94-133819

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

May 10, 1994

MEMORANDUM FOR SECRETARY BENTSEN
DEPUTY SECRETARY ALTMAN

FROM: LESLIE B. SAMUELS LBS
ASSISTANT SECRETARY (TAX POLICY)

LWB

SUBJECT: EITC Fraud

Attached is an op ed piece in today's Wall Street Journal regarding EITC fraud. We are working on talking point for you and the White House that responds to this article. Also we are actively working on the EITC compliance proposals that we discussed with you last month. Our plan is to have those proposals ready so that they can be included in welfare reform.

Attachment

cc: Eric Toder
Maurice Foley
Janet Holtzblatt

THE WALL STREET JOURNAL TUESDAY, MAY 10, 1994

Clinton's Biggest Welfare Fraud

By JAMES BOVARD

President Clinton has declared that the expansion of the earned income tax credit in August was "the most significant pro-work, pro-family economic reform we have enacted in 20 years." In fact, the EITC program is the nation's most politically popular, fastest growing, and most fraud-prone welfare program—and one that is a building block of the Clinton welfare reform.

The EITC was created in 1975 to provide rebates of Social Security taxes to low-income workers, thereby counteracting the antiwork incentives of Social Security payroll taxes. But following sharp expansions in 1990 and 1993, the EITC is now far more of a direct handout than a tax refund. The program will cost more than $16 billion this year—more than the federal cost of Aid to Families with Dependent Children. Almost one-fifth of all tax returns claimed the benefit for 1993, and the Internal Revenue Service mailed out more than 10 million letters April 22 encouraging more people to sign up for the program. In Mississippi, 45.1% of families will become eligible for the EITC by 1996; in the District of Columbia, 42.3% of families will qualify.

While Mr. Clinton claims that the EITC rewards work, the details prove otherwise. Households with children with earned income below $25,300 (not counting welfare received) are eligible for EITC benefits of up to $2,528. Families earning up to $8,425 receive an EITC handout equal to 30% of earnings. Those earning between $8,425 and $11,000 get a flat $2,528. And families earning between $11,000 and $25,300 receive $2,528 minus 17.68 cents for each dollar they earn above $11,000.

While people in the lowest tier receive a bonus for each additional dollar they earn, the EITC benefit schedule effectively imposes a punitive tax on those earning over $11,000—slashing their benefits for each extra dollar they earn. American Enterprise Institute economist Marvin Kosters estimated last year that almost three times more EITC recipients are in the phase-out range than in the phase-in range. Thus, the EITC discourages work for far more low- and moderate-income people than it rewards work. (Benefits and eligibility limits are scheduled to rise sharply through 1996.)

The General Accounting Office noted in a 1993 report: "Before qualifying for the credit, a worker may view taking a second job as worth the sacrifice of forgoing leisure time. But after qualifying for the credit, the extra income the credit offers partly replaces the income the worker would lose if he or she were to quit the second job. . . . Also, full-time workers may shift to part-time jobs to get the leisure time they now prefer." GAO estimated that hours worked by EITC beneficiaries may have been cut by 3.6% overall, and by more than 10% for working wives, as a result of this subsidy in 1988. The disincentive to work is probably much greater now, as the benefits are much higher.

Clinton chief economic adviser Laura Tyson declared on April 15 that the earned income credit is "a way to reward hard-working Americans who work full-time." Yet, GAO found that the average EITC recipient worked only 1,300 hours, compared with a normal work year of 2,000 hours. Last month, one nonprofit organization informed potential beneficiaries that they could qualify if they worked only one day a year.

The EITC is structured to subsidize low incomes, regardless of how much or little recipients work. University of Oklahoma Law Prof. Jonathan Forman observed in Tax Notes, "The maximum earned income credit is equally available to both a sales-clerk who works 2,000 hours per year at $5.00 per hour and a part-time lobbyist who works 100 hours per year at $100 per hour."

The EITC has long been a gravy train for con artists. GAO noted last year that, before the 1990 expansion of the program, "about a third of the taxpayers who received the credit were not entitled to it." The IRS estimates that between 30% and 40% of EITC benefits are given in violation of federal tax law. Johnny Rose, IRS criminal investigation chief for the Arkansas-Tennessee district, declared in January: "Today, nearly all fraudulent returns involve two things: (1) claiming the EITC and (2) filing electronically through a business that offers a quick loan against the refund."

Recently Rep. Dan Rostenkowski and three ranking members of the House Ways and Means Committee wrote to Treasury Secretary Lloyd Bentsen that "the federal government has an extremely serious and growing problem in the area of tax refund fraud." Rep. Bill Archer, one of the signatories, observed that the EITC is by far the biggest source of fraudulent return losses, with the average EITC fraud estimated at $1,800. Yet the IRS makes almost no effort to require people to pay back undeserved or fraudulently received EITC benefits.

Moreover, Mr. Clinton's new EITC creates perhaps the harshest marriage penalty in the history of the U.S. tax code. An unmarried couple, each with two children and $11,000 in income, would lose $5,686 in EITC benefits by marrying, according to Tax Notes magazine. So much for a pro-family policy.

Mr. Clinton declared in February: "When tax bills come due this April, 15 million families with a total of about, we estimate, 50 million Americans, will be lifted beyond the poverty line by getting tax reductions under the earned-income tax credit." But the GAO found that the EITC has been a dismal failure at raising people out of poverty. In 1991, the EITC decreased the poverty rate by less than one percentage point. And, even when the EITC lifts families out of poverty, receiving the credit does not affect eligibility or benefit levels for families already receiving food stamps, housing subsidies or AFDC.

According to Assistant Treasury Secretary Alicia Munnell, August's EITC increase is the first step toward the Clinton welfare reform plan. Ms. Munnell declared last November: "We are already looking at consolidating the application for food stamps and the EITC. This would reduce transaction costs and eliminate any stigma that may accompany participation." But reducing the stigma on welfare recipients is not the same as making people self-reliant.

Designing government handout programs to encourage people to work is the ultimate liberal pipedream. Instead of glorifying new benefits for low- to moderate-income groups, the Clinton administration should devote its attention to lowering the burden of taxes on all working Americans.

Mr. Bovard writes often on public policy.

118149

THE SECRETARY OF THE TREASURY
WASHINGTON

March 3, 1993

MEMORANDUM FOR PRESIDENT CLINTON

FROM: LLOYD BENTSEN LMB

SUBJECT: MODIFICATIONS TO THE EITC

Questions have been raised over the Administration's proposal on the EITC. There are internal differences over the proper calculation of the gap between family income and the poverty level, but certain experts believe that our proposal falls short of raising working families to the necessary level.

As a result, we have redesigned the EITC proposal to ensure that it meets this test. It can be done without spending more money, provided that we also assume a minimum wage of $4.50 in 1994. There would be, however, some modest changes in the distributional effects of the overall tax proposals.

Our proposal, which has been reviewed by your relevant advisers, would shift $1.35 billion away from the proposed increase in the food stamp program and into the EITC. We also would eliminate the proposed extension of the income phase-out range for families with one child, leaving it at the current law level. The income phase-out range would still be extended for families with two or more children, but to $28,000 instead of $30,000. This would mean lesser EITC benefits (compared to the February 17 proposal) for families in the $24,000 to $30,000 adjusted gross income range. In addition, fewer families would be eligible for the maximum credit.

There is a widespread view that the Congress would not have approved the size of our food stamp increases anyway. It is also possible to reiterate your campaign promise on indexing the minimum wage, without specifying when.

The proposal would increase the maximum credit for two or more children from $2,000 to $3,370. This would be sufficient to remove from poverty a four-person family headed by a full-time minimum wage worker. Families with one child would receive a $224 increase to $2,062.

The distributional impacts would be as follows:

- Under the new proposal, as compared with the February 17 proposal, families with economic income between $0 and $10,000 would receive a smaller tax cut, families with economic income between $10,000 and $20,000 would receive a tax cut (larger in the aggregate than the tax cut received by families with economic incomes below $10,000), and families with economic income between $20,000 and $50,000 would be subject to a slightly larger tax increase. The increase for families with economic income between $30,000 and $50,000 would translate into a monthly tax increase of <u>$19 rather than $17 a month</u> (the figure used in the State of the Union address).

- While changes to the distribution table would be minimal, reducing the food stamp allotment would also (vis-a-vis the February 17 proposal) distribute money away from families with $0 to $10,000 of economic income to higher-income working families.

Finally, I have deep and serious concerns that the size of our EITC increase would invoke strong Congressional opposition.

- The maximum credit of $3,370 results in a 69 percent increase in the maximum EITC by comparison with current law (and an increase of 250 percent over the maximum credit of $953 in 1990), and would meet resistance on the grounds that this is too large a transfer payment. In addition, existing compliance problems with the EITC would be exacerbated if the size of the credit is dramatically increased.

- To mitigate some of this likely opposition, I would recommend that the expansion of the EITC be phased in over the next few years. This would also give the IRS an opportunity to develop better systems to prevent errors and fraud.

We believe that the Center on Budget and Policy Priorities will support these changes, as will other recognized experts on the EITC, including David Ellwood at HHS.

Attachments

ATTACHMENT: DISCUSSION OF CHANGES TO THE EITC PROPOSAL

I. Background

1. Definition of the poverty gap. The poverty gap is defined as the difference between the official poverty threshold and a family's disposable income. For this purpose, disposable income is defined as the family's income, net of the employee's share of payroll taxes. It is assumed that a minimum wage worker is employed for 2080 hours a year, or the equivalent of 40 hours a week for 52 weeks a year. Further, the poverty gap is measured after accounting for a family's receipt of the EITC and food stamp benefits. Food stamp benefits are measured using data from the Agriculture Department.

2. Current law. The EITC is a refundable tax credit available to low-income workers with children. In 1994, a family with one child will be entitled to a credit of up to $1,838, while a family with two or more children will be entitled to a credit of up to $1,998. Since 1985, the EITC has been expanded significantly in two tax bills (the Tax Reform Act of 1986 and the Omnibus Budget Reconciliation Act of 1990). In 1990, the maximum credit was $953. The 1990 bill provided for a rapid expansion of the credit.

By FY 1997, the EITC will cost over $20 billion a year. Under the EITC proposal announced by the President on February 17, the cost of the EITC would increase to nearly $27 billion a year in FY 1997. An additional $1.3 billion would be spent in FY 1997 under the proposal discussed in this attachment. In comparison, total expenditures on food stamps in FY 1997 are anticipated to be $25 billion, while total Federal and state expenditures on AFDC benefits will also be around $25 billion in FY 1997. Thus, the EITC would be largest means-tested cash assistance program for families with children in the Federal government.

3. February 17 proposal. Under the February 17 proposal the maximum credit in 1994 for a family with two children would increase from $1,998 to $2,400. Regardless of family size, credit claimants would be eligible for the maximum credit at $6,000. Eligibility for the credit would be extended to families with adjusted gross incomes (AGI) up to $30,000 ($28,500 for those with only one child). In addition, the proposal contains a new small EITC for workers without children. Funding for the low-income home energy assistance program (LIHEAP) and food stamps would be increased when fully phased in, respectively, by $1 billion and $3 billion each year.

II. Proposed Option

The amount of increase in the EITC needed to bring a family of four with a minimum wage earner out of poverty depends on whether the minimum wage is increased or not. The following proposal would eliminate the poverty gap for a family of four headed by a minimum wage worker if the minimum wage was increased from $4.25 to $4.50 an hour. For a family with two or more children, the maximum credit would increase from the current-law level of $1,998 to $3,370, and eligibility for the credit would extend to incomes up to $28,000. The maximum credit for families with one child would increase from $1,838 under current law to $2,062 under this proposal. This increase of up to $224 would compensate these families for both the direct and indirect costs of the energy tax. Under this option, the credit rate for families with two or more children would be 39.7 percent, and for families with one child it would be 34.4 percent.

This proposed option would be financed by (1) phasing out the maximum credit faster than in the February 17 proposal and (2) reducing the $3 billion a year allocated to the food stamp expansion by up to $1.35 billion. Under the proposed option the credit would not be available to families with one child earning more than $23,760 a year, which is the current law level (by comparison with $28,500 under the February 17 proposal), and families with two or more children earning more than $28,000 a year (by comparison with $30,000 under the February 17 proposal). The EITC for workers without children contained in the February 17 proposal would be retained. As in the February 17 proposal, the Low-Income Home Energy Assistance Program (LIHEAP) appropriation would be increased by $1 billion. This proposal would cost $10.6 billion in FY 1997 and $40.3 billion over 5 years, approximately the same as the February 17 proposal (see attached revenue proposal).

III. Distributional Considerations

Reducing the increases in food stamps and the EITC phaseout ranges would affect the distribution tables. In particular, families with incomes below $10,000 would have a smaller reduction in net tax liabilities than under the February 17 proposal (i.e., they would still receive a tax cut under the proposed option). On the other hand, families with incomes between $10,000 and $20,000 would be better off under the proposed option. Families with incomes between $20,000 and $50,000 would pay an additional $569 million a year over the February 17 proposal (about 12 percent more than under the February 17 proposal). The average increase for a family of earning $40,000 a year would be approximately $19 a month (rather than the $17 a month mentioned in the State of the Union address).

These distributional results are not surprising. Reducing the AGI cut-offs implies that families with economic incomes between $20,000 and $50,000 will receive a slightly larger tax increase under this proposal. In addition, reducing the food stamp proposal (while increasing the EITC for families with more than one child) shifts benefits from families with less than $10,000 of economic income to those with higher incomes. Only 9% of families with family economic income below $10,000 are eligible for the EITC. Of the 15 million families with incomes in this class, only about 400,000 have two or more children. Thus, expanding the EITC for families with children will not offset the additional tax liabilities incurred by this class. In contrast, expansions of the food stamp program are well-targeted for families with economic income below $10,000 (and more generally, for families with economic income below $20,000).

IV. Other Policy Considerations in Designing the EITC

1. Administration and Compliance. As the credit amount increases to levels as high as $3,370, compliance problems may grow. Data from the most recent Taxpayer Compliance Measurement Program (TCMP) show that in 1988, 42% of EITC claimants may not have been entitled to the amounts paid. About 35% of the amounts paid were in excess of the credit owed to recipients.

