Indexed Swap. It is a fixed rate exchanged for the Federal Funds rate; in other words, it's a bet about what the Fed Funds rate will be in the future.
[33] http://treasury.gov/press/releases/hp1293.htm
[34] http://federalreserve.gov/newsevents/press/monetary/monetary20081125a1.pdf

Independent Federal Reserve Actions

Synopsis: The Federal Reserve has taken a number of aggressive actions to increase liquidity and support the markets for mortgage-related securities, asset-backed commercial paper, money market funds, and commercial paper.

September 14: Expansion of eligible collateral at Fed lending facilities
The Federal Reserve has various ways it lends money to banks. (See descriptions further below.) In exchange for collateral from banks (example: a Fannie Mae bond), the Fed loans cash or Treasury securities. On September 14, the Fed expanded the list of eligible collateral; this means that more of the assets that banks hold are now eligible for exchange at the Fed. As a result, banks will use the Fed lending facilities more often, increasing market liquidity. (Technical details: eligible collateral was expanded for the Term Securities Lending Facility and the Primary Dealer Credit Facility.)[35]

September 18: Expansion of temporary reciprocal currency arrangements (swap lines): The Federal reserve announced a $180 billion expansion of its swap lines by expanding agreements with the European Central Bank and the Swiss National Bank, and by creating new swap lines with the Bank of Japan, Bank of England, and Bank of Canada.[36]

- A currency swap is an agreement between two central banks to exchange an agreed amount of two currencies, and then, after a specified time, to return the amounts swapped.
- The swap lines help alleviate pressure in U.S. dollar short-term funding markets. For example, when the Federal Reserve swaps dollars for pounds with the Bank of England, it allows the Bank of England to auction dollars to private banks in England. This increases the supply of dollars in England, which helps lower the rates banks charge each other to borrow.
- The Fed announced this expansion because the overnight borrowing rate between banks outside the U.S. (overnight LIBOR), which was close to 2%, spiked to over 6% on September 16.

September 19: Asset-backed commercial paper discount window facility: The Fed announced it will allow depository institutions (commercial banks) to borrow from the Fed's discount window in order to fund the purchase of asset-backed commercial paper from money market funds. This compliments the Treasury's money market mutual fund guarantee program.[37]

- Recently, some money market funds have experienced significant demands for redemptions from investors. Normally, a money market fund would sell assets (such as asset-backed commercial paper) to meet the demand for redemptions. However, asset-backed commercial paper markets had become less liquid, which this program will ameliorate.

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[35] http://www.federalreserve.gov/newsevents/press/monetary/20080914a.htm
[36] http://federalreserve.gov/newsevents/press/monetary/20080918a.htm
[37] http://federalreserve.gov/newsevents/press/monetary/monetary20080919a1.pdf

September 19: GSE debt purchase: The Federal Reserve announced it will purchase the short-term debt of Fannie, Freddie, and the FHLBs in the secondary market.[38]

October 6: Substantial increase in Term Auction Facility auctions: Total auctions were doubled to $900 billion outstanding (phased in over the next few weeks).

> **What is Term Auction Facility?** The TAF is similar to the discount window, but the interest rate is determined by auction, and it is not stigmatized like the discount window. All advances must be fully collateralized. Each TAF auction is for a fixed amount, with the rate determined by the auction process (subject to a minimum bid rate). There is a 28-day term and 84-day term facility.
>
> **Example:** Here are the results of the September 22 auction of $75 billion in its 28-day Term Auction Facility.
> - Total propositions submitted: $133.6 billion
> - Total propositions accepted: $75 billion
> - Number of bidders: 85
> - Stop-out rate (i.e., rate determined by auction): 3.75%

October 6: Interest on reserves: The Fed announced it will begin paying interest on depository institutions reserves. This has two effects: first, it gives the Fed greater latitude in using its lending programs to address conditions in credit markets; second it helps them maintain the fed funds rate close to the target rate, which has been volatile in recent weeks. (The Fed was scheduled to receive the authority to pay interest on reserves in 2011, but the authority was accelerated by the Emergency Economic Stabilization Act.)[39]

- During times of market instability, and as the Fed has increased its liquidity operations, it has had more difficulty hitting its targeted Fed Funds rate (2.0%).
- Before today's announcement banks did not earn interest on their excess reserves, so they had an incentive to lend out excess reserves, even if that meant lending at less than 2%. If the Fed lent a lot in the morning, the federal funds rate would often crash in the afternoon. Recently, this has happened often.
- By paying interest on excess reserves, the Fed puts a floor on the Fed Funds rate. The Fed will be paying 1.25% on reserves, so banks will no longer have an incentive to lend much below the target 2.0% rate.

October 7: Commercial Paper Funding Facility: The Fed announced the creation a special purpose vehicle to purchase commercial paper directly from authorized U.S. issuers. Many companies rely on the commercial paper market to finance their day-to-day operations.[40]

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[38] http://www.newyorkfed.org/newsevents/news/markets/2008/rp080919.html
[39] http://federalreserve.gov/newsevents/press/monetary/20081006a.htm
[40] http://www.federalreserve.gov/newsevents/press/monetary/20081007c.htm

October 8: Coordinated interest rate cut: The Fed and other central banks around the world announced a coordinated interest rate cut. Other banks cutting rates included the Bank of Canada, Bank of England, European Central Bank, Bank of Sweden, and Swiss National Bank.[41]

October 13: Swap lines increased to unlimited amount: The European Central Bank, the Bank of England and the Swiss central bank will offer unlimited dollar funds in auctions with maturities of seven days, 28 days and 84 days at a fixed interest rate. The Federal Reserve's swap lines are increased to meet demand.

