

HEALTH CARE SPENDING PRIORITIES FOR 1998

OVERVIEW OF HEALTH CARE INVESTMENT OPTIONS

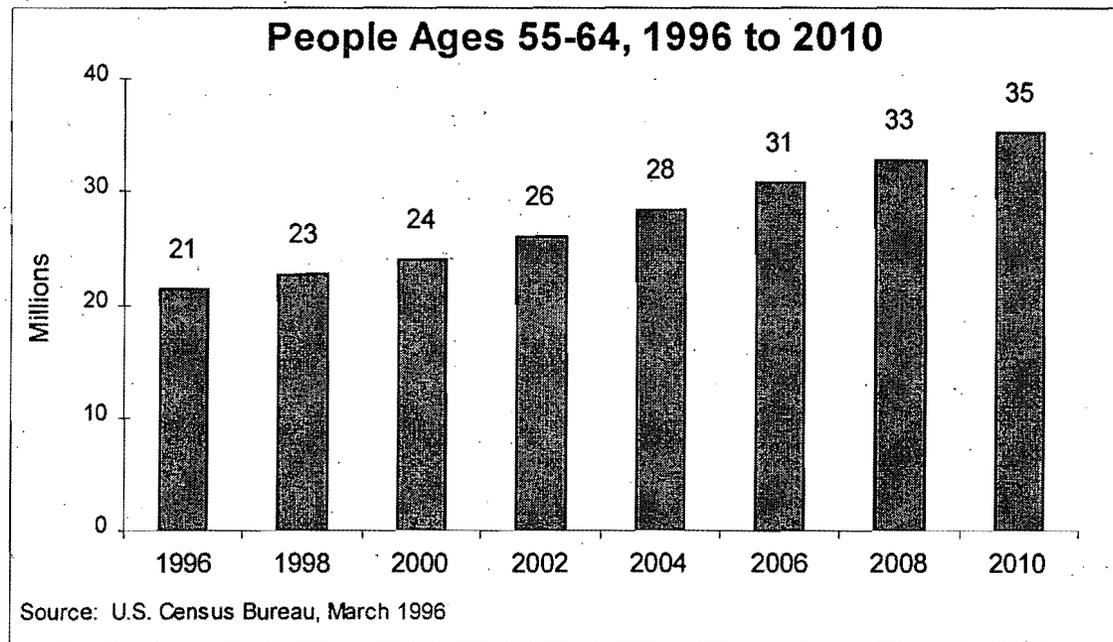
- Research Trust Fund
- Coverage Initiatives:
 - Access for the Pre-65 Year Olds
 - Children's Health Outreach
 - Workers Between Jobs Demonstration
 - Voluntary Purchasing Cooperatives
- Medicare Reforms: Clinical Cancer Trial Coverage and Private Long-Term Care Options

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Health Care
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BACKGROUND ON PRE-65 YEAR OLDS