Indeed, in most cases of overpayments, recipients were not entitled to <u>any</u> EITC. In contrast, overpayment errors in other transfer programs are relatively small (for example, <u>7% in the food stamp program</u>).

Analysis of the compliance data from 1985 suggested that complex eligibility rules are often the source of these errors. To reduce the error rates in the EITC, a major simplification effort was part of the 1990 expansion of the EITC. These modifications may have significantly reduced the problem but it will be some time before the success of this effort can be judged. Data on this issue will not be available for tax year 1991 before 1994. However, preliminary data from the 1991 tax filing season suggests the possible need for new compliance efforts. In 1991, 79 percent of the 19,000 fictitious returns claiming refunds of more than $750 were from families claiming the EITC. A maximum credit of more than $3,000 could encourage more taxpayer fraud. Families earning less than $8,500 would have an incentive to overstate income to get a larger credit. Particularly with the credit rate far in excess of the social security tax rate, many may find the temptation of overstating income in order to receive a $3,370 credit to be well worth the minimal risk of an IRS audit.

2. <u>Losers under the proposal</u>. Families earning between $23,760 and $28,500 with one child and families earning between $28,000 and $30,000 with two children would not be eligible for the credit and thus would be worse off when compared to their treatment under the February 17 proposal. Reducing the expansion of food stamp benefits will also affect many families. Families who are not entitled to the EITC will be less protected from the new energy taxes: among those hardest hit will be those who rely on benefits which are not indexed for inflation (chiefly, AFDC).

3. <u>Work disincentives</u>. Under current law, a family with two or more children can face marginal tax rates as high as 48 percent (and up to 56 percent if they claim the supplemental credits). By extending the phase-out range to $30,000 for families with two or more children and $28,500 for families with one child, lower middle income taxpayers received a tax cut, and marginal tax rates were reduced for low-income families. The proposed option does not attempt to achieve the same goal. Thus, marginal tax rates for families with two or more children would be 2 percentage points <u>higher</u> than under current law. Economists differ on the impact of high marginal tax rates on work incentives for primary earners. But politically, high marginal tax rates may not go unnoticed.

Another concern is that the proposed option may reward part-time or part-year work over full-time work. With a $3,370 credit, some low-wage workers who currently earn above the minimum wage could work fewer hours and receive the same take-home pay.

Costs of Alternative Proposals to Offset Regressivity of Energy Tax 1/

($ Millions; Fiscal Years)

	1997	1994–1998
Current Law		
EITC Baseline	–20,258	–93,366
February 17 proposal ($4.25 minimum wage)		
EITC Expansion	–6,662	–26,787
Increase in Food Stamp Benefits	–3,000	–12,000
Increase LIHEAP	–982	–2,945
Total	–10,644	–41,732
Proposed Option ($4.50 minimum wage)		
EITC Expansion 2/	–7,996	–30,804
Increase in Food Stamp Benefits	–1,650	–6,600
Increase LIHEAP	–982	–2,945
Total	–10,628	–40,349

Department of the Treasury
Office of Tax Analysis

March 1, 1993

1/ Negative sign denotes increase to deficit.

2/ EITC increases for families with one child are phased–in with energy tax.

Minimum Wage and Earned Income Tax Credit Parameters Under Current Law, Present Proposal, and Alternatives

Fully Phased-in Parameters at 1994 Income Levels 1/

	Minimum Wage	Credit Rate	Plateau Beginning Point	Plateau End Point	Maximum Credit	Phase-out Rate	Income Cut-off
Current Law							
Families with one child	$4.25	23%	$7,990	$12,580	$1,838	16.43%	$23,760
Families with two or more children	$4.25	25%	$7,990	$12,580	$1,998	17.86%	$23,760
February 17 Proposal							
Families with one child	$4.25	30.6%	$6,000	$12,580	$1,838	11.54%	$28,500
Families with two or more children	$4.25	40.0%	$6,000	$12,580	$2,400	13.76%	$30,000
Workers without children	$4.25	7.65%	$4,000	$5000	$306	7.65%	$9,000
Proposed Option							
Families with one child	$4.50	34.4%	$6,000	$11,000	$2,062	16.16%	$23,760
Families with two or more children	$4.50	39.7%	$8,500	$11,000	$3,371	19.83%	$28,000
Workers without children	$4.50	7.65%	$4,000	$5,000	$306	7.65%	$9,000

Department of the Treasury
Office of Tax Analysis

March 1, 1993

1/ In the alternative option, the expansion of the EITC for families with one child is phased-in with the energy taxes. The levels shown in the table reflect the fully phased-in levels. The full expansion of the credit for families with two or more children would be effective in 1994.

ESL

93-118149

DEPARTMENT OF THE TREASURY
WASHINGTON

OK to forward
ESK

Action Deadline: March 2, 1993
Date Memo Written: March 2, 1993

MEMORANDUM FOR SECRETARY BENTSEN

FROM: MAURICE FOLEY AND JANET HOLTZBLATT
OFFICE OF TAX POLICY

SUBJECT: Modifications to the Earned Income Tax Credit (EITC)

ACTION FORCING EVENT:

You are scheduled to meet tomorrow with President Clinton to discuss modifications to the Earned Income Tax Credit (EITC) to insure that a family of four will be pulled above the poverty threshold.

RECOMMENDATION:

That you sign the attached memorandum to President Clinton.

3/1 Agree___________Disagree__________Let's discuss

ANALYSIS:

The Center on Budget and Policy Priorities has questioned the antipoverty effectiveness of the EITC proposal included in the Administration's revenue package released on February 17. In response to their concerns, we have restructured the EITC proposal. We have designed an option that, in combination with an increase in the minimum wage from $4.25 to $4.50 an hour, would satisfy the campaign promise. Under the proposed option, the maximum credit for families with two or more children would be increased from $2,000 to $3,370.

ATTACHMENTS: Tab 1: Discussion
Tab 2: Tables

Administration History Appendix
Chapter Four: Increasing Economic Opportunity

Electronic Transfer Account (ETA)

1998-SE-012456

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: JOHN D. HAWKE, JR.
UNDER SECRETARY FOR DOMESTIC FINANCE

FROM: DONALD V. HAMMOND
FISCAL ASSISTANT SECRETARY

SUBJECT: ETA℠ - Electronic Transfer Account

Background

at the same financial institution

Treasury is preparing to publish in the Federal Register a notice regarding the electronic transfer account, known as the ETA℠. The ETA℠ is being developed as part of EFT '99 to provide individuals receiving Federal payments electronically with access to an account at a reasonable cost and with the same consumer protections as other account holders. The Federal Register notice will describe the proposed attributes of the ETA℠ and request public comment within thirty days. The development of this notice has been a joint undertaking of myself, Commissioner Gregg, Deputy Assistant Secretary Barr and Under Secretary Hawke. order?

Proposal for ETA℠ Notice

The EFT 99 Regulation (31 CFR Part 208), published on September 25, as a final rule, provides that any individual who receives a Federal benefit, wage, salary, or retirement payment shall be eligible to open an ETA℠ at any Federally-insured financial institution that offers the account. Any Federally-insured financial institution will be eligible, but not required, to offer ETAs℠ as Treasury's Financial Agent. ETAs℠ offered by a Federally-insured financial institution must have the attributes prescribed by Treasury. In order to maximize the number of financial institutions that choose to offer ETAs℠, Treasury will propose to reimburse each financial institution that offers the ETA℠ a set fee per account to offset the costs of setting up the account. Treasury will propose compensation that rises as the number of ETAs opened by the institution meets certain volume benchmarks in order to offset the higher marketing and other costs incurred in successful broad outreach to benefit recipients.

Since the Secretary is being asked to approve the "compensation" as outlined in this memo, should we give him more specific information - (ex: $5.00 per account, etc)

Key Issue

As discussed below, we intend to propose in the Federal Register notice that the ETA[SM] have certain required attributes. We are in agreement in recommending to you that we propose an ETA[SM] and compensation as outlined above, with the ETA[SM] attributes described below. However, there remains one policy issue to be resolved prior to publication. This issue is whether to propose that financial institutions be permitted, but not required, to offer three optional features for the ETA[SM], at an additional fee to consumers.

add #3

Proposed ETA[SM] Attributes

After considering the comments that we have received on the EFT'99 regulation and additional research that we conducted on the costs to financial institutions of the possible account features, we propose to issue a notice seeking comment on an ETA[SM] with the following attributes:

- an individually owned account at a Federally-insured financial institution (banks, thrifts, and credit unions);
- available to any individual who receives a Federal benefit, wage, salary, or retirement payment;
- accept electronic Federal benefit, wage, salary and retirement payments only;
- subject to a price cap of $3.00 per month;
- permit a minimum of four cash withdrawals per month, without additional charge, available through a) over-the-counter transactions at the financial institution or branch, b) the financial institution's automated teller machines (ATMS), or c) any combination of a) and b) at the option of the financial institution;[1]
- for financial institutions that are members of point-of-sale ("POS") networks, allow POS purchases at no additional charge by the financial institution offering the ETA[SM], as well as cash withdrawals and cash back with purchases, consistent with current commercial practice;
- provide the same consumer protections that are available to other account holders at the some financial institution, including, for accounts that provide electronic access, Regulation E protections such as disclosure, limitations on consumer liability, procedures for reporting lost or stolen cards, and procedures for error resolution;
- require no minimum balance, except as required by Federal or State law; and
- provide a monthly statement.

ETA

Discussion of Optional Features

In formulating the attributes for comment, we considered whether to permit financial institutions to offer the following additional features: (1) pay interest on the account balance; (2) accept electronic deposits other than Federal benefit, wage, salary and retirement payments at an

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[1] Financial institutions may provide additional withdrawals at no charge or for a fee.

and, with the exception of paying interest on the account balances there would be

additional fee to the account holder; and/or (3) provide pre-authorized debit capability at an additional fee to the account holder.

optional

- **Advantages**: Each of the features offers potential advantages to some portion of eligible recipients. Each of the features would be offered at the option of the financial institution, ~~at~~ an additional cost to the recipient which would minimize concerns about cross-subsidization for these features. Because these features would increase the ETA's[SM] attractiveness, permitting these features may encourage more Federal payment recipients to sign up for the ETA[SM], resulting in increased long-term savings to the Government. This is particularly important given our recipient-friendly approach to waivers. These optional features may also help to create a useful intermediate step for those without bank accounts in their transition to the financial services mainstream.

potentially

A. Interest on Account Balance

The payment of interest on savings would encourage and reward savings by low income recipients and could be provided at negligible cost to financial institutions. Consumer organizations commented that this feature would be useful for their constituencies.

B. Acceptance of Other Electronic Deposits

Permitting financial institutions to accept electronic deposits of other types of payments would enable broader use of the ETA[SM] for deposits and payments from other sources and wage income or matching funds under Individual Development Account (IDA) programs.

C. Pre-Authorized Debit Capability

The ability for recipients to initiate preauthorized third-party debit transactions would be a convenient and cost-saving means for ETA[SM] holders to pay recurring bills and could reduce recipients' reliance on using third parties, such as check cashers, to obtain money orders and cash.

- **Disadvantages:** Many financial institutions commented that the ETA[SM] should be designed as a basic account that could be easily offered by any financial institution and easily understood by consumers. Variation in ETA[SM] features may be confusing to recipients and more difficult to market as an standard product. Additionally, variation in the features of the ETA[SM] also may make it harder to protect the ETA[SM] mark. Adding features, even as options, poses the risk that financial institutions will not be willing to participate, or that some existing customers may prefer these accounts to others offered by financial institutions. In addition, permitting financial institutions to offer optional features has operational implications for FMS. Greater complexity in the ETA[SM] will likely result in more inquiries from recipients, increasing FMS workload. Monitoring compliance by banks with ETA℠ requirements will be more complicated and time-consuming if the product is more complex.

A. Interest on Account Balance

Our analysis shows that a majority of funds are drawn down soon after deposit by benefit recipients and thus the interest paid to the account holder would be very small, bringing into question whether the benefit is worth the additional complexity that this feature would add (i.e., Truth in Savings disclosures, 1099 reporting).

B. Acceptance of Other Electronic Deposits

In general, Federal benefit payments (e.g., Social Security) may not be attached by creditors. If funds deposited are limited to Federal benefit, wage, salary and retirement payments, most ETAs℠ would be largely exempt from attachment by judgment creditors. In contrast, permitting other types of payments to be deposited to the ETA℠ would mean that the ETA℠ into which other funds were deposited could be attached in the same manner as any other account at a financial institution to which Federal payments are sent. Several consumer groups commented that many unbanked individuals do not utilize accounts at financial institutions because they fear that funds deposited to such accounts will become subject to attachment by creditors. (If the additional deposits option were offered to consumers, Treasury would want to assure appropriate disclosures and also encourage Federal agencies to issue simple resolution rules to help recipients and financial institutions quickly determine which funds cannot be attached.) Consumer protection provisions would add complexity to banks that might consider offering the account and could discourage them from offering this feature.

C. Pre-Authorized Debit Capability

If the ETA℠ were permitted to offer ACH debit capability, differences in clearance mechanisms between ACH debits and ATM withdrawals could result in overdrafts to ETAs℠ or rejected transactions, which will result in higher costs both to financial institutions and recipients. Overdrafts were cited by both financial institutions and consumer groups as a reason many recipients avoid banking relationships. In addition, in view of the increasing incidence of ACH debit fraud, recipients may inadvertently authorize ACH debit entries to pay for goods and services that are not delivered or are not as represented, thereby incurring costs they can ill afford. Additionally, it is estimated that only a small percentage of recipients would use this feature if it were available.

See pg. 1 comment.

Recommendation

We recommend that the ETA[SM] and compensation be proposed as outlined above. We would like to meet with you to discuss the three optional features discussed above, and the appropriateness of excluding them from the account at this time.

________Approve________Disapprove________Let's Discuss

cc: R. Gregg
M. Barr

EXECUTIVE SECRETARIAT CORRESPONDENCE MEMO COVER SHEET

Tuesday, November 03, 1998

PROFILE #: 1998-SE-012456

DATE CREATED: 11/03/1998 PRIORITY: Y

ADDRESSEE: Robert E. Rubin
Secretary

AUTHOR: Hammond, Donald V.
Fiscal Assistant Secretary

SUBJECT: ETA sm - Electronic Transfer Account

ABSTRACT: ETA sm - Electronic Transfer Account.