October 21: Money Market Investor Funding Facility: The facility will help restore liquidity to the money markets by purchasing assets from money market funds that are having difficulty meeting redemptions from investors. The New York Fed will provide funding (discount window) to special purpose vehicles to purchase certificates of deposit and commercial paper having maturities 90 days or less. The Fed will help finance up to $600 billion of purchases; the first 10% of the financing will come from asset-backed commercial paper from the special purpose vehicles, and the Fed will provide the other 90%.[42]

November 25: GSEs debt and MBS purchase program: The Fed will purchase up to $100 billion in GSE direct obligations (debt) and up to $500 billion in MBS. The purchases will take place over several quarters and are intended to lower the funding costs for the GSEs and reduce mortgage interest rates for homeowners.[43]

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[41] http://www.federalreserve.gov/newsevents/press/monetary/20081008a.htm
[42] http://www.federalreserve.gov/newsevents/press/monetary/20081021a.htm
[43] http://federalreserve.gov/newsevents/press/monetary/20081125b.htm

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Appendix	Appendix C: The Administration's Unheeded Warnings About the Risks Posed by the GSEs	7	N.D.	P5;

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COLLECTION:
Staff Secretary, White House Office of the

SERIES:
Von Der Heydt, Thomas (Tommy) - Bush Record Policy Memos

FOLDER TITLE:
National Economic Council: A Timeline (2001 - 2008) [1]

FRC ID:
14346

OA Num.:
14456

NARA Num.:
14245

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Appendix	Appendix D: Tick-Tock Outline of Financial Markets Intervention	10	N.D.	P5; P6/b6;

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4

THE WHITE HOUSE

WASHINGTON

INFORMATION

MEMORANDUM FOR THE PRESIDENT

THROUGH: Keith Hennessey

FROM: Pierce Scranton

SUBJECT: Economic Results

The past 8 years began with a mild recession and then shifted into a slow-growth recovery that gradually gained momentum. Throughout the first 7 years, consumer spending provided a solid base for economic growth, and that base was fortified by housing investment. As residential construction fell in 2006 and 2007, it was replaced by export growth as a major contributor to overall GDP growth. In 2008, the combination of falling construction, losses in housing-related securities, rising oil prices, and a falling stock market eventually tipped the economy into recession. Inflation as measured by the four-quarter change in the price index for GDP fluctuated between 1.6 and 3.5 percent, a fairly narrow range in a broad historical context.

The economy showed signs of slowing in 2000: the dot-com bust was already underway, and real GDP growth in the third quarter of 2000 was negative. In response to the incipient downturn, the Federal Reserve slashed its target rate early in January 2001. The economy began to shed jobs steadily in March 2001. The Administration and Congress responded proactively with EGTRRA (The Economic Growth and Tax Relief Reconciliation Act of 2001), which delivered about $36 billion of stimulus checks in 2001 and phased in cuts in marginal tax rates over several years. The recession of 2001 was particularly severe in business investment, a demand component that had been particularly strong in preceding years. Low interest rates during this period boosted demand for housing and consumer durables, both of which were substantially stronger than during an average recession. The recession of 2001 was exacerbated by the terrorist attacks of September 11, and several widely publicized accounting scandals also contributed to the economic uncertainty of the time. All told, however, the 2001 recession turned out to be the shallowest of the post–World War II period (the most that real GDP declined in a single quarter during the recession was 0.4 percent), with some of the credit attributable to the quick action of monetary and fiscal policy.

The unemployment rate continued to rise following the official end of the recession. To address the lagging recovery, the Administration and Congress instituted JCWAA (the Job Creation and Worker Assistance Act), which allowed firms to expense 30 percent of their equipment investment and extended unemployment compensation to laid-off workers, and JGTRRA (the Jobs and Growth Tax Relief Reconciliation Act), which boosted the expensing rate on investment to 50 percent and extended the duration of this provision. JGTRRA also cut the tax rate on dividends and capital gains. These Acts helped speed up economic growth soon after their implementation. The relative strength of the U.S. economy, evident in the demand for imports and in foreigners' desire to invest in the United States, helped maintain world demand during this early-recovery period. It also resulted in a large increase in the U.S. current account deficit.

Late in 2003, the economy shifted from a period of slow recovery to a period of broad economic expansion, marked by a decline in the unemployment rate and rapid growth in economic activity. The recovery was led by robust growth in consumer spending, equipment and software investment, exports, and residential construction, and coincided with spectacular house price appreciation. With the benefit of hindsight, house prices climbed too high. As home prices began to recede beginning in early 2006, so did the pace of housing starts. Housing starts continued to decline over the next 2½ years, eventually reaching an all-time low in November 2008.

During 2006 and 2007, rapid export growth and growth in investment of nonresidential structures replaced residential investment as the main drivers of aggregate demand. The economies of our trading partners, especially those in developing countries, picked up and boosted the demand for our exports—and also boosted the demand for petroleum. The rise in petroleum prices, which moved up again toward the end of 2007, added to the problems caused by falling house prices.

