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THE WHITE HOUSE  
WASHINGTON

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January 9, 1999

THE PRESIDENT HAS SEEN

1-11-99

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed  
Elena Kagan

SUBJECT: DPC Weekly Report

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Reed  
Kagan  
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Waldman*

1. **Health Care -- Disability Package:** You are scheduled to participate in a bipartisan event on Wednesday to unveil the Administration's new work incentives initiative for individuals with disabilities. Your package, which costs \$1.7 billion over five years, includes funds for: (1) the Jeffords-Kennedy Work Incentives Improvement Act, which would allow working people with disabilities to buy into Medicaid (at the states' option) and Medicare; (2) a new tax credit for work-related expenses of disability, such as transportation and personal assistance services; and (3) a program to help fund the development and dissemination of new assistive technologies for people with disabilities. Your proposal will receive strong support from the disability community. The package also should attract strong bipartisan interest in Congress, giving us an excellent chance of enacting Jeffords-Kennedy and the other components of the initiative this year.

2. **Health Care -- Medicare Managed Care:** As required by the Balanced Budget Act, HCFA will announce by Friday a plan to implement a risk adjustment payment mechanism for Medicare managed care plans. This payment mechanism is meant to ensure accurate reimbursement by increasing compensation for plans serving disproportionately sick patients and lowering compensation for plans serving disproportionately healthy beneficiaries. Because current data indicate that HMOs are attracting fairly healthy patients, the implementation of this new system would reduce payment rates to most Medicare managed care plans, in many cases by as much as 15 percent in 2000. Managed care providers are now warning that the system would drive many participating plans out of the Medicare program, adding to the problems caused by last year's HMO withdrawals. In light of this danger, we have decided to use our administrative authority to phase in the risk adjustment payment mechanism over a five- to six-year period; we are also in the process of developing additional policies (in the nature of both carrots and sticks) to minimize the likelihood of plan withdrawals. The delay in full implementation of the risk adjustment system will save the industry hundreds of millions, if not billions, of dollars. We expect, however, that the industry will petition Congress for further redress, up to and including repeal of the system.

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**3. Health Care -- Medicare Commission:** As the Medicare Commission nears its March 1 deadline, members are intensifying their efforts to come up with reform proposals and the press is paying greater attention to their progress. Most of the attention at last week's meeting focused on a "premium support" approach that Senator Breaux is pushing, but that most other Democrats on the Commission are now reluctant to embrace. "Premium support" is a term coined by Reischauer and Aaron to refer to models that have both a defined contribution and defined benefits. These models essentially guarantee a set of benefits, but limit government payment for those benefits in some way. The Commission's discussion of the premium support approach left many critical issues unresolved, and neither HCFA nor the CBO has yet scored these proposals. (HCFA hopes to complete its estimates within two weeks, while the CBO has declined to do any work for the Commission.) We took no position on the premium support ideas coming out of the meeting, noting that "the devil is in the details" and that we will be analyzing the ideas closely as the Commission gives them greater content. On a related issue, most Commission members now appear to agree that Medicare should include a prescription drug benefit, but have reached no consensus on its scope, design, management, or financing. (As you know, one critical question is whether all beneficiaries or only those in managed care should receive this benefit.) Finally, virtually all members now privately acknowledge (and Bruce Vladeck said publicly last week) that significant new revenues will be needed to extend the life of the Trust Fund.

**4. Education -- Education Week Report:** In its annual "Quality Counts" report, released last week, Education Week focused on how states are (or aren't) holding schools, educators, and students accountable for results -- and in so doing, provided strong support for our ESEA proposals. The report demonstrates that although states are beginning to adopt accountability measures, relatively few are using the full set of measures needed to ensure high-quality performance. According to the report, 36 states issue report cards for each school, but only 26 place them on the internet and only 13 send them directly to parents. Perhaps even worse, only 19 states publicly identify and provide assistance to low performing schools; of these, 18 have the ultimate power to take over, reconstitute, or close down failing public schools, but only three (New York, Oklahoma and Texas) actually have applied this sanction (to a total of 55 schools). Only 19 states provide rewards to successful schools, with only fourteen giving such schools additional money. And only five states have what the report considers a comprehensive system for holding schools accountable for results -- school report cards and ratings, monetary rewards for success, and graduated sanctions for failure, up to and including reconstitution or closure. Significantly, other studies have shown that two of these five states -- North Carolina and Texas -- can boast the largest overall gains in student achievement and the greatest success in closing the achievement gap between minority and majority students. As you know, our ESEA proposal essentially would require states to adopt and carry out this set of accountability measures, as well as a number of others focusing on ending social promotion and ensuring teacher quality.

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✓ 5. **Crime -- 21st Century Policing Initiative:** You are scheduled to participate in an event on Thursday to unveil the 21st Century Policing Initiative contained in the FY 2000 budget. This \$1.275 initiative includes (1) \$600 million to continue to hire and redeploy police officers; (2) \$300 million for new crime-fighting technology, such as crime mapping systems; (3) \$200 million to hire community prosecutors; and (4) \$125 million for innovative community crime prevention programs. In addition, you can release new data from the National Crime Victimization Survey showing continued declines in crime in the first six months of 1998.

6. **Crime -- Victims Assistance:** The Vice President will announce next week the release of over \$300 million from the Crime Victims Fund to provide assistance for victims. These funds help to support nearly 3,000 victims' service agencies nationwide, including domestic violence shelters, child abuse and sexual assault programs, and programs to assist survivors of homicide. Money in the Crime Victims Fund comes exclusively from fines paid by criminal offenders, collected by U.S. Attorneys, federal courts, and the Bureau of Prisons. All 50 states will receive funding, including: \$43 million for California; \$17 million for New York; \$23 million for Texas; \$15 million for Florida, \$12 million for Illinois, and \$3 million for Arkansas.

7. **Crime -- Prisoners Report:** The Justice Department will release a report on Sunday indicating that prisoners, and particularly violent offenders, are serving out more of their sentences. The Bureau of Justice Statistics report, *Truth in Sentencing in State Prisons*, indicates that by the end of 1998, 27 states and the District of Columbia required violent offenders to serve at least 85 percent of their prison sentences -- up from five states in 1993. An additional 13 states have adopted truth-in-sentencing laws requiring violent offenders to serve some substantial portion of their sentences before becoming eligible for release. As you know, the 1994 Crime Act provides additional prison construction funds to states that adopt the 85 percent standard, and the Justice Department has awarded over \$1.3 billion to states through this incentive grants program. The average time served by released violent offenders (those convicted of murder, rape, robbery, or aggravated assault) increased from 43 months in 1993 to 49 months in 1997. In addition, the release rate among murderers was cut in half between 1990 and 1996 -- from 10 percent to five percent of all murderers.

8. **Welfare -- Work Participation Data:** We released two weeks ago the first work participation data under the welfare reform law, which was better than anyone had expected. All 36 states (plus the District of Columbia) subject to participation rates in FY 1997 met their target. The data showed that 28 percent of all adults on welfare participated in a direct work activity (employment, work experience, or community service) or another welfare-to-work activity (job search or vocational education). The data also showed that the percentage of welfare recipients in a direct work activity tripled since 1992.