RM 3419 TO REVIEWERS TO EXECUTIVE SECRETARY

IN: /10 DF/NCC 11/3/98 IN:

cc: FROMAN
SS

TO THE SECRETARY

DATE SIGNED:

DISTRIBUTION: US, DOMESTIC FINANCE
AS, FISCAL

NCC to REL (ACTION)

NCC/DI to LS (reading)

NCC cc to MF
CM/AM
NC/DI/PA/AK

11/3/98

11/03/1998 10:25:13 AM

1998-SE-012456

TREASURY CLEARANCE SHEET

NO. ______
Date ______

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Donald V. Hammond, Fiscal Assistant Secretary
THROUGH: John D. Hawke, Jr., Under Secretary-Domestic Finance
SUBJECT: Electronic Transfer Account (ETA)

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
- ☐ Domestic Finance
- ☐ Economic Policy
- ☒ Fiscal
  - ☐ FMS
  - ☐ Public Debt

☐ Under Secretary for International Affairs
- ☐ International Affairs

☐ Enforcement
- ☐ ATF
- ☐ Customs
- ☐ FLETC
- ☐ Secret Service

☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
- ☐ Scheduling

☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
- ☐ E & P
- ☐ Mint
- ☐ Savings Bonds

☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Donald Hammond	DH	10/28/98	Fiscal Asst. Sec.	622-0560
REVIEWERS				
Richard Gregg for	KRP	10/30/98	Commissioner, FMS	874-7000
Michael Barr for	CAC M. Barr	10/29/98	Deputy Asst. Sec.	622-0016
Ed Knight	[illegible]	11/2/98	General Counsel	622-0287
Exec. Sec.			Exeeutive Secretariat	622-0066

SPECIAL INSTRUCTIONS

☐ Review Officer ______ Date ______ ☐ Executive Secretary ______ Date ______

DO F 80-02.1 (04/89)

B+F comments

TREASURY CLEARANCE SHEET

NO. 1998-SE-012456

Date ______

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Donald V. Hammond, Fiscal Assistant Secretary

THROUGH: John D. Hawke, Jr., Under Secretary-Domestic Finance

SUBJECT: Electronic Transfer Account (ETA)

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☒ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

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☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Donald Hammond	DH	10/28/98	Fiscal Asst. Sec.	622-0560
REVIEWERS				
Richard Gregg			Commissioner, FMS	874-7000
Michael Barr	CAK for M.Barr	10/21/98	Deputy Asst. Sec.	622-0016
Ed Knight			General Counsel	622-0287
Exec. Sec.			Exeeutive Secretariat	622-0066

SPECIAL INSTRUCTIONS

☐ Review Officer ______ Date ______

☐ Executive Secretary ______ Date ______

1998-SE-005272

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 28, 1998

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY RUBIN

THRU: John D. Hawke, Jr.
Under Secretary of the Treasury
(Domestic Finance)

FROM: Donald V. Hammond
Acting Fiscal Assistant Secretary

SUBJECT: EFT'99: Approaches to Offering the ETA

As our analysis of offering the low cost banking product (Electronic Transfer Account, ETA) directed to recipients of federal payments without accounts progresses, we have started to discuss an alternative way to offering the account. As originally conceived, Treasury would divide the country into a number of regions (e.g. five) and competitively select a provider to offer the ETA in each region. The selected depositary institution would then establish relationships with other depositaries (banks, thrifts, credit unions) in the region to enroll recipients and allow surcharge-free access to the account at their locations. The intent of this design structure was to meet our objectives of maximizing local access to the ETA at the least possible cost and, thereby, make the account attractive to the widest recipient population.

Subsequent to our last meeting with you, we have become concerned that the combination of our liberal waiver policy and the economics of offering such an account structure could lead to a situation in which we do not achieve the level of geographic coverage that we are interested in. Accordingly, we have been exploring an alternative structure. Under this alternative, Treasury would publish the account features of the ETA and encourage all depositary institutions to offer the account. Those institutions interested in offering the ETA would then sign agreements with Treasury that would contain the detailed terms of being an ETA provider. We are currently analyzing the economics of this approach.

The two key differences between the approaches are that: (i) there is no linkage between institutions offering the account in the second approach; and (ii) with the first approach the cost of the account is set by competitive bidding and under the second approach Treasury would presumably need to establish some type of maximum acceptable price. It is our intention to complete our analysis of the second approach and then, by comparison with the original approach, determine which is most likely to meet our programmatic objectives.

The basic features of the account remain essentially the same under both approaches but the opportunity to offer additional services in the basic ETA is probably diminished with the second approach.

As we analyze and compare the two approaches, it is our intention to discuss the merits of each with both financial institutions and consumer organizations. We will conduct two round tables with interested organizations within the next four weeks. Additionally, I intend to discuss the concept of the second "franchise" option in an upcoming presentation to the Mid-America Payment Exchange. The new approach under consideration is likely to receive some press coverage in trade publications such as the American Banker.

cc: M. Barr
R. Gregg

TREASURY CLEARANCE SHEET

NO. ______
Date ______

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☒ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Donald V. Hammond, Acting Fiscal Assistant Secretary DH
THROUGH: John D. Hawke, Jr., Under Secretary 4 28 98
SUBJECT: EFT'99: Approaches to Offering the ETA

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
- ☐ Domestic Finance
- ☐ Economic Policy
- ☒ Fiscal
  - ☐ FMS
  - ☐ Public Debt

☐ Under Secretary for International Affairs
- ☐ International Affairs

☐ Enforcement
- ☐ ATF
- ☐ Customs
- ☐ FLETC
- ☐ Secret Service

☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
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☐ Policy Management
- ☐ Scheduling

☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
- ☐ E & P
- ☐ Mint
- ☐ Savings Bonds

☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Donald Hammond	DH	4/28	Fiscal Asst. Sec.	622-0560
REVIEWERS				
Exec. Sec.				622-0016

SPECIAL INSTRUCTIONS

☐ Review Officer ______ Date ______   ☐ Executive Secretary ______ Date ______

DO F 80-02.1 (04/89)

1998-se-012456

L. Summers

98-012456

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

NOV - 3 1998

INFORMATION

ASSISTANT SECRETARY

What did we decide. I'd recommend no on 1, 2, 3 and a spartan approach.
L.

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: JOHN D. HAWKE, JR. (Signed)
UNDER SECRETARY FOR DOMESTIC FINANCE

FROM: DONALD V. HAMMOND
FISCAL ASSISTANT SECRETARY

SUBJECT: ETA℠ - Electronic Transfer Account

Background

Treasury is preparing to publish in the Federal Register a notice regarding the electronic transfer account, known as the ETA℠. The ETA℠ is being developed as part of EFT '99 to provide individuals receiving Federal payments electronically with access to an account at a reasonable cost and with the same consumer protections as other account holders at the same financial institution. The Federal Register notice will describe the proposed attributes of the ETA℠ and request public comment within thirty days. The development of this notice has been a joint undertaking of myself, Commissioner Gregg, Deputy Assistant Secretary Barr and Under Secretary Hawke.

Proposal for ETA℠ Notice

The EFT 99 Regulation (31 CFR Part 208), published on September 25, as a final rule, provides that any individual who receives a Federal benefit, wage, salary, or retirement payment shall be eligible to open an ETA℠ at any Federally-insured financial institution that offers the account. Any Federally-insured financial institution will be eligible, but not required, to offer ETAs℠ as Treasury's Financial Agent. ETAs℠ offered by a Federally-insured financial institution must have the attributes prescribed by Treasury. In order to maximize the number of financial institutions that choose to offer ETAs℠, Treasury will propose to reimburse each financial institution that offers the ETA℠ a set fee (about $12) per account to offset the costs of setting up the account. Treasury will propose compensation that rises as the number of ETAs opened by the institution meets certain volume benchmarks in order to offset the higher marketing and other costs incurred in successful broad outreach to benefit recipients.

EXECUTIVE SECRETARIAT

Key Issue

As discussed below, we intend to propose in the Federal Register notice that the ETA℠ have certain required attributes. We are in agreement in recommending to you that we propose an ETA℠ and compensation as outlined above, with the ETA℠ attributes described below. However, there remains one policy issue to be resolved prior to publication. This issue is whether to propose that financial institutions be permitted, but not required, to offer three optional features for the ETA℠, at an additional fee to consumers.

Proposed ETA℠ Attributes

After considering the comments that we have received on the EFT'99 regulation (212 letters) and additional research that we conducted on the costs to financial institutions of the possible account features, we propose to issue a notice seeking comment on an ETA℠ with the following attributes:

- an individually owned account at a Federally-insured financial institution (banks, thrifts, and credit unions);
- available to any individual who receives a Federal benefit, wage, salary, or retirement payment;
- accept electronic Federal benefit, wage, salary and retirement payments only;
- subject to a price cap of $3.00 per month;
- permit a minimum of four cash withdrawals per month, without additional charge, available through a) over-the-counter transactions at the financial institution or branch, b) the financial institution's automated teller machines (ATMS), or c) any combination of a) and b) at the option of the financial institution;[1]
- for financial institutions that are members of point-of-sale ("POS") networks, allow POS purchases at no additional charge by the financial institution offering the ETA℠, as well as cash withdrawals and cash back with purchases, consistent with current commercial practice;
- provide the same consumer protections that are available to other account holders at the same financial institution, including, for accounts that provide electronic access, Regulation E protections such as disclosure, limitations on consumer liability, procedures for reporting lost or stolen cards, and procedures for error resolution;
- require no minimum balance, except as required by Federal or State law; and
- provide a monthly statement.

Discussion of Optional ETA Features

In formulating the attributes for comment, we considered whether to permit financial institutions to offer the following additional features: (1) pay interest on the account balance; (2) accept electronic deposits other than Federal benefit, wage, salary and retirement payments at an

---

[1] Financial institutions may provide additional withdrawals at no charge or for a fee.

additional fee to the account holder; and/or (3) provide pre-authorized debit capability at an additional fee to the account holder.

- <u>Advantages</u>: Each of the optional features offers potential advantages to some portion of eligible recipients. Each of the features would be offered at the option of the financial institution and, with the exception of paying interest on the account balance, there would be an additional cost to the recipient which would minimize concerns about cross-subsidization for these features. Because these features would increase the ETA's℠ attractiveness, permitting these features may encourage more Federal payment recipients to sign up for the ETA℠, potentially resulting in increased long-term savings to the Government. This is particularly important given our recipient-friendly approach to waivers. These optional features may also help to create a useful intermediate step for those without bank accounts in their transition to the financial services mainstream.

<u>A. Interest on Account Balance</u>

The payment of interest on savings would encourage and reward savings by low income recipients and could be provided at negligible cost to financial institutions. Consumer organizations commented that this feature would be useful for their constituencies.

<u>B. Acceptance of Other Electronic Deposits</u>

Permitting financial institutions to accept electronic deposits of other types of payments would enable broader use of the ETA℠ for deposits and payments from other sources and wage income or matching funds under Individual Development Account (IDA) programs.

<u>C. Pre-Authorized Debit Capability</u>

The ability for recipients to initiate preauthorized third-party debit transactions would be a convenient and cost-saving means for ETA℠ holders to pay recurring bills and could reduce recipients' reliance on using third parties, such as check cashers, to obtain money orders and cash.

- <u>Disadvantages:</u> Many financial institutions commented that the ETA℠ should be designed as a basic account that could be easily offered by any financial institution and easily understood by consumers. Variation in ETA℠ features may be confusing to recipients and more difficult to market as an standard product. Additionally, variation in the features of the ETA℠ also may make it harder to protect the ETA℠ mark. Adding features, even as options, poses the risk that financial institutions will not be willing to participate, or that some existing customers may prefer these accounts to others offered by financial institutions. In addition, permitting financial institutions to offer optional features has operational implications for FMS. Greater complexity in the ETA℠ will likely result in more inquiries from recipients, increasing FMS workload. Monitoring compliance by banks with ETA℠ requirements will be more complicated and time-consuming if the product is more complex.

A. Interest on Account Balance

Our analysis shows that a majority of funds are drawn down soon after deposit by benefit recipients and thus the interest paid to the account holder would be very small, bringing into question whether the benefit is worth the additional complexity that this feature would add (i.e., Truth in Savings disclosures, 1099 reporting).

B. Acceptance of Other Electronic Deposits

In general, Federal benefit payments (e.g., Social Security) may not be attached by creditors. If funds deposited are limited to Federal benefit, wage, salary and retirement payments, most ETAs℠ would be largely exempt from attachment by judgment creditors. In contrast, permitting other types of payments to be deposited to the ETA℠ would mean that the ETA℠ into which other funds were deposited could be attached in the same manner as any other account at a financial institution to which Federal payments are sent. Several consumer groups commented that many unbanked individuals do not utilize accounts at financial institutions because they fear that funds deposited to such accounts will become subject to attachment by creditors. (If the additional deposits option were offered to consumers, Treasury would want to assure appropriate disclosures and also encourage Federal agencies to issue simple resolution rules to help recipients and financial institutions quickly determine which funds cannot be attached.) Consumer protection provisions would add complexity to banks that might consider offering the account and could discourage them from offering this feature.

C. Pre-Authorized Debit Capability

If the ETA℠ were permitted to offer ACH debit capability, differences in clearance mechanisms between ACH debits and ATM withdrawals could result in overdrafts to ETAs℠ or rejected transactions, which will result in higher costs both to financial institutions and recipients. Overdrafts were cited by both financial institutions and consumer groups as a reason many recipients avoid banking relationships. In addition, in view of the increasing incidence of ACH debit fraud, recipients may inadvertently authorize ACH debit entries to pay for goods and services that are not delivered or are not as represented, thereby incurring costs they can ill afford. Additionally, it is estimated that only a small percentage of recipients would use this feature if it were available.

Recommendation

We recommend that the ETA℠ and compensation be proposed as outlined above. We would like to meet with you to discuss the three optional features discussed above, and the appropriateness of excluding them from the account at this time.