Following 6 consecutive years of expansion of the U.S economy, the pace of real GDP expansion remained slow in the first half of 2008 and turned negative in the second half. Payroll jobs began to decline in January, following a record 52 months of continuous growth. The observed pattern of output, employment, and other key indicators led the Business Cycle Dating Committee of the National Bureau of Economic Research to declare that the economy peaked in December of 2007, beginning a recession that continued throughout 2008. The reorientation of the U.S. economy—which had been underway in 2006 and 2007—away from housing investment and consumer spending and toward exports and investment in business structures continued through the first three quarters of 2008. However, the reorientation was neither smooth nor graceful, as falling house prices initiated a cascade of problems beginning with mortgage delinquencies and falling prices of mortgage-backed securities. This eventually threatened the solvency of several major financial institutions and ultimately resulted in several failures and forced mergers along with a major decline in the stock market beginning in late September. To respond to these problems, policymakers undertook a wide range of actions during the year, including: personal tax rebates and bonus depreciation allowances for business (the Economic Stimulus Act of 2008, enacted in February); support for the housing market (the Housing and Economic Recovery Act of 2008 in July); large-scale investment in financial assets (the Emergency Economic Stabilization Act of 2008 in October); a reduction in the Federal funds rate from 5¼ percent in August 2007 to almost zero by December 2008; and the implementation of a variety of programs by the Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and other agencies to provide liquidity to financial institutions and to mitigate strains impairing the functioning of the overall financial system.

In the wake of mounting problems with the performance of *subprime* (higher risk) mortgages, financial markets became stressed beginning about August 2007 and became substantially more stressed after mid-September 2008. After a slight decline in real GDP in the fourth quarter of

2007, policy actions—including the enactment of a fiscal stimulus program and the initial round of Federal Reserve rate cuts—helped maintain positive real GDP growth in the first half of 2008. These actions likely delayed the downturn in output but were not sufficient to prevent the steep falloff in employment, production, and aggregate spending that appears to have begun in mid-September 2008. After the mid-September failure of Lehman Brothers (an investment bank), the emergency loans to AIG (an insurance company with extensive involvement in insuring mortgage-related securities), and the takeover of Washington Mutual (a savings bank with extensive mortgage-related assets), the global financial markets showed a sharp increase in perceived risk, and the stock market tumbled.

Inflation figures were mixed, with notable rises through mid-year in indexes that included food and imported energy products such as the consumer price index (CPI) and the price index for gross domestic purchases. A sharp decline in petroleum prices brought these prices down substantially by the end of 2008. In contrast, inflation was less volatile for the broadest index of the goods and services produced in the United States (the GDP price index) and for most measures of wages and hourly compensation.

Until the second half of 2008, the economy was resilient, weathering many shocks including the 2001 recession, the terrorist attacks of September 11, some widely publicized accounting scandals, and the 2005 and 2008 hurricanes. The most damaging event was the decline in the housing market that began in early 2006. Even after the onset of the housing market decline, however, real GDP growth remained positive until the fourth quarter of 2007. Although growth slowed to a crawl in early 2008 and employment edged down, fiscal stimulus and monetary policy actions held real GDP growth in generally positive territory through the first half of the year. The sharp declines in consumer spending in the third quarter and the stock market drop in September and October finally confirmed that the decline was a recession. The business-cycle expansion lasted 73 months, the fourth longest post-World War II expansion. The growth rate of real GDP per labor force participant averaged 1.5 percent at an annual rate from the business-cycle peak in 2001 to the business-cycle peak in the fourth quarter of 2007, identical to its average growth over the period from 1953 to 2001.

5

THE WHITE HOUSE

WASHINGTON

MEMORANDUM:

FROM: JULIE GOON, JON LIEBER, AND STACIE MAASS

SUBJECT: HEALTH CARE

Health Savings Accounts

One of the signature achievements of President George W. Bush's legacy is the enactment and subsequent expansion of Health Savings Accounts (HSAs), an innovative new opportunity for Americans with HSA-eligible insurance to save for future medical expenses with tax advantages similar to Individual Retirement Accounts (IRAs). President Bush signed HSAs into law on December 8, 2003 as part of the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" (P.L. 108-173).

Since the enactment of HSAs in 2003, 6.1 million Americans now have HSA-eligible insurance coverage. Upon signing the Medicare Modernization Act, President Bush made it clear that it was time to modernize our health system by providing incentives for people to save money and make their own choices about their health care. As the President said, "Our laws encourage people to plan for retirement and to save for education. Now the law will make it easier for Americans to save for their future health care, as well."

In 2006, President Bush signed into law additional provisions that expanded the opportunity for HSAs in the "Tax Relief and Health Care Act of 2006" (P.L. 109-432). The President noted the important impact HSAs had on health care in America, noting HSAs "allow people to save money for health care tax free, and to take their health savings accounts with them if they move from job to job."

What are HSAs? HSAs are a tax-exempt trust or custodial account similar to an IRA in which Americans can set aside savings for future medical expenses, including medical expenses in retirement. HSAs are paired with certain health insurance policies that cover larger medical bills and preventive care. HSAs can be opened with banks and credit unions and other approved financial organizations.

HSAs represent a fundamental shift in the way Americans finance their health care. Most people pay high premiums for insurance that they don't use very often, and when they do the actual cost of care paid by them is relatively low. HSAs provide a way to shift some of the premium dollars into a personal savings account when people change their insurance to a policy that covers larger medical expenses. As of January 1, 2008, more than 6 million Americans were covered by these HSA-eligible policies.

HSAs also provide an incentive to save money for the future because the unspent funds accumulate every year and may also grow through investment. For example, HSA funds can be used to pay for health insurance premiums and out-of-pocket expenses when people are between jobs. HSAs also provide a way for Americans to save for their future long-term care expenses and out-of-pocket expenses when they enroll in Medicare.

History of the President's Support for Health Savings Accounts

Then-Governor Bush supported the predecessor to HSAs – Archer Medical Savings Accounts (MSAs) – in the 2000 Presidential campaign. Along with his campaign proposals to offer a $2,000 refundable health credit for families that don't qualify for government assistance and permit small businesses to purchase Association Health Plans, he proposed empowering families with greater freedom of choice through expanding and reforming medical savings accounts and flexible savings accounts. Specifically, he proposed lowering the deductible in qualifying plans and removing the cap so that MSAs were available to employers with more than 50 employees.