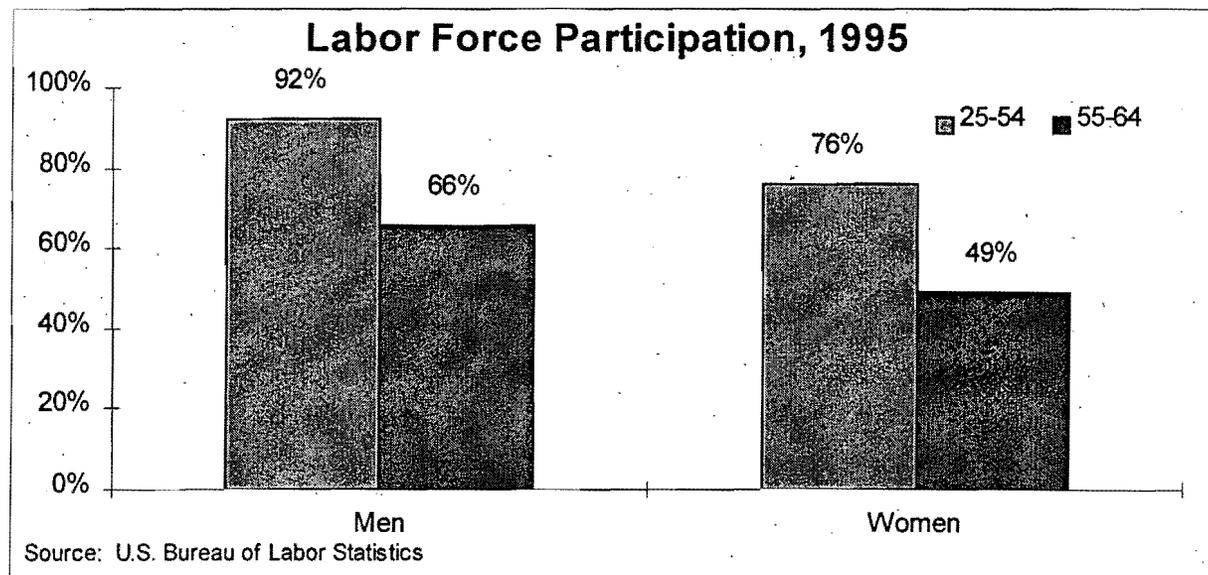
- **Growing Numbers**

- 21 million Americans are ages 55 to 64 years old
- By 2010, 35 million Americans will be ages 55 to 64 year olds:
an increase of over 40 percent



MAKEUP OF THE PRE-65 YEAR OLD POPULATION

- 12 million (57 percent) are workers compared to 83 percent of 25 to 54 year olds
- 6 million are retired, representing one third of all retirees are under age 65
- 3 million are non-workers

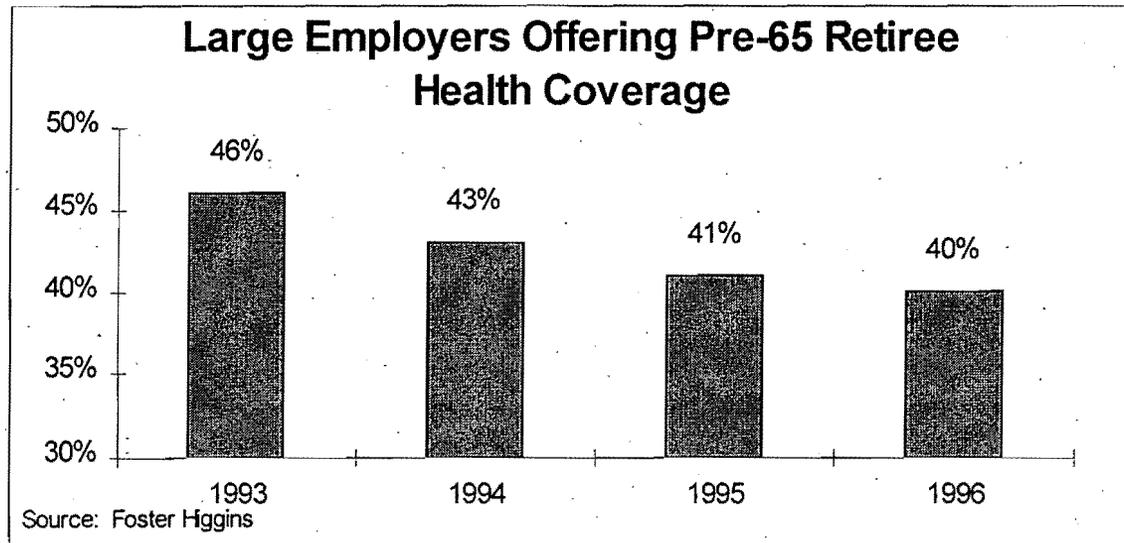


HEALTH INSURANCE FOR THE PRE-65 YEAR OLDS

- **Three million are uninsured:** 14 percent of 55 to 64 year olds: the same rate as children
 - **Workers:** Half of the uninsured work; most (60 percent) work part time
 - **Retirees and displaced workers:** Represent 20 to 30 percent of the uninsured
 - **Low-income and less healthy:** Fewer are poor but more likely to be sick
- **Nearly 2 million covered by individual insurance**
 - Pre-65 year olds' coverage (9 percent) is nearly twice that of people ages 25 to 54