________Approve________Disapprove________Let's Discuss

cc: R. Gregg
M. Barr
G. Gensler

TREASURY CLEARANCE SHEET

NO. 1998 SE-012456
Date ____________

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ____________

(Signed) FROM: Donald V. Hammond, Fiscal Assistant Secretary
THROUGH: John D. Hawke, Jr., Under Secretary-Domestic Finance
SUBJECT: Electronic Transfer Account (ETA)

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☒ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
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☐ General Counsel
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☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ____________

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Donald Hammond	DH	10/28/98	Fiscal Asst. Sec.	622-0560
REVIEWERS				
Richard Gregg for	KRP	10/30/98	Commissioner, FMS	874-7000
Michael Barr for	CGK M. Barr	10/21/98	Deputy Asst. Sec.	622-0016
Ed Knight	[illegible]	11/2/98	General Counsel	622-0287
Exec. Sec.			Executive Secretariat	622-0066

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

The Deputy Secretary of the Treasury

November 30, 1998

NOTE TO: Jerry Hawke
Don Hammond

What did we decide? I'd recommend no on 1,2,3 and a Spartan approach.

Larry

Room 3326 622-1080

1999-SE-000542

1999-SE-000542

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
January 19, 1999

INFORMATION

To: Don Hammond
Fr: Rubin

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY RUBIN

FROM: **DONALD HAMMOND**
FISCAL ASSISTANT SECRETARY

SUBJECT: **ETA Roll-Out**

As you know, the Electronic Transfer Account (ETA) will highlight our commitment to try and provide all Federal payment recipients access to a low-cost account at a Federally insured financial institution. However, this will not succeed unless there are enough financial institutions that will commit to offering the account.

An interdepartmental team has put together a very ambitious roll-out plan which has two goals:

- To be able to announce, at the time the ETA specs become available, that a number of influential financial institutions (we are targeting 100 large banks, community banks, credit unions, etc.) have agreed to offer the ETA account.

- To obtain commitments from a significant number of banks that they will actually offer the ETA as soon as it is available.

I attached the roll-out plan, for your information. We will be asking you to make a public statement.

Attachment

Fine. Also, Larry or I could call a few CEOs, and I could speak someplace, to go on the record.

EXECUTIVE SECRETARIAT

EXECUTIVE SECRETARIAT CORRESPONDENCE MEMO COVER SHEET

Tuesday, January 19, 1999

PROFILE #: 1999-SE-000542

DATE CREATED: 01/19/1999

ADDRESSEE: Robert E. Rubin
Secretary

AUTHOR: Hammond, Donald
Fiscal Assistant Secretary

SUBJECT: ETA Roll-Out

ABSTRACT: ETA Roll-Out

RM 3419

TO REVIEWERS

IN: To DT
1/19/99
cc: Froman
&
To DT 1/28/99

TO EXECUTIVE SECRETARY

IN:

TO THE SECRETARY

DATE SIGNED:

DISTRIBUTION: AS, FISCAL

DI to RER (READING) 2/2/99
DI to LS

cc: NC/DI/PA/AK

01/19/1999 05:36:30 PM

NO.:
DATE: 1/5/98

CLEARANCE SHEET

FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY X OTHER ________

FROM: Donald Hammond, Acting Assistant Secretary for Fiscal
THROUGH:
SUBJECT: Electronic Funds Transfer

OFFICES (Check when office clears)
☐ Under Secretary for Domestic Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt
☐ Under Secretary for International Affairs
☐ International Affairs

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☐ Legislative Affairs
☐ Management

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds
☐ Other ________

☐ OCC

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Roger Bezdek	RAB	1-5-98	Office of the Fiscal Assistant Secretary	2-1807
Donald Hammond	DH	1/5/98	Fiscal Assistant Secretary	2-0560
REVIEWERS				
Ed Knight	EK	1-7-99	General Counsel	2-0027
Michael Froman 3408	MK	1/19/99	Chief of Staff	2-1906

SPECIAL INSTRUCTIONS: After clearance, call Drue 2-1804 for pickup

Review Officer ________ Date: ________ ☐ Executive Secretary ________

The Secretary of the Treasury

February 8, 1999

NOTE FOR DON HAMMOND

FROM: BOB RUBIN

Fine. Also, Larry or I could call a few CEOs and I could speak someplace to get on the record.

Attachment

1999-SE-005064

1999-SE-005064

ACTION

ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

May 7, 1999

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: GARY GENSLER
UNDER SECRETARY (DOMESTIC FINANCE)

FROM: DONALD V. HAMMOND
FISCAL ASSISTANT SECRETARY

SUBJECT: Electronic Transfer Account (ETA℠) Features

ACTION FORCING EVENT: This memorandum sets forth the staff recommendations on the attributes of the Electronic Transfer Account (ETA℠). We have developed a consensus position within Treasury on the account structure and would like your concurrence.

RECOMMENDATIONS:

We recommend that the basic ETA℠ attributes and compensation ($12.60) for one-time account set up costs be finalized as outlined below. We further recommend that financial institutions be given the option of paying interest and the option of allowing additional deposits (electronic, cash or check at the FI's discretion) into an ETA℠, but not be given the option of offering ACH debit capability as ~~an~~ additional feature.

__✓__Approve________Disapprove________Let's Discuss

Background

The EFT 99 Regulation, which was published on September 25, 1998, provides that any individual who receives a Federal benefit, wage, salary, or retirement payment shall be eligible to open a low cost account designed by Treasury (an ETA℠) at any Federally-insured financial institution that offers the ETA℠. Any Federally-insured financial institution will be eligible, but not required, to offer ETAs℠ as Treasury's Financial Agent. All ETAs℠ must conform to the attributes prescribed by Treasury.

The ETA℠ will provide individuals who receive a Federal payment with access to an account at a reasonable cost and with the same consumer protections as other account holders at the same financial institution, which conforms with the criteria specified in the Debt Collection Improvement Act of 1996. The ETA℠ will primarily be useful to Federal check recipients who currently do not have a bank account.

EXECUTIVE SECRETARIAT

EXECUTIVE SECRETARIAT CORRESPONDENCE MEMO COVER SHEET

Monday, May 17, 1999

PROFILE #: 1999-SE-005064

DATE CREATED: 05/17/1999

ADDRESSEE: Robert E. Rubin
Secretary

AUTHOR: Hammond, Donald V.
Fiscal Assistant Secretary

SUBJECT: Electronic Transfer Account (ETAsm) Features

ABSTRACT: Electronic Transfer Account (ETAsm) Features

RM 3419

TO REVIEWERS

IN: To DI 5/17/99

TO EXECUTIVE SECRETARY

IN:

TO THE SECRETARY

DATE SIGNED:

DISTRIBUTION: AS, FISCAL

DI to NCC 5/17/99

cc: PA/AK

NCC cc to Karen K
5/19/99

NCC to RER 6/2/99

RER apvd 6/2/99

05/17/1999 11:01:55 AM

TREASURY CLEARANCE SHEET

NO. ______
Date April 29, 1999

MEMORANDUM FOR: ☑ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY

☑ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATI [redacted]
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______ [redacted]

FROM: Donald V. Hammond, Fiscal Assistant Secretary
THROUGH: Gary Gensler, Under Secretary (Domestic Finance)
SUBJECT: Electronic Transfer Account (ETA^{SM}) Features

99-027-A

REVIEW OFFICES (Check when office clears)

- ☐ Under Secretary for Finance
  - ☑ Domestic Finance
  - ☐ Economic Policy
  - ☑ Fiscal
    - ☑ FMS
    - ☐ Public Debt
- ☐ Under Secretary for International Affairs
  - ☐ International Affairs
- ☐ Enforcement
  - ☐ ATF
  - ☐ Customs
  - ☐ FLETC
  - ☐ Secret Service
- ☐ General Counsel
- ☐ Inspector General
- ☐ IRS
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- ☐ Management
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- ☐ Policy Management
  - ☐ Scheduling
- ☐ Public Affairs/Liaison
- ☐ Tax Policy
- ☐ Treasurer
  - ☐ E & P
  - ☐ Mint
  - ☐ Savings Bonds
- ☐ Other ______

TRANSMITTED TO MAIN TREASURY:

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Johnson	CHJ	4/29/99	Cash Management Policy and Planning	874-6657
REVIEWERS				
Carfine	KC	4/29/99	Cash Management Directorate	874-6876
Lane	BWL	4/29/99	Assistant Commissioner, Federal Finance	874-7067
Marquette/Diener	mm/mm	4/30/99	Chief Counsel, FMS	874-6680
Papaj	[illegible]	4/30/99	Deputy Commissioner	874-7000
Gregg	[illegible]	4/30/99	Commissioner	874-7000
McInerney	[illegible]	5/4/99	Assistant General Counsel, Banking & Finance	622-1964
Hammond	DVH	5/4/99	Fiscal Assistant Secretary	622-0560
Barr w/EDITS	[illegible]	5/6/99	Deputy Assistant Secretary, Community Development	622-0016
Gensler	[illegible]		Under Secretary for Domestic Finance	622-2044
Carro	KD for RC	5/7/99	Associate General Counsel, Legislation, Litigation, & Regulation	622-1146
Wolin	nsw	5/17/99	Deputy General Counsel	622-0283
Knight	ESK	5/17/99	General Counsel	622-0287

SPECIAL INSTRUCTIONS:

☐ Review Officer ______ Date ______

☐ Executive Secretary ______ Date ______

DOF 80-02.1 (04/89)

APR 30 1999
OC99-95E

ADMINISTRATION HISTORY APPENDIX
CHAPTER FOUR: INCREASING ECONOMIC OPPORTUNITY

FINANCIAL LITERACY

2000-se-008252

008252

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ACTION

MEMORANDUM FOR SECRETARY SUMMERS

FROM: David Wilcox DW
Assistant Secretary
(Economic Policy)

Lisa S. Andrews LA
Deputy Assistant Secretary
(Public Liaison)

Michael S. Barr MB
Deputy Assistant Secretary
(Community Development Policy)

DATE: August 11, 2000

SUBJECT: NPFE Youth Financial Literacy Task Force

ACTION FORCING EVENT

Jump$tart and other NPFE partners committed to youth education have asked that we create a task force devoted to improving the financial literacy and personal financial competence of our nation's youth. In putting together the proposal for this task force, we have been very cognizant of the sensitivity surrounding Federal mandates pertaining to public school curricula. Indeed, our strategy has been to focus on alternative approaches to promoting youth financial literacy that do not involve school curriculum mandates. Based on our extensive consultations with a broad range of interest groups and partners, our best guess is that, in addition to Jump$tart, the five most important participants in this effort will be Chase and its financial institution partners, the Business Roundtable, Junior Achievement, the National Education Association and its partner education groups, and the National Urban League.

RECOMMENDATION

That we announce the creation of the NPFE Youth Financial Literacy Task Force as described below.

LS agreed per M. Moe - NCC

Agree ✓ Disagree ______ Let's Discuss ______

9/8/00

EXECUTIVE SECRETARIAT CORRESPONDENCE MEMO COVER SHEET

Friday, August 11, 2000

PROFILE #: 2000-SE-008252

DATE CREATED: 08/11/2000

ADDRESSEE: Lawrence H. Summers
Secretary

AUTHOR: Wilcox, David/Andrews, Lisa S./Barr, Michael
Economic Pol./Leg. Affairs/Domestic Fin.

SUBJECT: NPFE Youth Financial Literacy Task Force

ABSTRACT: NPFE Youth Financial Literacy Task Force

RM 3419

TO REVIEWERS

IN: To PA 8/14/00

TO EXECUTIVE SECRETARY

IN:

TO THE SECRETARY

PA to NCC

PA cc ASLA 8/14/00

DATE SIGNED:

DISTRIBUTION: US, DOMESTIC FINANCE
AS, LEGISLATIVE AFFAIRS
AS, ECONOMIC POLICY

NCC sent to Asia with LS 9/7

NCC ready for LS' action

NCC cc to SE (reading)

NCC cc to SS

9/1/00 TS CA

08/11/2000 04:08:25 PM

2000-SE-008252

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ACTION

MEMORANDUM FOR SECRETARY SUMMERS

FROM: David Wilcox DW
Assistant Secretary
(Economic Policy)

Lisa S. Andrews LA
Deputy Assistant Secretary
(Public Liaison)

Michael S. Barr MB
Deputy Assistant Secretary
(Community Development Policy)

DATE: August 11, 2000

SUBJECT: NPFE Youth Financial Literacy Task Force

ACTION FORCING EVENT

Jump$tart and other NPFE partners committed to youth education have asked that we create a task force devoted to improving the financial literacy and personal financial competence of our nation's youth. In putting together the proposal for this task force, we have been very cognizant of the sensitivity surrounding Federal mandates pertaining to public school curricula. Indeed, our strategy has been to focus on alternative approaches to promoting youth financial literacy that do not involve school curriculum mandates. Based on our extensive consultations with a broad range of interest groups and partners, our best guess is that, in addition to Jump$tart, the five most important participants in this effort will be Chase and its financial institution partners, the Business Roundtable, Junior Achievement, the National Education Association and its partner education groups, and the National Urban League.

RECOMMENDATION

That we announce the creation of the NPFE Youth Financial Literacy Task Force as described below.

Agree________________ Disagree________________ Let's Discuss________________

BACKGROUND

The mission and objectives of the task force are:

- *Mission:* to increase awareness of the need for our youth to enter adulthood with adequate personal financial skills, and catalyze and support collaborative efforts of state and local interests to enhance opportunities for learning, recognizing the local nature of the decision making process. (See Tab 1.)

- *Objectives:*

  - ✓ Create a national promotion campaign and a campaign of outreach to state and local business, education, communities and families.
  - ✓ Catalyze the creation of task forces by state and local decision makers to examine needs, recommend options, and develop and implement plans.
  - ✓ Provide a national source of resource information to state and local initiatives, e.g., "best practices" information.

A list of committed task force members is attached. (See Tab 2.)

Leadership Group: The participation of high profile leaders of organizations representing a broad range of key community groups--financial and business interests, grassroots community interests, school, and community out-of-school interests-- is essential to undertake the promotion campaigns; catalyze the creation of state and local working groups; and facilitate development of options. A "wish" list of potential leaders is attached. (See Tab 3.)

Value: We and the organizations that have committed to the task force believe that it would uniquely leverage existing efforts in two ways:

- High profile participation by national leaders has a far greater likelihood of success in enhancing awareness and securing participation by the requisite broad range of state and local decision makers than existing efforts, that cannot command their attention.
- A national entity to coordinate broad exchange of resource information on all possible venues of action would provide a greater measure of assistance to state and local task forces.