After his election, the President outlined his proposals to provide more health care choices to Americans in a February 2002 speech in Wisconsin. "I propose we reform the system to make the system more individualized, by creating personal health accounts. Instead of paying a large premium every month for services you may not use, I believe we ought to have an account that allows a person to pay a much smaller premium for major medical coverage and then put the savings into a health account, tax free."[1]

In his 2003 State of the Union address, the President called on Congress to "work toward a system in which all Americans have a good insurance policy, choose their own doctors, and seniors and low-income Americans receive the help they need."[2] Within twelve months of this announcement, Congress passed legislation creating HSAs.

The 2003 policies originally advanced by the President were focused on reforming Medicare and providing seniors with prescription drugs and did not emphasize private sector reforms. However, the President's FY2004 budget included a $89 billion proposal for refundable tax credits to subsidize health coverage for low-income Americans, along with a $400 billion increase in Medicare funding for a prescription drug benefit for seniors.[3]

Legislation to enact HSAs was introduced by Republicans in the House of Representatives, who wanted to encourage health insurance opportunities outside of the traditional employer system and encourage saving for future medical expenses.[4] Bill Thomas, chairman of the House Ways and Means Committee, originally introduced Health Savings Accounts in H.R. 2351 in June of 2003. H.R. 2351 was reported out of the Ways and Means Committee on June 25, and later added to the underlying House Medicare modernization bill, H.R. 1, which was passed by the House on June 27, 2003.

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[1] http://www.whitehouse.gov/news/releases/2002/02/20020211-4.html
[2] http://www.whitehouse.gov/news/releases/2003/01/20030128-21.html
[3] http://www.gpoaccess.gov/usbudget/fy04/pdf/budget/highlights.pdf
[4] Ways and Means Committee Report on the "Health Savings Account Availability Act," H.R. 2351, June 25, 2003, http://waysandmeans.house.gov/media/pdf/hr1/leghistoryhr1.htm

The Senate Medicare bill, S. 1, the "Prescription Drug and Medicare Improvement Act of 2003" did not contain the House-envisioned savings accounts, in addition to a number of other differences. Senator Max Baucus, ranking Democrat on the Senate Finance Committee did not support the savings accounts; however, without a separate vote on the Senate floor, he was unable to argue that HSAs would be a poison pill that would bring down the bill.[5] With the Administration's support and support from influential outsiders like Newt Gingrich, former Republican Speaker of the House, the MMA conference report containing HSAs passed both chambers of Congress.

The President signed HSAs into law on December 8, 2003 as part of the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" (P.L. 108-173). The Medicare Modernization Act (MMA) created for the first time a prescription drug benefit for seniors, and is another one of President Bush's major legislative accomplishments.

Upon passage of this legislation, the President noted the important benefits HSAs would offer Americans, saying, "A health savings account is a good deal, and all Americans should consider it."

The President explained that "Every year, the money not spent would stay in the account and gain interest tax-free, just like an IRA. And people will have an incentive to live more healthy lifestyles because they want to see their health savings account grow. These accounts will be good for small business owners, and employees. More businesses can focus on covering workers for major medical problems, such as hospitalization for an injury or illness. And at the same time, employees and their families will use these accounts to cover doctor's visits or lab tests or other smaller costs. Some employers will contribute to employee health accounts. This will help more American families get the health care they need at the price they can afford."

Rapid Implementation and adoption of HSAs

The U.S. Treasury Department and the Internal Revenue Service released eight pieces of guidance on HSAs in the first eight months after HSAs were enacted. It was unprecedented for a agency to provide guidance so quickly, but it enabled insurers to begin selling HSA-eligible coverage in the initial year after enactment. These actions quickly defined what HSAs are and who could have them, how they are established, and how contributions and distributions worked. The guidance also provided a safe harbor for preventive care benefits, clarified how HSAs interacted with flexible spending arrangements and health reimbursement arrangement, provided transition relief for individuals in states where HSA-eligible coverage or High Deductible Health Plans were not available, and thoroughly answered questions from health care providers, employers, and plan participants to help them establish and use HSAs quickly.

In addition, a website dedicated to providing industry and consumers with information about HSAs was created on the main website of the U.S. Treasury Department. Treasury also set up email and telephone "hotlines" whereby individuals could submit questions for rapid response to learn more about the HSA opportunity.

[5] Interview with Keith Hennessey, who was Deputy Assistant to the President for Economic Policy in 2003

On January 28th, 2004 in the Eisenhower Executive Office Building, President Bush met with small business owners, self-employed entrepreneurs, and the pastor of a church in Arkansas, all of whom were very early adopters of Health Savings Accounts. The President discussed the stories of how these small businesses were having trouble affording health coverage for their employees, and how HSAs were helping employees such as George Akers of Naples, Florida save $5,500 a year. The President met with Pam Wimbish, who was self-employed and worried about affording health coverage until she became the first person to sign up for an HSA the day they became available. Pam saved money in her HSA, and benefited from controlling her own health care decisions.

After hearing their stories, the President summed up the importance of HSAs by saying, "The best way to empower citizens is to let them save and spend their health care dollars as they see fit. In other words, start to empower people to make the right decisions with their health care dollars. Give them control of a routine cost so that people see the doctor when they need to, spend their dollars wisely, and still be able to have coverage for major medical bills."

On December 15th, 2004, the President met Chris Krupinski, who owns an art and design studio in Fairfax, VA. Chris was having trouble finding affordable health insurance for her and her family, paying $900 month to cover them. After an insurance agent introduced her to HSAs, she paid $340 a month for a high deductible health plan that covers her and her family. Chris put $290 a month into her HSA, money that she controls that grows tax free so that she can spend it on medical care down the road. The President said she was "pretty enthusiastic" about her HSA.

Expansions of HSAs

In the President's FY 2006 Budget proposals to the Congress, he proposed allowing individuals who establish HSAs to deduct the premiums they pay for their HSA-qualified health insurance policies. The Budget also contained a proposal to create a subsidy in the form of a refundable credit to small businesses that made contributions to their employees' HSA accounts.

By January 2006, 3.2 million people had signed up for HSA/HDHP coverage.[6] The President summed up the early progress in adoption of HSAs in a speech on February 15, saying, "HSAs make a difference -- are making health care more accessible to those without insurance. In the first year HSAs were available, more than a third of those who bought HSAs had been uninsured. In other words, as health care becomes more affordable, it makes it easier, obviously, for somebody who is uninsured to be able to pick up health insurance."[7]

The President pushed to continue this expansion. In the President's FY 2007 Budget proposals to the Congress, he again proposed allowing individuals to deduct the premiums they pay for their HSA-qualified health insurance policies. The proposal included increasing the annual contribution limit to an HSA to an amount equal to each individual's out-of-pocket limit under their corresponding HSA-qualified plan (i.e., as high as $5,250 for individuals and $10,500 for families). In addition, he proposed allowing taxpayers to receive a refundable credit to offset

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6 http://www.ahipresearch.org/pdfs/2008_HSA_Census.pdf
7 http://www.whitehouse.gov/news/releases/2006/02/20060215-1.html

employment taxes paid. The proposal also included a refundable tax credit to lower-income individuals for the purchase of HSA-qualified health coverage. The Budget proposal also included other changes to facilitate the formation and administration of HSAs.

The President signed several of these proposals into law to expand the opportunity for HSAs in the "Tax Relief and Health Care Act of 2006" (P.L. 109-432) on December 20, 2006.

The Tax Relief and Health Care Act raised contribution limits and made HSAs more flexible by allowing particiapants to fund their HSAs with one-time transfers from their IRA accounts. The bill also allowed participants to contribute up to an annual limit of $2,850, regardless of the deductible for their insurance plan. The President commented at the time "the bill will help make health care affordable and accessible for more Americans... These changes will bring health savings accounts within the reach of more of our citizens, and ensure that more Americans can get the quality care they deserve."

The President's Budget for fiscal years 2008, and 2009 included further changes to facilitate the formation and administration of HSAs, including allowing health plans with at least 50 percent coinsurance to qualify as a high-deductible health plan. The President's budget proposed more flexibility in the date an HSA could be established, allowing larger employer contributions for the chronically ill, allowing each individual covered under a family plan to qualify once they had reached the minimum deductible for an individual HDHP, relaxing the rules governing couples with HSAs, and allowing individuals covered by an FSA or HRA to make contributions to an HSA.[8]

HSA Resources -- HSA.gov and Department of Treasury Website

While the Treasury Department started including information and resources about HSAs on its website in 2004, there was been no one-stop government website dedicated to information about HSAs. In 2008, the Small Business Administration and the Treasury Department created a new government website -- HSA.gov – to provide additional resources to small businesses across the country. The President announced the website at an event in Oklahoma City, Oklahoma on September 12, 2008, saying "if somebody wants to really learn about an HSA, just go on hsa.gov, which is an SBA site, so people can see whether or not it makes sense for your business or your family." The President met with small business owners to hear their thoughts about providing health insurance to their employees and talk about how Health Savings Accounts could help them do that. As the President said, "These are ingenious products to help people save, incent people to, you know, take care of their bodies, and also make sure that if there's a catastrophic illness they're taken care of. These are products that enable somebody to, you know, move from one job to the next and keep their health care with them, which is important in the 21st century. They're ways for employees [sic] to take care of their employees."[9]

Results from Enactment of HSAs

As of January 2008, 6.1 million people have signed up for HSA-eligible coverage. The fastest growing market for HSA-eligible coverage is the small-group market, meaning small employers,

[8] General Explanation of the Administration's Fiscal Year 2008 Revenue Proposals
[9] http://www.whitehouse.gov/news/releases/2008/09/20080912-20.html

and these products accounted for 31 percent of new coverage in the small-group market.[10] As of January 2008, more than 1.8 million small business workers and their dependents were covered in HSA plans. And the most recently available data tells us that low- and moderate-income Americans and those previously uninsured are benefiting from HSAs. As of 2005, more than one-third of HSA policyholders had incomes under $50,000 per year and one-third of individual HSA policyholders were previously uninsured.[11]

The Wendy's fast food chain of restaurants is one of the businesses whose employees are benefiting from HSAs. On February 15th, 2006 the President met with employees of Wendy's in Dublin, Ohio, where 9,000 of Wendy's full time employees and their families had HSAs. Wendy's had been facing double digit increases in the cost of providing health care to its employees and moved to a full replacement of their health insurance with HSAs and HSA-eligible coverage. In the first year after adoption of HSAs, health care costs for Wendys grew only one percent. The President met with Marla Hipsher, a senior paralegal at Wendy's and a single mom of a 24-year old daughter and two teenage boys. Marla paid 18 percent less for her HSA than she had for her traditional employer plan, and was able to cover both her teenage sons medical needs.

HSAs are also helping social service organizations provide coverage for their employees. On January 23, 2007, the First Lady hosted Al Meginniss in her box at the State of the Union. Al worked for the Lutheran Social Services of Illinois as the Director, and switched his organization from a traditional health plan to a high deductible health plan with HSAs to lower costs. Mr. Meginniss saved $2,400 for his family and was able to provide more insurance for his employees than would otherwise be possible.