If you approve of the mission and direction of the Task Force as explained herein, the Youth Education Task Force will meet in early September and formulate plans on how to proceed. (See Tab 4 for proposed Agenda.)

Attachments:

Tab 1. Mission Statement
Tab 2. Members of Task Force
Tab 3. Possible Leadership Advisors
Tab 4. Draft Agenda

NPFE Youth Education Task Force (Draft)
Mission Statement

What is the Youth Education Task Force: The Youth Education Task Force of the National Partnership for Financial Empowerment is devoted to improving the financial literacy and personal financial competence of our nation's youth.

What Problem are We Addressing: There is abundant evidence that many Americans do not plan, budget, save enough or invest wisely, and that this problem begins as soon as our youth enter adulthood. This prevents them from laying the best possible foundation for a secure financial future. As the complexity of our financial system grows, the competency of our people needs to grow concomitantly. We should assure that our young people enter adulthood possessing practical financial skills and understanding to manage their financial lives, participate in the workplaces of our economy, support themselves and build wealth to meet their life goals and protect themselves against financial adversity. It is critical to the wellbeing of our people and our nation that we raise personal financial competence. By wisely managing their own assets and investments, not only do people build their own economic futures, they sustain the economy as a whole.

What is our Mission: The mission of the task force is to increase awareness of the need for our youth to enter adulthood with adequate personal financial skills, and catalyze and support collaborative efforts of state and local interests to enhance opportunities for learning.

The process by which our youth acquire financial skills is a multilayer one, which begins in the home and continues in the schools and in after-school settings. Since decisions on youth education importantly take place at the state and local level, it is essential that any national effort work at the invitation of, and in collaboration with, state, community and family efforts, along whatever venue or combination of venues is appropriate to achieve the goal.

What will we undertake: The objectives of the task force are:

- Improve awareness by creating a national promotion campaign and a campaign of outreach to state and local business, education, communities and families.
- Create venues for local decision making by catalyzing the creation of task forces by state and local decision makers representing all interests to examine needs, recommend options, and develop and implement plans.
- Assist in developing options, by providing a national source of resource information to state and local efforts, e.g., "best practices" information.

Leadership Group: The participation of high profile leaders of organizations representing a broad range of key community groups and expertise--financial and business interests, grassroots community interests, school, and community out-of-school interests-- is essential to undertake the promotion campaigns; catalyze the creation of state and local task forces; and facilitate development of options.

Youth Education Task Force
Members
August 8, 2000

Dara Duguay, Executive Director, Jumpstart
Pete Harder, SVP for Education, Junior Achievement
Karla Ballard, President, National Urban League Young Professionals
Steven Malin, VP for Media, Federal Reserve Bank of NY
Denise Nix Thompson, VP for Community Development, Chase
Cynthia Booth, Firstar
Elizabeth Schiever, Director High School Financial Planning Program, NEFE
Elizabeth Volard, VP, NCEE
Susan Traiman, Director for Education, Business Round Table
Larry Sorenson, Director of Business Outreach, NEA
Steve Salem, VP Government Relations (or designee), Boys and Girls Clubs of America
Learning First Alliance or members??

American Association of Colleges for Teacher Education, American Association of School Administrators, American Federation of Teachers, Association for Supervision and Curriculum Development, Council of Chief State School Officers, Education Commission of the States, National Association of Elementary School Principals, National Association of Secondary School Principals, National Association of State Boards of Education, National Education Association, National Parent Teacher Association, National School Boards Association

Barbara Beshol, President, Money Institute
Stephan Avena, President Save for America
Catherine Cummings, VP, Mastercard (conditional)
Kathy McNally, VP for National Financial Literacy, NFCC
Brian Amsel, Director of Educational Services, Genus

Federal agency affiliate members
Lucy Huffman, Treasury
Suzanne Blouin, SSA
Rose Pianalto or designee, Board of Governors

Associated
Jeff Bullock, Assistant to Governor Tom Carper, Delaware
Larry Heckner, Household Financial Group (North Carolina financial literacy working group)
Julie Macadory, CCCC (Mississippi Jumpstart)

NPFE Youth Education Task Force
Possible Leadership Advisors

Note: this is a "wish" list. We have not formally contacted any of these individuals.

Private corporations and associations
(Executive VP or President of Foundation level)
Chase (Mark Willis, EVP)
Other New York money center financial institutions e.g., Merrill Lynch, Citibank
Other regional and national banks who are supporters of partners or already supporting local/state initiatives, e.g., MBNA, Bankcorp South
FNMA, Freddie Mac
Bell Atlantic, IBM, HFC, American Century, and others who have met with Secretary
Business Round Table or Junior Achievement board members
ABA
CBA
CUNA

Regulatory banking-related
Board of Governors
Regional federal reserve presidents
State banking commissioners

Foundations
Ford Foundation

Education
Public School education leaders of
- American Association of Colleges for Teacher Education
- American Association of School Administrators
- American Federation of Teachers
- Association for Supervision and Curriculum Development
- Council of Chief State School Officers
- Education Commission of the States
- National Association of Elementary School Principals
- National Association of Secondary School Principals
- National Association of State Boards of Education
- National Education Association
- National Parent Teacher Association
- National School Boards Association

Catholic or independent school leaders
Junior Achievement
National Endowment for Financial Education
National Council on Economic Education

Grassroots
Boys and Girls Clubs
National 4-H Council
Boy Scouts and Girl Scouts
National Urban League and others they will suggest

Bipartisan political
National Governors Association
Conference of Mayors
National Association of State Treasurers or Attorneys General

DRAFT
Youth Education Task Force Agenda
(for proposed Sept. mtg.)

Note: Participants must come to a collective decision regarding the following questions and issues regarding the taskforce.

I. **Confirmation of goals and structure of task force**

Current plan is to circulate mission statement, objectives, membership list and leadership group concept to current task force members, incorporate feedback, and obtain general approval prior to the initial meeting.

(1) Confirm mission statement and objectives.

(2) Finalize task force membership:
- does membership need to be expanded to incorporate more views or get more expertise?

(3) Agree on leadership group concept:
- what will we ask: lend name to/undertake promotional activity, willingness to meet with individual state decision makers
- who should be on group (suggested list below)
- define invitation process

(4) Begin process of inviting leaders.

II. **Next steps**

(1) Confirm decisions on stage I (if not already completed).

(2) Choose a chair.
- Suggest a dedicated high profile chair to facilitate work with leadership group and state and local decision makers.
- Will the chair need the assistance of an "executive director"/staff chair who is involved with task force operations on a routine basis? Nominations.
- Need to form task force committees dedicated to specific aspects of effort? Recruit volunteers.

(3) Recruit leadership group.

(4) Identify interim and annual goals and evaluation process
- Where should we be in 6 months? a year? Annual goals?

- How to measure: targets on outreach, promotional campaigns, state task forces convened, results of deliberations?
- Should we consider studies measuring youth behavior changes from our efforts?

(5) Decide need for additional research on status of problem.
- Consensus that existing research fully describes problem?
- Prepare fact sheet
- Is any more research needed into problem? On what topic? How to obtain?

(6) Task force defines process for catalyzing and assisting grassroots initiatives and what is needed at each stage. This could include:
- Define "pilot" states for initial outreach and evaluation? Or attempt to go nationwide?
- Assist leadership group as needed to develop "bully pulpit" promotion activity--national public awareness and outreach to states, particularly any pilot
- Identify and secure partnership with existing state networks of partners and leaders (e.g., state affiliates of business and financial partners, state coalitions of national business and grassroots association partners).
- Facilitate work of existing networks and high profile leadership group to catalyze meetings at state level with chief educators, high level leaders from leadership group, key grassroots representatives of partners, other key interests, to help them open dialog, form state "task force" fully representative of community of interests.
  --Facilitate identification of names, consultation to determine a truly representative group
  --Who will host and do administrative details
- Support deliberations of state "task force" as needed: explore barriers, supply information and "best practices", arrange for contacts with experts, help develop options.

(7) Working group develop support "deliverables" for promotion and outreach campaigns and to support state "task forces". Examples include:
- Prepare news links from NPFE web site, web site of other partners as appropriate.
- Develop promotion material (PSAs, etc) for national campaigns by officials and individual leaders as needed, working with associated staff.
- Distribute promotion packages to state task forces or other initiatives.
- Identify sources of "best practices" information-- including descriptions of programs and curricula for youth, teachers or other program leaders; experiences of users; pros and cons; expected results; how success is measured.
- Add clearinghouse links to NPFE website.
- Identify contacts and/or experts on all aspects willing to consult with state task forces.

Administration History Appendix
Chapter Four: Increasing Economic Opportunity

Healthcare Reform

93-116414

MEMORANDUM

TO: Secretary Bentsen
FROM: Randy Hardock and Marina Weiss
DATE: January 25, 1993
RE: Meeting With President Clinton on Health Care Issues

SUMMARY -- You are scheduled to meet with President Clinton and other interested Cabinet Secretaries at 1:00 TODAY to discuss health care reform. We expect that the main focus of the meeting will be on the post-campaign health care reform views of President Clinton and the appropriate allocation of responsibilities between the various departments and entities responsible for portions of the health care debate. This memorandum outlines some thoughts on issues that may be raised at that meeting. Many of the thoughts in this memo are based on our understanding of Ira Magaziner's preliminary outline on a structure for consideration of health care reform in the Clinton Administration.

ACTION REQUIRED -- This memorandum is for your information only.

DISCUSSION

o White House Role -- We anticipate that Mr. Magaziner will be arguing for a significant White House role in running the decision making process in connection with health care. Given the complexity of the issue and the large number of Administration players that will have to be involved, we believe that Mr. Magaziner's view is correct. In particular, we are concerned that without strong White House involvement, the Treasury Department's extensive interests in the health reform debate may not be given sufficient emphasis. Secretary of HHS Shalala may, however, be arguing for a very broad leadership role by the HHS. Secretary Shalala is in the process of hiring Judy Feder and most of the rest of the transition health team. Ms. Feder, as you know, is an academic whose previous experience with this issue includes staffing the Pepper Commission. Feder is likely to focus almost exclusively on achieving universal access to coverage.

o Treasury Role in Various Working Groups -- We understand that Mr. Magaziner may argue for the establishment of a variety of subgroups or clusters to be designated the task of dealing with specific issues. As a general rule, you may want to consider making sure that Treasury is involved in all of the clusters that will be related to the Treasury issues. In some cases the Treasury connection will be obvious (*e.g.*, financing), but, as discussed below, in many cases the need for Treasury involvement will need to be highlighted. We believe that Mr.

Magaziner's original rough outline of assignments to various substantive working groups may significantly underplay the role that Treasury should to play in crafting a comprehensive health care reform proposal.

o Treasury Role in Financing -- The Treasury Department should be involved from the start in consideration of the details of the package, especially in the discussion of the size of the package. The health care reform package will almost certainly be very expensive, with most of the savings from cost containment accruing to the private sector and State and local governments. Revenues will ultimately constrain the size of the package, but given the desire to produce a health care plan in 100 days, it is critical that the Treasury Department not be put in the position of being asked at the last minute to finance a health reform package that is excessively expensive.

Treasury (and not OMB) needs to take the lead in consideration of financing or what Mr. Magaziner calls "recapture". This is just taxes by another name. In order to fulfill this function an understanding of progress in the other clusters will be critical.

In this regard, a memo is being prepared for your consideration on financing options for health care reform. That memo will contrast the use of a consumption tax (e.g., a VAT) with an alternative financing vehicle identifying a variety of revenue sources designed to "recapture" some of the savings that will accrue to the private sector and State and local governments.

o Treasury Involvement in Estimating the Revenue Impact of Proposals -- The Treasury Department (and not the OMB) is responsible for estimating the revenue impacts of all proposals, including health care. For example, a mandate that all employers provide health insurance will result in significant revenue loss. The Treasury Office of Tax Analysis is in the process of refining a model for computing these estimates. We understand that Mr. Magaziner may propose substantial OMB involvement in many clusters based on this estimating function and the same level of involvement will be necessary if Treasury is to fulfill its role in determining revenue impacts.

o Treasury Role in Regulating Employee Benefits Plans -- President Clinton's health care reform proposals are based on maintaining the existing private insurance-based system where possible. That system is based primarily on employer-provided plans and the main government agency with any experience regulating employer-provided plans is the Treasury Department. HHS and other agencies have experience primarily with the Administration of large public plans and those agencies will approach the subject of health care reform entirely from the perspective of those public programs (Medicare, Medicaid, etc.) This is essentially what seems to have happened to Judy Feder's group. If expertise on employee benefits (and the different perspective that expertise brings to the debate) is to be provided from within the government then it will have to come from the Treasury. And that type of input will be needed if this proposal is going to receive the type of support (or at least muted opposition) from the business community (and especially big business) that will be necessary to get the package enacted.

o Outside Advisors -- Mr. Magaziner may suggest bringing in outside advisors. We believe this suggestion is a good one, but the list of outside advisors should not be limited to academics and health care professionals. There should also be involvement by people with experience administering health plans from the employers' perspective. They know what is administrable and what isn't. They know what employees will live with and what they will rebel over. Some of that experience needs to be brought to the table if problems are to be avoided down the road.

o Other Areas Where Treasury Input Would be Beneficial

- Treasury input into the benefits package will be important. The content of the benefits package should be based primarily on health policy concerns, but that does not mean that certain side effects of the decision on the package should be ignored. First, the size of the benefits package will have a direct impact on the costs to small employers. This will directly impact the job loss associated with a mandate on small business and will also substantially affect the size and structure of the small business subsidies that are part of President Clinton's health care reform proposals. In this regard, you should be aware that Treasury's Office of Economic Policy will prepare an analysis of the extent and type of job loss that will be critical to "selling" the proposal in the Congress. Second, the benefits package will have to be coordinated with a cap on the health exclusion (or deduction), if one is adopted. These tax elements should be a part of the discussion of the size of the benefit package.

- In analyzing the employer mandate, the Treasury has the background to deal with how it should be enforced and how it affects employee benefits plans generally. Internal Revenue Code enforcement of the mandate will lead to significantly greater compliance than most other sanctions. Similarly, the impact of the mandate on COBRA health care continuation rights and cafeteria plans will have to be considered. Treasury expertise should be brought to bear on those issues which are currently regulated almost exclusively through the Internal Revenue Code. In particular, coordinating the possible phase-out of COBRA rights with the phase-in of mandated coverage will require considerable thought. Similarly, the interaction between a mandate and current rules governing the treatment of <u>retiree health benefits</u>, including the impact on the tax-favored prefunding of retiree health benefits must be considered.