Association Health Plans

In addition to his call for the expansion of Health Savings Accounts (HSAs), President Bush repeatedly called on Congress to allow small businesses and civic and community groups to form Association Health Plans (AHPs), which would allow these groups to join together across State lines to purchase health insurance. This would give them the same advantages, administrative efficiencies, and negotiating clout enjoyed by big companies and labor unions. The House approved AHP legislation at various times during the President's Administration, but the Senate failed to pass it.

Tax-Related Health Proposals and the Standard Deduction for Health Care

The President has constantly pushed to reform the tax code to make the purchase of health insurance more affordable and fairer for all workers. Current tax treatment of health insurance, which provides an expensive and unlimited tax preference only for insurance purchased through employer plans, is both unfair to anyone who purchases insurance on the individual market and encourages over-consumption of health insurance. The President first proposed in his 2002 budget a refundable tax credit for the purchase of health insurance that would have covered the cost of 90 percent of all health insurance premiums and be subject to a phase-out for middle- and

[10] http://www.ahipresearch.org/pdfs/2008_HSA_Census.pdf
[11] http://www.whitehouse.gov/news/releases/2008/09/20080912-1.html

upper-income workers. This proposal was recycled until the 2007 State of the Union and the FY 2008 budget, when the President proposed a flat standard deduction for the purchase of health insurance.

The standard deduction proposal provided a $15,000 standard deduction for families ($7,000 for individuals) for health insurance that would replace entirely the existing exclusion for employer-provided health insurance. The exclusion for employer-provided health insurance is consistently one of the top tax expenditures in the Federal budget. The Office of Management and Budget estimates the cost of this subsidy at $133.8 billion in 2007. Because the employer exclusion provides a tax benefit for each additional dollar of health insurance purchased, it makes an additional dollar of health insurance more valuable than an additional dollar of compensation, which is taxed at the employee's marginal tax rate. This incentive to over-consume health care has contributed to enormous health cost growth: according to the Congressional Budget Office, excess cost growth in per capita spending on health was 2.1 percentage points above per capita GDP growth between 1975 to 2005.

The standard deduction for health care eliminates this incentive by providing a flat tax deduction for anyone who purchases any amount of health insurance. Therefore, the tax incentive rewards the purchase of health insurance, but does not reward the purchase of *excessive amounts* of health insurance. Although the standard deduction was estimated by the Treasury Department to increase coverage to approximately 9 million more people, the primary goal of the proposal was not to expand coverage but to eliminate this perverse incentive to consume more health care. In addition, the President and his advisors wanted to provide a level tax advantage for those Americans who receive health insurance from their employer (currently tax advantaged) and the estimated 17 million Americans who purchase health insurance on their own in the individual market (no tax advantage).

When the policy was initially discussed internally, the Office of Tax Policy and the Office of Economic Policy at the Treasury Department were in favor of a refundable tax credit, instead of a standard deduction, with the Council of Economic Advisers leaning slightly in favor of a credit. A refundable credit would have been more valuable to lower-income Americans and increased the number of people who would benefit from the plan. National Economic Council staff were concerned about further increasing the redistribution of wealth through the tax code and were generally in favor of a standard deduction, arguing that the deduction was better tax policy. The Office of White House Legislative Affairs also believed that a proposal that didn't include a refundable credit would be better received by Republicans on Capitol Hill.

The President was briefed multiple times on the proposals and the internal disagreements, and ultimately decided for strategic reasons to propose a standard deduction: proposing a credit would result at best in a credit and at worst in something more expensive; proposing a deduction would result in at best the deduction and would reserve the credit as a concession the Administration was prepared to make during a public policy debate.

One issue was the effect the proposal would have on Social Security benefits. Because the deduction also refunded payroll taxes, workers receiving the deduction were not paying that money into the Social Security system. This meant an eventual reduction in benefits for those workers. This had no effect on the Social Security Trust Fund but did raise questions of how a reduction in benefits would be received. Another question was how quickly workers would see their cash compensation go up when employers no longer had to pay for health insurance. It was believed that cash compensation would go up in the long-run, but in the short-run individuals would be paying for their own health insurance and receiving a deduction without a compensating increase in pay.

Because it also eliminated the employer-exclusion, the President's proposal was roughly budget neutral, although it was projected to raise $41 billion over the ten year budget window (an amount small enough in this case to be considered a rounding error). Although the proposal was not enacted into law, it became the basis for health policy proposals from many members on Capitol Hill, and a flat refundable credit was the central tenet of Presidential-candidate John McCain's health plan. In addition, many economists, both Republican and Democrat, have weighed in on the critical need to address imbalances in the tax code with respect to health care as a part of any serious health care reform efforts.

Another policy the President proposed early in his administration was reforming and improving health flexible spending arrangements, which are a type of tax-preferred account for health care expenses. The President's 2002 budget originally proposed allowing greater flexibility in the rules on unused benefits in flexible spending arrangements. As discussed above, the President's proposals to extend and reform Archer Medical Savings Accounts were originally proposed on the campaign trail. Many of these reforms such as lowering the definition of "high-deductible," removing the cap on the number of accounts, and expanding eligibility to include anyone covered by a high-deductible plan, were enacted into law as Health Savings Accounts in the 2003 Medicare Modernization Act, discussed elsewhere in this document.

After the passage and swift enactment of Health Savings Accounts, the President proposed in his 2007 and 2008 budgets proposals to improve HSAs by allowing a credit to offset employment taxes, increasing the maximum HSA contribution, allowing HSA funds to be used tax-free for premiums for non group plans, expanding the time frame in which qualified HSA expenditures can be made, and allowing Health Reimbursement Account balances to be put into HSAs. The 2006 budget proposed providing a refundable tax credit for contributions of small employers to employee HSAs.

The President also proposed in his first several budgets providing an additional personal exemption to home caretakers of family members and providing an above-the-line deduction for long-term care insurance premiums. In later budgets, the President proposed improving and clarifying the Health Coverage Tax Credit by allowing beneficiaries of Trade Adjustment Assistance a refundable tax credit for the purchase of qualified health care, and he proposed providing an above-the-line deduction for high-deductible insurance premiums coupled with HSAs to people purchasing such plans in the individual market.

<u>Health Care Transparency – Empowering Consumers</u>

In order for Americans to make the most effective decisions about their own health care, whether in the context of HSAs and HSA-eligible insurance coverage or in the context of the President's health-related tax proposals, they need good information about the cost and quality of the services they are purchasing. In our current health care system, consumers have found it difficult to find rational data from which to make choices. The President recognized the leverage and influence of the Federal government on the health care system through programs like Medicare, Medicaid and SCHIP, veterans' benefits, the TRICARE program for active and retired military and their families and for federal employees and committed to using that leverage to change the system. In February, 2006, the President participated in a panel discussion at HHS on the need for more transparency in health care costs. In May, 2006, the President gave a speech to the American Hospital Association that focused on his policies for making health care more affordable and accessible by increasing transparency. He thanked the AHA board for adopting a resolution supporting transparency and committed HHS to make data on Medicare's price and quality publicly available on the HHS website by June 1. HHS began releasing price and quality data in June, an effort that continues today.

On August 22, 2006, in Minnesota, the President signed an Executive Order to further help increase the transparency of America's health care system and empower Americans to find better health care value. The Executive Order directed Federal Agencies that administer or sponsor Federal health insurance programs (DOD, VA, OPM and HHS) to increase transparency in pricing, increase transparency in quality, encourage adoption of health information technology standards, and provide options that promote quality and efficiency in health care.

Secretary Leavitt called the elements of the Executive Order the four cornerstones of value-driven health care and visited states and employers to commit them to take the same steps. On November 17, 2006, HHS hosted a National Summit for Employers and launched a toolkit for them to use as they took steps towards value-driven health care purchasing. In May, 2007, the Secretary announced that 25 states and state employee health plans signed statements supporting the Value-Driven Health Care Initiative, while over 800 companies, including 97 of the top 200 private companies had signed similar statements of support. These efforts have become more important as more Americans are enrolled in plans that provide them with incentives to consider quality and efficiency in health care.

Health Information Technology

One of the biggest elements of Value-Driven Health Care is the importance of interoperable health information technology and its promise for electronic health records, an issue the President recognized early. On January 20, 2004, the President used his State of the Union address to discuss his priorities for health care reform. In his remarks, the President emphasized how electronic health records can help avoid dangerous medical errors, reduce health care costs, and improve care. On January 24, 2004, the President's weekly radio address continued the theme of addressing rising health care costs and as part of this strategy helping control costs and improve care through investing in health information technology.

On April 26, 2004, the President announced the ambitious goal of assuring that most Americans have an electronic medical record within ten years. In conjunction with this announcement, the President released *A New Generation of American Innovation*, a document detailing a series of specific measures to inspire a new generation of American innovation, including better delivery of health care through health IT. To help achieve the 10-year electronic health record goal, the

President announced specific steps the federal government would take to urge coordinated public and private sector efforts to accelerate the broader adoption of health IT. These steps include adopting health information standards, supporting demonstration projects on health IT, using the federal government to help foster the adoption of health IT, and creating the National Health Information Technology Coordinator within the Department of Health and Human Services to guide ongoing work in this area and identify and implement the steps necessary to support and encourage health IT in public and private health care delivery systems.

Subsequently, on April 27, 2004, the President issued an Executive Order directing the Secretary of HHS to establish a new position, the "National Health Information Technology Coordinator" (National Coordinator), to coordinate Federal efforts to stimulate the development of uniform health IT infrastructure in both the public and private sectors. The Executive Order also directed the Secretaries of HHS and Veterans Affairs and the Director of the Office Personnel Management to report to the President within 90 days on options to promote the adoption of interoperable health IT.

On July 20, 2004, the Director of the Office of Science and Technology Policy presented the President with a memorandum regarding the President's Information Technology Advisory Committee (PITAC) Report on Health Care Information Technology. The report reflects the assessment of PITAC that the adoption of electronic health records systems is increasingly critical to improving the overall quality and cost-effectiveness of health care delivery. The report offers findings and recommendations consistent with the specific actions President Bush had already taken to advance the adoption of health IT, including the development and implementation of data standards for health IT.

In September 2005, HHS Secretary Leavitt announced the membership for the American Health Information Community (AHIC), a federal advisory committee formed to help advance efforts to reach President Bush's call for most Americans to have electronic health records within ten years. AHIC was to provide recommendations to Secretary Leavitt on how to make health records digital and interoperable, and ensure that the privacy and security of those records are protected, in a smooth, market-led way. While AHIC cannot compel EHR adoption, it can eliminate disincentives and reduce barriers to private-sector EHR adoption by setting and harmonizing technical standards and by certifying software products that will ensure interoperability. In 2008, the certification/recertification process included criteria for interoperability and inpatient products were certified for the first time. AHIC's work has also facilitated 30 specific standards that are becoming requirements for EHR software product certification. Prior to AHIC, there were no certified EHR software products. AHIC is now transitioning to an independent public-private partnership based in the private sector and in September, 2008, the AHIC Successor announced the appointment of its Board of Directors, with members representing leadership from across the health, IT, academic and consumer sectors.