Treasury should also be involved in the <u>HIPC</u> cluster. Perhaps more than any other reform proposal, HPICs could have a profound impact on employee benefit plans. The HPIC proposal must be constructed in the context of current employee benefit plan law which is in the Internal Revenue Code and must be consistent to the extent possible with self-insured health plans currently provided by larger employers. Similarly, the issue of insurance regulation is a critical Treasury issue since insurance company and product regulation has historically been done at the Federal level primarily through the Internal Revenue Code. Note, HHS may argue that it has a role in insurance regulation based on some Medicare regulation of Medigap policies, but the extent of HHS experience on that issue is limited, with most of the regulation being delegated to the States.

Treasury also needs to be included in a <u>universal coverage cluster</u> to the extent that cluster considers small employer assistance. The small employer subsidy could be structured as a new spending program, but there are significant advantages providing it in the form of a tax credit.

<u>Long-term Care</u> clearly needs Treasury input. At least some of the potential changes that deserve consideration can be made through the Tax Code, <u>e.g.</u>, changes in the taxation and regulation of long-term care insurance that you proposed along with Senators Pryor, Dole and Packwood last year.

Finally, there are some issues that may be slipping through the cracks. In particular, the issue of <u>ERISA preemption</u> of State laws, which is really a part of the bigger issue of the extent of flexibility given States to craft different plans will require serious consideration. Adequately addressing this issue will be critical to getting large employer support for the package. It may make sense to have a Treasury/Labor/HHS team on this issue. In addition, it is worth considering whether a mechanism comparable to the <u>Pension Benefit Guaranty Corporation</u> should be created to protect the health insurance benefits provided by insurance companies or self-insured employers that go bankrupt. Although the Federal government may not want to get in a position of guaranteeing benefits, some type of mechanism may be desirable to ensure that health benefits are provided. This may in turn entail some type of monitoring of the financial stability of companies, either by the States or the Federal government.

ECONOMIC AND BUDGET BRIEFING III

January 25, 1993

STIMULUS

- Why?

  - The fourth quarter advance GDP data will be released on January 28. By most indications, the figures will show healthy growth. However, a stimulus package would still be sound policy.

  - The economy is operating well below capacity. The unemployment rate is 7.3 percent. Only 78.4 percent of manufacturing capacity is being utilized. The economy could produce about four percent more if all of our resources were at work.

  - This recovery has weakened before. We have already had two "false starts" out of the 1990-91 recession.

  - Several known structural blows are about to hit the economy. Defense spending plans (loosely put, budget authority) have been falling since 1985, but actual spending (that is, outlays) began to drop only in 1989; considering the extra spending caused by the Gulf war, the spending cuts have barely begun yet. The defense base closures that were debated two and three years ago have not even begun. Many of the major corporate downsizings that were announced over the last two years have not yet been implemented.

  - Deficit reduction will drain purchasing power from the economy. Every dollar of spending that will be cut -- as unworthy as any critical observer might argue it is -- is someone's income. When that income is reduced, the recipient will cut back his spending, which will reduce someone else's income. The same goes for increases in taxes.

  - The Federal Reserve will offset the deficit reduction, but only with a lag. The Fed will not cut interest rates on a promise of deficit reduction, because of the consequences if the promise is not fulfilled. Stimulus will have to give the economy a boost until the Fed sees that the deficit reduction is real and begins to ease credit, and until that easing has real effects.

  - The risk of inflation is virtually nil. Wages have been so flat that, even with rising health insurance costs, there is little upward pressure on prices. Import competition is intense, and so manufacturers have little freedom to raise prices.

- Criteria

  - Quick spendout: Because the economy is far below its capacity, we should aim to increase growth as soon as possible. We should also get the economy moving before the deficit reduction begins to drain purchasing power from consumers and producers. Meeting this goal requires that spending programs not require new authorizations; that would significantly slow the legislative process.

  - Principles of Putting People First: Stimulus programs should advance the objectives espoused in the President's campaign.

  - Message: We should aim for a small number of substantial initiatives (or at least a small number of cohesive groups of initiatives) rather than a long list of small initiatives, so that people can readily see our objectives.

- Size of the Package

  - The consensus view is that the financial markets are prepared to accept a stimulus package of \$20 billion to \$30 billion, if it is accompanied by significant long-term deficit reduction, and depending upon developments in the economy. Therefore, to provide flexibility, we are preparing options for:

    - As much as \$15 billion of appropriate spending programs; and

    - As much as \$20 billion of tax cuts (our understanding of approximately what Secretary Bentsen's options total to).

    These options can be mixed and matched to achieve just about any desired composition of stimulus within the anticipated totals.

- Themes

  Our options suggest the following themes (with some programs contributing to more than one theme, as noted*):

  - Summer of Opportunity: Summer Head Start*; additional Summer elementary and secondary education programs*; youth Summer jobs*; public works, including infrastructure and parks rehabilitation, to begin in the Spring or Summer*; immunization program (with outreach in the Summer)*.

- <u>Investment in Our People</u>: Summer Head Start*; additional Summer elementary and secondary education programs*; immunization program*; WIC.

- <u>Job Creation and Rebuilding America</u>: Infrastructure, including highways and transit*; youth Summer jobs*; public works*; parks rehabilitation*. (Also continuation of unemployment compensation extended benefits.)

- <u>Government Efficiency</u>: Social Security/Disability modernization. (Also IRS modernization.)

- <u>Private-Sector Incentives</u>: Investment tax credit; Bumpers capital gains for long-term investments in new ventures; pension-fund incentives for investment in real estate; early IRA withdrawals for home purchase; passive-loss relief for real estate professionals; low-income housing credit. (Also the prospect of deficit reduction and lower long-term interest rates.)

- <u>Potential Requests for Supplemental Appropriations</u>:

  - Somalia/United Nations Arrears
    - Request Allied contributions?

  - Small Business Administration

  - Disasters

MAJOR BUDGET DECISIONS

- <u>DEFENSE</u>: Needed for Plan A (from Bush): $23 billion in FY97
  $56 billion FY94-97
  $4 billion in FY94

  - <u>How deep?</u>
    - Aspin C (approximately equal to <u>Putting People First</u>; $15 billion from Bush in FY 1997, $37 billion over FY 1994-97)?
    - Aspin B (approximately $25 billion deeper in FY 1997, $60 billion less over FY 1994-97; $40 billion from Bush in FY 1997, $95 billion over FY 1994-97)?
    - Something in between -- such as Budget Plan A (one-third of the way from Aspin C to Aspin B)?

  - <u>How fast?</u>
    - Commit to a lower path now?
    - Wait until later in the year?
    - Next year?

- <u>MEDICARE</u>: Needed for Plan A: $16 billion in FY 1997
  $47 billion over FY 1994-97
  $7 billion in FY 1994

  - <u>Use cuts for deficit reduction?</u>
    - Or dedicate all savings to increasing access?
    - (Subsidiary question: What will be the role of Medicare in a reformed health care system?)

  - <u>What kind of Medicare cuts?</u>
    - Efficiency cuts (such as apparently overpriced durable medical equipment [DME] -- we almost certainly want these)?
    - Beneficiary cuts (big bucks, and little or no impact on ultimate health care reform, but a burden on the moderate-income elderly [poor elderly are protected by Medicaid])?
    - Provider cuts (can be lucrative, and no <u>direct</u> impact on beneficiaries, but <u>might</u> interfere with ultimate health care reform)?

- <u>SOCIAL SECURITY AND OTHER RETIREMENT</u>:
  Needed for Plan A: $15 billion in FY 1997
  $53 billion over FY94-97
  $9 billion in FY 1994
  (Combination of taxation of 85 percent of Social Security benefits without changing thresholds, and a six-month COLA delay)

- <u>Try for any Social Security savings?</u>
  - If so, face a high-profile, politicized Senate super-majority vote; arouse opposition from elderly groups; risk losing momentum or even the entire package.
  - On the other hand, prove that you are serious about deficit reduction; force other interest groups to contribute to deficit reduction (especially other retiree groups); create the aura of "shared sacrifice, everybody contributes;" have the opportunity to achieve really substantial deficit reduction.
  - Policy issues to be resolved: devices to protect the low-income elderly; unwanted technical side-effects of COLA changes.

- <u>Or leave Social Security out?</u>
  - If so, have no chance of substantial deficit reduction; be required to make up the lost savings with smaller investments, and deeper defense and domestic cuts; face doubts about your seriousness on deficit reduction; risk a rising deficit that becomes an issue in 1996, requiring that the pain be faced just before the election.
  - On the other hand, avoid a difficult Senate vote; avoid opposition of seniors.

- <u>REVENUES -- INCLUDING ENERGY TAXATION</u>

  Needed for Plan A: $76 billion in FY 1997
$219 billion over FY 1994-97
$18 billion in FY 1994

  - <u>"Noncontroversial" items:</u>
    - Upper-income tax increases: top rate; millionaires' surtax; Pease and PEP; alternative minimum tax rate; HI wage-base repeal; corporate top rate.
    - "Sin" tax increases; extend 2.5 cent gas tax increase.
    - Miscellaneous: business meals and entertainment; Section 936; foreign corporations; moving expenses; extend 55 percent estate tax rate; H.R. 11 miscellaneous revenue raisers).
    - The above leave a revenue hole of about $23 billion in FY 1997. <u>Fill this hole with a tax on energy?</u>

  - <u>Do a BTU tax?</u>
    - If so, face opposition from coal-producing States (because coal is cheap on a per-BTU basis, and therefore a BTU tax will cause a big percentage price increase; the only thing worse for coal is a

larger tax increases, larger entitlement cuts, and/or a higher deficit.

- However, the Appropriations Committees typically work more from a target number than from a set of specific proposals, and they will want freedom to find their own savings in lieu of those specified in the economic program.
- If we postpone releasing our own choices of discretionary cuts -- and instead release only a hard target for savings -- we could postpone time-consuming and possibly divisive negotiations of cuts with Cabinet members. Further, opponents of those cuts would not be on notice to gear up.
- On the other hand, those negotiations would be only postponed, not avoided altogether. Cabinet members would be badgered to confirm or deny specific cuts when they would not know the answer. The absence of specifics could be interpreted by the public as a reluctance or an inability to make tough choices (because much of the "pork" is in nondefense discretionary, even though the large and uncontrollable spending -- health care -- is in entitlements). Finally, the absence of specifics would not fool any of the advocates of entrenched domestic programs, who would know very well what the aggregate numbers imply.
- <u>N.B.</u>: Unless we can achieve the specified discretionary cuts, the Appropriations Committees will reduce the investments to make up the difference and comply with the discretionary caps. <u>Thus, without nondefense cuts, there will be no investments</u>.

■ <u>BUDGET PROCESS</u>

- <u>Should we extend the budget process?</u>
  - If procedural disciplines were removed from the budget process, there would probably be an expectation that the deficit would increase.
  - The budget process is complicated, but simplification would probably open serious loopholes. The complicated features were created to stop abuses.
  - Therefore, extension of the budget process should build upon the current restraints: the discretionary cap, and the pay-as-you-go procedures. We should consider carefully whether we could allow pay-as-you-go for discretionary as well as entitlement spending.

- <u>Should we pursue a "line-item veto?"</u>

- Appropriators in the Congress would oppose any form of a line-item veto, including some kind of enhanced rescission authority (which might force a floor vote on the President's rescission request without amendment). Such a fight might be politically costly.
- On the other hand, a fight for enhanced rescission would demonstrate our commitment to deficit reduction. <u>It would also be the one tool that would most help to enforce domestic discretionary cuts, and therefore to protect the investments</u>.

DEPARTMENT OF THE TREASURY
WASHINGTON

93-118448

ACTION

TO: Secretary Bentsen
Deputy Secretary Altman
FROM: Marina Weiss
SUBJECT: Status Report on Health Care Reform
DATE: March 8, 1993

SUMMARY: The 538 member Health Care Task Force continues to meet in 35 separate working groups. As you know, this week marks a shift in the focus of the group -- from a series of issue broadening exercises to the development of multiple options that will be presented to Ms. Clinton, the 6 Cabinet Secretaries and the President within the next week to ten days. Options will be written to force narrowing of policy choices. The hope is to complete policy selections by mid-April to allow time to finalize the legislative language by May 3.

Outlined below for your consideration are 4 issues that I believe merit your attention. They pretain to (1) a request that the Secretary chair a two hour segment of an upcoming forum on health care reform, (2) agency responsibility for revenue estimates, (3) using reconciliation as the vehicle for health care reform legislation, and (4) short term cost containment.

While you are not being asked to make decisions on most of these items at this time, I am raising them because I understand that you have both been at White House meetings where health care reform issues have come up as part of wide-ranging discussions. Since health staff has not been advised when the White House agenda will include health issues, this is an attempt to anticipate what you might hear within the next few days.

RECOMMENDATION: See below.

ACTION: See below.

DECISION REQUIRED BY: As soon as feasible.

DISCUSSION:

(1) Philip Diehl received the attached memo from the Deputy Secretary to the Cabinet. In short, Secretaries who serve on the Task Force have been asked to join the President and First Lady in hosting a forum where testimony will be taken from interest groups likely to be impacted by the legislation. The forum is scheduled for March 26-27. Meredith Oliver advises the Secretary's schedule could accommodate the request.

LMB ✓ I am interested in participating, work with White House on timing and details

_____I prefer not to take part

_____Other:

(2) Several Treasury staff members from the Tax Analysis office are participating in the quantitative working group with staff from OMB, NEC, the actuary's office at HHS and the Agency for Health Policy Reserach (AHCPR) which is also a part of HHS. Thusfar, the group has spent its time discussing estimating techniques, variations in the assumptions that underlie their respective models, and methods for minimizing the discrepancies in their estimates. Treasury staff report, however, that last week's interaction with AHCPR representatives shifted toward detailed questions about the revenue estimating process at Treasury. While no explicit statement has been made about AHCPR taking the lead in revenue estimating, Treasury staff are concerned that the Chairman of the group, Ken Thorpe of HHS, may be moving in that direction. Obviously, the position of the Treasury staff has been that this agency will handle all revenue estimates. If the issue is brought up in meetings with the President or other principals, it may be worth reiterating the point that Treasury, not HHS, is the revenue estimating agency.