In February 2008, Secretary Leavitt announced a new demonstration project that will provide Medicare incentive payments to physicians for the use of certified electronic health records to improve patient care and encouraged communities to apply. The project, which was open to small- and medium-sized primary-care physician practices, is expected to reduce medical errors and improve the quality of care for an estimated 3.6 million Americans. The 12 communities were announced in June, 2008 and ranged from county- and state- level to multi-state collaborations and demonstrated active collaboration among stakeholders, including physicians and other providers, health plans, employers, government and consumers; existing or planned private sector initiatives related to health information technology and quality reporting; and adequate size to recruit a sufficient number of primary care physician practices. HHS believes the demonstration project will lead to widespread EHR adoption, as providers and private payers observe and copy the process. Without the demonstration, HHS projects that the transition to EHRs will be much slower, and that only about 30 percent of Americans will have an interactive, interoperable EHR by 2014

Mental Health Parity

On April 29, 2002, President Bush traveled to Albuquerque, New Mexico to deliver remarks on mental health parity with Senator Pete Domenici. In these remarks, the President talked about the importance of reducing the stigma attached to and improving the quality of mental health care. President Bush emphasized that mental illness should be treated with the same urgency as other diseases and called for mental health parity that does not significantly increase health care costs. On October 3, 2008, the President signed the Paul Wellstone Mental Health and Addiction Equity Act of 2007. This legislation requires group health plans that provide both medical and surgical benefits and mental health and substance use disorder benefits to ensure that the financial requirements, treatment limitations, and out-of-network coverage limitations applicable to mental health benefits and substance use disorder benefits are no more restrictive than those applicable to substantially all medical and surgical benefits covered by the plan (or under health insurance coverage offered in connection with the plan).

Genetic Nondiscrimination

On June 23, 2001 the President's weekly radio address focused on the importance of protecting individuals' genetic information. The President cautioned that with tremendous scientific advances, most notably the mapping of the human genome in February 2001, increased genetic information held tremendous promise to improve care, but that this knowledge could also be abused. The President called for legislation to make genetic discrimination illegal and committed to working with Congress to pass a fair and reasonable bill to ensure genetic nondiscrimination in employment and in health insurance coverage. The Administration repeatedly stated support for genetic nondiscrimination legislation in Statements of Administration Policy; however, nondiscrimination legislation failed to garner momentum in either the House or the Senate until the 110th Congress. In March 2008, the House attached problematic genetic nondiscrimination provisions that were unacceptable to the Administration to mental health parity legislation. The Administration issued a Statement of Administration Policy warning that while the Administration strongly supported passage of legislation preventing the misuse of an individual's personal genetic information, there were substantive concerns with the bill, including the lack of a clear firewall between the section of the bill addressing health insurers and plans and the section addressing employers. The Administration worked with House and Senate staff to resolve these issues and on May 21, 2008, the President signed the Genetic Information Nondiscrimination Act of 2008.

Community Health Centers

Community health centers are a critical part of our nation's health care safety net, delivering both primary and preventive health services to patients who are uninsured or have inadequate coverage. During the 2000 Presidential campaign, then-Governor Bush committed to increasing the number of health centers by 1,200. The President's transition team redefined this goal as opening or expanding 1,200 health centers to serve an additional 6.1 million people over five years and on February 27, 2001, President Bush called for strengthening our nation's community health centers in an address before a joint session of Congress.

In Fiscal Year 2001, when the President took office, there were approximately 3,300 community health centers serving 10 million patients. The President's first budget (FY 2002) proposed funding 1,200 new community health centers by 2006 to better meet the health care needs of low-income and underserved patients. The President reiterated this goal throughout his Administration at events in which he discussed health care. The President's FY 2007 budget proposed establishing 80 community health centers in poor counties that were not being served. On December 5, 2007, the President traveled to a community health center in Omaha, Nebraska to highlight the notable success of his community health center initiative. The President announced that his Administration exceeded the 2001 goal of opening or expanding 1,200 community health centers within five years, funding 1,236 new or expanded health center sites, for a total of over 4,000 comprehensive sites across the country. Since 2001, the number of low-income patients treated at a community health center increased to more than 16 million and more than 90 percent of these patients are low-income individuals. These accomplishments were spurred by President Bush's commitment to strengthening our nation's community health centers to help serve uninsured and underinsured Americans.

Physical Activity and Health Promotion

President Bush supports innovative approaches to getting a positive prevention, wellness, and fitness message to all Americans and he has led by example through his personal commitment to physical fitness. On June 20, 2002, President Bush launched the HealthierUS initiative to help Americans live longer, better, and healthier lives by being physically active every day, eating a nutritious diet, getting preventive screenings and making healthy choices. As part of this initiative the President announced an executive order to reinvigorate the President's Council on Physical Fitness and Sports, which coordinates the Administration's messages on fitness and health with Federal, state, and private entities to serve communities across the country. The President also signed an executive order directing certain Federal agencies to review all policies, programs, and regulations related to physical activity, nutrition, preventive screenings, and making healthy choices to improve the efficiency and coordination of Federal policies related to personal fitness and the general public. To help reinforce these positive messages, two days later the President hosted the inaugural President Fitness Challenge Run and Walk and highlighted his HealthierUS initiative in his weekly radio address, emphasizing the Administration's ongoing commitment to raising awareness about the benefits of exercise and healthy choices. In February 2007, the President and First Lady held a CEO roundtable on obesity prevention at the White House as a lead-in to the HHS launch of the Shrek Childhood Obesity Ad Campaign. In October

2008, HHS released the Physical Activity Guidelines for Americans, the first comprehensive guidelines on physical activity ever to be issued by the Federal government. The guidelines describe the types and amounts of physical activity that offer substantial health benefits to Americans.