(3) As you know, Senator Mitchell has been working hard to build support on the Hill and within the Administration for moving health care reform as a part of reconciliation. During construction of the economic package, this issue came up and Secretary Bentsen pointed out that the decision did not have to be made back in January. Now, however the Budget Committees are preparing to mark up the budget resolution, and it is likely that a decision on whether to incorporate health care reform into reconciliation will be made this week.

Aside from the obvious problems associated with linking a controversial and expensive health care reform initiative to the economic plan, there is the almost insurmountable problem of dealing with the Byrd Rule in the Senate. I am advised that, under instruction from Senator Michell, Chairman Sasser has spoken to Chairman Byrd and found him unyielding on this issue. You will recall that Byrd personnally drafted the "Byrd Rule" to prohibit continued abuse of the reconciliation process which he believes occurred during the early Reagan years. In short, he opposes short-circuiting the Senate filibuster and amendment privileges by including non-germane provisions in the fast track reconciliation process.

In approaching Chairman Byrd, Chairman Sasser apparently thought he might be able to obtain Byrd's support for a waiver of the rule to be included in the budget resolution. However, given Byrd's reluctance and the fact that this strategy assumes waiver of a statutory provision on a budget resolution that is not signed by the President, Budget Committee staff are pessimistic about the viability of this approach. The minority is expected to be vigorous in its opposition to combing health care reform with reconciliation.

(4) The health reform working group furthest along in its deliberations is dealing with short term cost controls. Specifically, as a budget cutting measure (to free up funds for improving access) the group is looking at two options for controlling costs. First, they are attempting to design a price freeze proposal to be applied to the health care sector only. In the alternative, they are looking at the possibility of permitting businesses, individuals and insurance companies to pay the discounted rate for services currently paid by Medicare. Presumably the federal government would enforce the lower rates. No specifics are available as yet, and you should be aware that no staff -- Treasury or other agencies -- are comfortable with these options.

THE WHITE HOUSE

WASHINGTON

CW
Staff/[illegible]
Weiss
Sessions
Halobeck
Cohen
[illegible]
King

March 2, 1993

MEMORANDUM FOR CHIEFS OF STAFF

FROM: STEPHEN B. SILVERMAN SBS

SUBJECT: The attached and miscellaneous information

Attached are today's talking points and the President's schedule.

The health care forum, sponsored by the Robert Wood Johnson Foundation, co-chaired by the First Lady and Dr. Stephen Schroeder, the President of the Foundation, will take place March 26 and 27 at George Washington University. Tentatively, the President is scheduled to open the proceedings on the 26th. The Vice President is tentatively scheduled to participate as well. Although the forum is still in the planning stages, it is expected that Mrs. Clinton, Cabinet Secretaries and other members of the Administration will engage in discussions with over 100 interest groups over the two day period in a series of two hour sessions.

If your Secretary is interested in participating in the forum, please fax me a proposed block of four hours on either day so that the Forum coordinators can choose a two hour time period for your Secretary to participate. I will give this information to Julia Moffett (456-7151) who is coordinating the forum for the White House. She will be in touch with you regarding scheduling and further details as they become available.

Tomorrow I will be sending by hand delivery, photographs of Secretaries and family members with President Clinton's autograph taken at their swearing-in ceremonies. I hope also to send a package of the state-by-state stimulus analysis for each agency.

TREASURY CLEARANCE SHEET

NO. ________
Date March 8, 1993

MEMORANDUM FOR: ☒ SECRETARY ☒ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ________

FROM: Marina Weiss
THROUGH: ________
SUBJECT: Status Report on Health Care Reform

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
  ☐ Domestic Finance
  ☐ Economic Policy
  ☐ Fiscal
    ☐ FMS
    ☐ Public Debt

☐ Under Secretary for International Affairs
  ☐ International Affairs

☐ Enforcement
  ☐ ATF
  ☐ Customs
  ☐ FLETC
  ☐ Secret Service
☐ General Counsel
☐ Inspector General
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☐ Management
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INITIATOR(S)				
Weiss	mw	3/8/93	Economic Policy	2-0090
REVIEWERS				

SPECIAL INSTRUCTIONS

☐ Review Officer ________ Date ________ ☐ Executive Secretary ________ Date ________

DO F 80-02.1 (04/89)

TREASURY CLEARANCE SHEET

NO. 93-118448
Date March 8, 1993

MEMORANDUM FOR: ☒ SECRETARY ☒ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Marina Weiss
THROUGH:
SUBJECT: Status Report on Health Care Reform

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☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Weiss	mw	3/8/93	Economic Policy	2-0090
REVIEWERS				

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

DO F 80-02.1 (04/89)

93-118837

ESC

DEPARTMENT OF THE TREASURY
WASHINGTON

TO: Secretary Bentsen
FROM: Marina Weiss
SUBJECT: Health Care Reform
DATE: March 15, 1993

SUMMARY: Ira Magaziner has offered to meet with you to provide a status report on the progress of the Task Force work groups. I recommend strongly that you accept his offer and use the meeting to underscore your expectation that Treasury will handle revenue estimates and the design of tax provisions included in the health reform plan -- namely, the tax "cap" on employer contributions to health insurance, small business subsidies, tax based provisions of laws relating to employer mandates, "portability" and/or pre-existing exclusions. In addition, Treasury will have to raise the funds needed to pay for universal access. (This is not intended to be an exhaustive list of Treasury issues, instead it is intended to serve as an illustration of the breadth of provisions you will be asked to develop.)

I would also recommend that you emphasize to Magaziner the need for timely information about the overall health reform proposal to allow for Treasury to run numbers and to develop the revenue provisions. I am becoming increasingly concerned that Treasury and other affected departments may not be given enough time to develop workable provisions for inclusion in the detailed description of the plan which the President has said he will release on May 3.

RECOMMENDATION: That you agree to meet with him for a 20-30 minute briefing, late this week if feasible.

OPTIONS:

3/16/93

__LL__ I would like to meet with Magaziner, arrange a time with Gay

_____ I prefer not to meet with Magaziner at this time

_____ Other:

TIMING: If you agree with the staff recommendation, a quick response to this memo would be helpful to permit early scheduling of a meeting.

DISCUSSION: The summary above is fairly comprehensive relative to the issues I hope you will agree to raise. Two additional points may be of interest. First, there is reason to believe that HHS has run some preliminary numbers which Magaziner has found "unacceptable," I would guess that at least a portion of the problem relates to cost of the overall plan. Secondly, in the past Magaziner had been very negative on a VAT tax as a financing mechanism, but this weekend he shifted his rhetoric and indicated he has begun to "reconsider" his earlier opposition. He raised the VAT issue with me both as a plausible source of financing for health care reform but also as a substitute for the energy tax. While I know that he is in very close touch with the First Lady and the President, he did not indicate that coupling the two was under consideration by the President.

TREASURY CLEARANCE SHEET

NO. 93-118837
Date March 15, 1993

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☒ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Marina Weiss
THROUGH: ______
SUBJECT: Health Care Reform

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NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Weiss		3/15/93	Economic Policy	2-0090
REVIEWERS				

SPECIAL INSTRUCTIONS

Please handle this memo as SENSITIVE LIMITED DISTRIBUTION per Marina Weiss.

☐ Review Officer ______ Date ______ ☐ Executive Secretary ______ Date ______

93-119646

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

March 24, 1993

Already distributed

Memorandum for Secretary Bentsen

From: Roger Altman

Subject: Health Care

My knowledge of this subject is limited. Nevertheless, there would seem to be a different way to approach the choices on reform.

Right now, an enormous effort is underway to determine a basic benefit package, the phase-in rate on universal access, employee mandates or lack of them, and all the rest. Ultimately, a federal price tag will be calculated, and a discussion on how to pay for it will ensue. The latter could be a very tough discussion.

The other approach is to calculate the size and types of tax increases which are feasible and then fit health care reform into that budget. An analysis could be done on economic impacts, revenue potential (including elasticity of demand on tobacco, alcohol, etc.) and political reality. Several alternative tax packages could be crafted and decisions made on which combination of taxes and health care reform would be optimal.

For example, a package of sin taxes and a provider and/or insurer tax probably would fly from economic and political perspectives. In contrast, a "monster VAT" (e.g., 15-20%) probably would be too damaging.

Treasury could begin to prepare a set of alternative tax packages, keeping it quiet while we do it. That way, we would be best prepared for the bruising discussions on how to pay for "it."

The question is whether we should launch such an internal effort. Marina Weiss agrees that we should do the preparatory tax work. She urges against any external sign, however, that we want to "backfit policy to budget." In her view, the health reform community, from Mrs. Clinton on down, fears that Treasury, OMB and CEA will try that approach and adamantly opposes it.

My view is that we should promptly do the internal work but keep it under wraps.

cc: Les Samuels
Sam Sessions
Marina Weiss

DEPARTMENT OF THE TREASURY
WASHINGTON

93-119797

April 2, 1993

ACTION

MEMORANDUM TO SECRETARY BENTSEN
DEPUTY SECRETARY ALTMAN

THROUGH: LESLIE SAMUELS AND MARINA WEISS

FROM: JANET HOLTZBLATT, SONIA CONLY, ANN DENTINGER, AND GILLIAN HUNTER

SUBJECT: Request for Approval to Provide Estimates to Health Care Reform Task Force

SUMMARY -- This memorandum requests approval to submit the attached materials to the "Quantitative Analysis Support" group associated with the Health Reform Task Force. (The Quantitative Analysis Support group consists of representatives from various HHS agencies, Census, OMB, CEA, and Treasury.) Last week, the Treasury Department's Office of Tax Analysis (OTA) was asked to participate in an "analytical exercise." The exercise was, in part, motivated by Ira Magaziner's interest in seeing how the numbers would look for a broad-based reform package, as he began intensive meetings with the President on its costs and financing. Because some of the initial estimates by HHS of the subsidy options were very large, the Quantitative Analysis Support group has already proceeded on to estimates of new options for Mr. Magaziner's meetings with the President.

RECOMMENDATION -- Authorize release of the attached materials to the Health Reform Task Force's Quantitative Analysis Support Group.

______ Agree. ______ Disagree. ______ Let's Discuss.

DISCUSSION -- The analytical exercise consisted of four options. Each of these options assumed a federally mandated benchmark health plan available to all persons under the age of 65. (HHS's Health Care Financing Administration (HCFA) worked separately during the week on an option to bring parity to the Medicare population.) The model for the plan was based on a very generous HMO package, including such benefits as outpatient care for mental health and substance abuse, visits to chiropractors, and orthodontia. On a per capita basis, the cost of this plan was estimated by HHS to be about $1,800 (1994 dollars). The four options were:

(1) A "strict" employer and individual mandate to provide health insurance. Under this option, employers would be required to pay up to 80 percent of the costs of the benchmark plan, with individuals responsible for up to 20 percent of the costs. Generous Federal subsidies would be provided to small businesses, self-employed persons, and low and moderate-income families.

(2) "Comprehensive" payroll contributions. Under this option, all persons under 65 would receive the standard benefit package from their Health Insurance Purchasing Cooperative (HIPC). Financing for the package would be derived from mandatory payroll contributions. Employers would be responsible for up to 80 percent of the payroll tax, with employees responsible for the remaining portion, at most. The payroll contribution would be on earnings up to the Medicare health insurance (HI) base of $140,100 (1994 dollars). The payroll tax would be capped at 4 percent of each employee's pay in small businesses.

(3) "Limited" payroll contributions. While again all persons under the age of 65 would be eligible for the standard benefit package, the mandatory payroll contribution rate would be set at the level necessary to finance benefits for workers and their families. Financing for persons outside the labor force and the self-employed would come from unspecified sources. No Federal subsidy would be available for small businesses.

(4) Value-added tax. A value-added tax would finance benefits for all persons under the age of 65. Estimates of the necessary tax rate assumed (1) a fairly comprehensive consumption base and (2) a moderate consumption base with exemptions for items such as food consumed at home, medical care, and prescription drugs.

Attachments

Attachment A
Description of the Analytical Exercise

The exercise consisted of four options. Each option required estimates from various different government agencies; the three principle agencies with estimating responsibilities were the Health Care Financing Administration (HCFA), the Agency for Health Care Policy and Research (AHCPR), and OTA.

Benefit Package: For each option, it was assumed that only one insurance policy would be available to eligible persons. This benefit package was designed to be on par with insurance plans ranking in the 90th percentile in terms of the richness of its provisions and was modeled on an HMO plan offered by Kaiser. Among the covered services, the plan included such benefits as prescription drugs, speech and occupational therapy, both inpatient and outpatient care for mental health and substance abuse, visits to chiropractors, and dental care (including orthodontia work). Estimates of premium costs were based on an extreme assumption of community rating, in which no variation was allowed for differences in such characteristics as age or gender.

Option 1: "Strict" Employer Mandate. Under this option, all employers would be required to provide, at a minimum, the standard health insurance plan. The employer would be responsible for providing 80 percent of the benchmark premium for the employee and family, with families defined as a tax filer, spouse, and their dependents. (Note that this definition may not conform to health insurance units, under common practice. For example, typical health insurance units generally do not include adult dependents, particularly those who are not lineal descendants of the policyholder. A tax filing unit would contain all persons who meet the relationship, residence, support and income tests of sections 152 of the Internal Revenue Code.) Moreover, all individuals, including those who were not employed, would be required to purchase health insurance. All persons under age 65 and not institutionalized or in the active military would be covered.

Special rules would be applied in certain cases. If both spouses are employed, the employer of the spouse with the highest annual earnings would be responsible for purchasing insurance. Employer contributions would be prorated for part-time workers on the basis of the numbers of hours they worked. Self-employed workers would be required to pay up to the full amount of the premium.

To mitigate the effects of the employer and individual mandate, subsidies would be provided to three groups:

- Small business (those with 25 or fewer full-time equivalent employees) would be required to pay no more than 4 percent of each employee's earnings.

- Self-employed persons would pay no more than 15 percent of the difference between adjusted gross income and $8,000. (The exemption amount was based roughly on the full-time, full-year equivalent earnings of a minimum wage worker.) For purposes of this calculation, adjusted gross income would be determined prior to the inclusion of the deduction for health insurance purchases by self-employed workers. In addition, the deduction for health insurance purchased by self-employed workers would be extended and increased to 80 percent.

- Payments for all other individuals would be capped at 3 percent of their adjusted gross income less $8,000.

The mechanisms for providing these subsidies were not specified.

Option 2: "Comprehensive" Payroll Contributions. Under this option, all persons would receive the standard benefit package from their Health Insurance Purchasing Cooperative (HIPC). Financing for the package would be derived from payroll contributions. Both employers and employees would be required to pay a share of payroll contributions; the employer share would be equal to up to 80 percent of the benchmark premium, with employees responsible for up to the remaining 20 percent. Self-employed workers would be responsible for the combined employer-employee shares.

The payroll tax would be capped for certain employers and employees. First, following the Medicare health insurance (HI) model, payroll contributions would be capped at $140,100 in 1994. Note, however, that the wage base would include employees who are exempted from the HI tax (e.g., state employees hired prior to April 1, 1986). Second, small businesses would be eligible for a Federal subsidy. Employers with up to 25 full-time equivalent employees could pay the minimum of the payroll contribution or 4 percent of the individual's pay (unconstrained by the HI ceiling).

Option 3: "Limited" Payroll Contributions. Under this option, payroll contributions would finance health insurance benefits for only employees and their families. Self-employed persons and those outside the labor force would pay for benefits using the formulas described in option 1. The mechanisms for financing subsidies to these persons were not specified. No subsidies would be provided for small businesses.

Option 4: Value-Added Tax. A value-added tax would finance health insurance benefits for all eligible persons under age 65. The value-added tax could apply to either a broad business transfer tax base or a more narrow base. The broad base would include over 80 percent of total personal consumption expenditures. Items excluded from the base would include the rental value associated with existing housing and expenditures on education, religion and welfare, net foreign travel, local transportation, food produced and consumed on farms, military-issued clothing, and domestic services. Sales of new housing were included in the base. The "medium" base also excluded food consumed at home, medical care, prescription drugs, and the sales of new housing. The medium base includes about 55 percent of personal consumption expenditures.

Attachment B
Description of Results

<u>Premium Cost Estimates:</u> HHS estimates the per capita premium cost of the benchmark plan to be $1,800 (1994 dollars). AHCPR projects that in 1994, 225.8 million persons will be under the age of 65 and not in either institutions or the active military. As a consequence, AHCPR estimates that total premium costs for the standard plan would be $406.4 billion in 1994. Of this amount, $302 billion would be attributed to workers who are employed by others.

For option 1, OTA assumed (following assumptions made by HHS) that all persons in firms of more than 1,000 employees would retain their current level of employer contributions toward health insurance, if such contributions were in excess of the standard plan. For options 2 through 4, all eligible persons are assumed to have the standard plan.

<u>Option 1:</u> As specified, this option has two provisions which have a definite impact on revenues. By mandating health insurance benefits, the option affects the share of compensation between taxable wages and non-taxable fringe benefits. OTA estimates that individual income and payroll tax liabilities would decline by $3.5 billion as a consequence of the mandate. Moreover, the extension and expansion of the deduction for health insurance expenses by self-employed workers would reduce individual income tax liabilities by an additional $2.8 billion.

<u>Option 2:</u> OTA estimates that the combined employer-employee payroll contribution rate would have to be set at 12.5 percent. This rate takes into account AHCPR's estimate that Federal spending on existing health programs would be reduced by about $34 billion under the new system (thus reducing the total amount of expenditures to be financed to $372 billion).

<u>Option 3:</u> OTA estimates that the combined employer-employee payroll contribution rate would have to be set at 10.5 percent. At the suggestion of AHCPR, no offsetting changes in Federal spending programs were assumed.

<u>Option 4:</u> Using a broad business transfer base, OTA estimates that the VAT rate would be set at 11.8 percent to finance health insurance premiums for all persons under 65. Using the medium base, the VAT rate is estimated to be 17.9 percent.

Attachment C
Caveats for Interpreting Results of Analytical Exercise

As a fire drill, this exercise differed in many ways from the typical process for estimating tax proposals. First, options were estimated at calendar year 1994 income levels, assuming that the provisions were fully implemented. This differs from the usual process of producing fiscal year receipt estimates over a five-year budgetary period. Such revenue estimates would make allowances for both explicit policy decisions to phase-in key provisions of a proposal, as well as likely short-term adjustments by firms and individuals (for example, a revenue estimate might include a "learning curve" to account for the time it may take for all firms and individuals to learn about new requirements).

Second, the reforms in the exercise were not well specified. For example, the mechanisms by which these subsidies would be provided to small businesses or individuals were not spelled out. Yet, costs can vary greatly if subsidies are provided through a transfer program instead of through a tax credit, or if the mechanism selected is a refundable tax credit instead of an itemized deduction. Each of these mechanisms can have widely different implications for eligibility, participation, administration, enforcement, and compliance.

Third, further specification of the options could also make a difference with respect to behavioral responses by employers and individuals. As with other revenue provisions, Treasury assumed that the GDP level was constrained to remain at the levels predicted by the President's budget. Within this "fixed GDP constraint," it is still possible to have significant behavioral adjustments by employers and their employees. Estimates can be sensitive to the choice of assumed behavioral response, and the nature of the behavioral response will depend greatly on the choice of financing and subsidy mechanisms. For example, both the magnitude and the direction of the estimates for the effects of mandates on tax liabilities could be very sensitive to the specific nature of the mandate proposal, as well as other health reform provisions.

93-119965

DEPARTMENT OF THE TREASURY
WASHINGTON

ACTION

April 7, 1993

MEMORANDUM TO SECRETARY BENTSEN
DEPUTY SECRETARY ALTMAN

THROUGH: **LESLIE SAMUELS AND MARINA WEISS**

FROM: **JANET HOLTZBLATT, SONIA CONLY, AND GILLIAN HUNTER**

SUBJECT: **Request for Approval to Provide Estimates to Health Care Reform Task Force**

SUMMARY -- For the next meeting with the President on health reform, Ira Magaziner has requested Treasury's estimates of the impact of a health reform option on CY 1994 tax liabilities (assuming full implementation). Under the option, employers would be required to provide a benchmark health insurance plan for their workers. An employer mandate affects revenues by changing the allocation between taxable wages and non-taxable fringe benefits. In addition, this option would also provide a refundable tax credit for small businesses to lessen the burden of the mandate. Third, the option would extend and expand the health insurance deduction for self-employed workers. In total, these provisions reduce tax liabilities in calendar year 1994 by about $56.5 billion.

RECOMMENDATION -- Authorize release of the attached materials to the Health Reform Task Force's Quantitative Analysis Support Group.

LMB Agree. ______ Disagree. ______ Let's Discuss.

DISCUSSION -- The option assumes a federally mandated benchmark health plan available to all persons under the age of 65. The model for the plan was based on a very generous fee-for-service package, including such benefits as outpatient care for mental health and substance abuse, prescription drugs, and orthodontia. With a $50 deductible ($100 for families), HHS estimates that this plan would cost about $2,850 (1994 dollars) for a single person and $7,180 for a family.

Under this option, employers would generally be required to pay 80 percent of the costs of the benchmark plan, with individuals responsible for up to 20 percent of the costs. Generous Federal subsidies would be provided to low and moderate-income families through expenditure programs. For small businesses (those with fewer than 25 employees), refundable tax credits would be available, if premium costs exceeded more than 9 percent of any individual's salary. The self-employed would be permitted to deduct 100 percent of health insurance expenses, but no more than their total self-employment income.

Attachments

ESK

Edward S. Knigh

Attachment A
Description of the April 2 Option

Benefit Package: Only one insurance benefit package would be available to eligible persons. This benefit package would be a fee-for-service (or "conventional") plan. Currently, 90 percent of employees in medium and large firms are covered by less generous plans ~~than the~~ benefit package contained in the health reform option. Among the covered services, the plan includes such benefits as prescription drugs, both inpatient and outpatient care for mental health and substance abuse, and dental care (including orthodontia work). Other features of the plan include a $50 deductible ($100 for families), a 20 percent limitation on overall plan coinsurance, and a $500 cap on annual out-of-pocket expenses. Estimates of premium costs are based on an assumption of separate community rating pools for single individuals and families. According to HHS estimates, the costs of this plan would be about $2,850 for a single individual and $7,180 for a family plan in 1994.

"Strict" Employer Mandate. Under this option, all employers would be required to provide, at a minimum, the standard health insurance plan. The employer would be responsible for providing up to 80 percent of the benchmark premium for the employee and family, with families defined as a tax filer, spouse, and their dependents.

-- Note that this definition may not conform to health insurance units under common practice. For example, typical health insurance units generally do not include adult dependents, particularly those who are not lineal descendants of the policyholder. A tax filing unit would contain all persons who meet the relationship, residence, support and income tests of sections 152 of the Internal Revenue Code.

Employees would be required to pay up to the remaining 20 percent of health insurance premiums. Employers could pay all or some of these additional expenses.

Individual Mandate. All individuals, including those who were not employed, would be required to purchase health insurance. All persons under age 65 and not institutionalized or in the active military would be covered by this mandate.

Exceptions to Mandates: Special rules would be applied in certain cases. If both spouses are employed, the employer of the spouse with the highest annual earnings would be responsible for purchasing insurance. Employer contributions would be prorated for part-time workers on the basis of the numbers of hours they worked. (Part-time workers are defined as those who work fewer than 37 hours a week.) Self-employed workers would be required to pay up to the full amount of the benchmark premium.

HIPC Coverage: All establishments with fewer than 1000 full-time equivalent employees would purchase insurance from a health insurance purchase cooperative (HIPC). Larger establishments would purchase insurance from private carriers or self-insure. (Following HHS's assumptions, all firms with more than 1000 employees who are currently paying premiums higher than the benchmark premium would continue to do so after reform.) However, all government agencies (Federal, state, and local) would purchase health insurance from a HIPC.

Subsidies: To mitigate the effects of the employer and individual mandate, subsidies would be provided to three groups. These subsidies would be applied only to payments for the benchmark premium.

- Small business (those with 25 or fewer full-time equivalent employees) would be required to pay no more than 9 percent of each employee's earnings. (Employers would receive subsidies for workers with salaries of up to $63,822 or 421 percent of poverty for a family of four.)

  -- Tax-exempt organizations could be eligible for the small business credit, but small government agencies would not qualify.

  -- The tax credit would be counted as taxable income by the firm. doesn't make sense

- Self-employed persons and non-workers would pay no more than 21 percent of the difference between cash income and $8,000 ($6,000 if single). In addition, the deduction for health insurance purchased by self-employed workers would be extended and increased to 100 percent. (For a policyholder with a family, the cap would phase-out at an income of $42,190 or 278 percent of poverty for a family of four.)

- Employee contributions would be capped at 4 percent of their cash income less $8,000 ($6,000 if single). (For a worker with a family, the cap would phase-out at an income of $43,900 or 289 percent of poverty for a family of four.)

With the exception of the health insurance deduction for the self-employed, subsidies to individuals would be made through expenditure programs. Subsidies to small businesses would be made available through a refundable tax credit.

Individuals and families would also be subsidized outside the tax system for out-of-pocket medical expenses. For families with cash incomes below the poverty level, out-of-pocket expenses would be capped at 4 percent of cash income. For those with incomes between 100 and 200 percent of poverty, the cap would be set at 10 percent of cash income. The delivery service for these mechanisms has not yet been specified.

Attachment B
Description of Results and Caveats

As specified, this option has three provisions which affect revenues. By mandating health insurance benefits, the option affects the share of compensation received in the form of non-taxable fringe benefits. Treasury estimates that individual income and payroll tax liabilities would decline by $26 billion in calendar year 1994 as a consequence of the mandate. Moreover, the extension and expansion of the deduction for health insurance expenses by self-employed workers would reduce individual income tax liabilities by about $4 billion in calendar year 1994. The small business tax credit would reduce calendar year 1994 tax liabilities by about $26.5 billion.

Caveats: This exercise differed in many ways from the typical process for estimating tax proposals. First, options were estimated at calendar year 1994 income levels, assuming that the provisions were fully implemented. This differs from the usual process of producing fiscal year receipt estimates over a five-year budgetary period. Such revenue estimates would make allowances for both explicit policy decisions to phase-in key provisions of a proposal, as well as likely short-term adjustments by firms and individuals (for example, a revenue estimate might include a "learning curve" to account for the time it may take for all firms and individuals to learn about new requirements).

Second, the reforms in the exercise were not well specified. For example, the mechanisms by which the subsidies would be provided to individuals were not spelled out. Yet, costs could vary if subsidies were provided as grants to states of HIPC's or as direct payments to individuals. Each of these mechanisms can have widely different implications for eligibility, participation, administration, enforcement, and compliance. Even though the small business subsidy was assumed to be provided through a tax credit, many of its features were not well specified or realistic. For example, it will be extremely difficult for an employer to determine if an employee is the high earner in her family.

Third, further specification of the options could also make a difference with respect to behavioral responses by employers and individuals. As with other revenue provisions, Treasury assumed that the GDP level was constrained to remain at the levels predicted by the President's budget. Within this "fixed GDP constraint," it is still possible to have significant behavioral adjustments by employers and their employees. Estimates can be sensitive to the choice of assumed behavioral response, and the nature of the behavioral response will depend greatly on the choice of financing and subsidy mechanisms. For example, both the magnitude and the direction of the estimates for the effects of mandates on tax liabilities could be very sensitive to the specific nature of the mandate proposal, as well as other health reform provisions.

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THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

April 14, 1993

MEMORANDUM FOR: SECRETARY BENTSEN

FROM: ROGER ALTMAN RA

RE: Health Care

Just to keep you posted. At yesterday's meeting with the President on health care, there was renewed discussion of using a VAT to finance reform. Mrs. Clinton and Ira Magaziner have turned their attention back to it. Over the next two or three weeks, there will undoubtedly be much internal discussion on it.

We are working up various alternatives on VAT rates, exemptions and money which could be raised. Today, we'll see the first real numbers on costs, but it sounds like something in the $70-80 billion range.

Decisions are still a ways off, and won't be taken in your absence.

cc: Marina Weiss

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