HEALTH INSURANCE AND WORK

- **Retiree health coverage is declining**
 - About one in five pre-65 year olds is insured through a retirement plan
 - Fewer firms offer retiree health coverage: 46 percent of large firms in 1993; 40 percent in 1996
- **Health insurance affects work decisions**
 - Availability of health insurance may encourage people to retire early
 - It may also eliminate "job lock": the fear of losing coverage with job change



PROS AND CONS OF PRE-65 YEAR OLDS OPTIONS

- **Advantages**

- Without any action, trends suggest declining active employee & retiree health coverage
- Demographic changes will likely increase access problems in this age group
- Reduces "job lock", possibly increasing productivity of workers
- Tests insurance options for Medicare reform / age eligibility debate

- **Disadvantages**

- Uninsured rate not excessively high
- Given limited funds, cannot significantly address affordability
- Could accelerate decline in retiree health coverage
- Could encourage early retirement
- Uncertainty of costs and participation

POLICY OPTIONS: COBRA

- **Extending COBRA**

- "COBRA" allows certain workers leaving firms with 20 or more employees to buy coverage through that firm for up 18 months at 102 percent of the costs
- COBRA could be extended to more people and/or for longer to increase access to employer-based insurance

- **Advantages**

- Private coverage option
- Less risk to the Federal government relative to costs
- Targets the population who are losing jobs due to downsizing
- Allows people to continue their current coverage

- **Disadvantages**

- Only some workers are eligible; not a policy for the uninsured or low-wage workers
- Would likely raise premiums
- Policy vulnerable when linked to mental health parity, quality reforms, etc.
- Mandate and fear of costs would ensure business opposition

POLICY OPTIONS: MEDICARE BUY IN

- **Medicare Buy-In**

- Pre-65 year olds could "buy into" Medicare at a full or reduced premium

- **Advantages**

- Provides access to an important insurance option
- Accessible to broader population than COBRA policy
- Tests coverage option in the event of Medicare age eligibility extension
- Businesses and aging groups would be more supportive

- **Disadvantages**

- Risks Medicare Trust Fund if only the sick enroll or if subsidized
- Could be viewed as a government take over of private insurance
- Could be difficult to administer
- Gets ahead of the Medicare Commission

POLICY PARAMETERS

- **Age**
 - Begin at 55, 60, 62 years old

- **Amount of the premium and premium assistance (if any)**
 - Actuarially fair
 - Actuarially fair but part is paid on an “amortized” basis
 - Pay part of the premium (Medicare buy-in) or employers’ costs (COBRA)

- **Length of coverage**
 - Until Medicare eligibility
 - Time limited (e.g., 18 months for COBRA)

- **Demonstration or nationwide**
 - Limited to certain states / market areas; time limited
 - Test of different models

NEXT STEPS

- Cost and coverage estimates of premiums and subsidies
- Assessment of feasibility of each option
- Additional Principals' meetings

DRAFT: Health Insurance for the People Ages 55 to 64

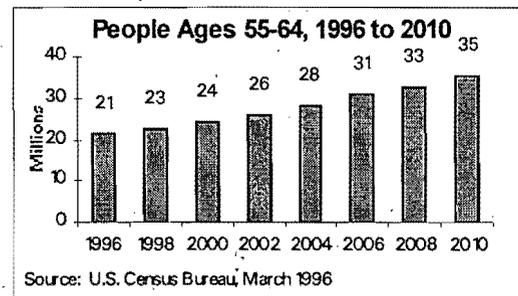
I. OVERVIEW

The number of “pre-65 year olds” — defined here as people between 55 and 65 years old — will increase dramatically in the next decade as the baby boom generation approaches retirement. Although the proportion of uninsured in this group is about equal to the national average, the number and proportion of pre-65 Americans without coverage has been increasing. Since the pre-65 year olds have more health problems, their health insurance is more expensive. This may limit their job mobility, since firms may avoid hiring older workers that risk raising their health costs. Lack of health insurance options may also prevent people from retiring early or shifting to part-time work as they approach retirement. Finally, the prevalence of retiree health insurance for people less than 65 years old has been declining in recent years. This suggests that the number of uninsured who are 55 to 64 years old will rise in the future.

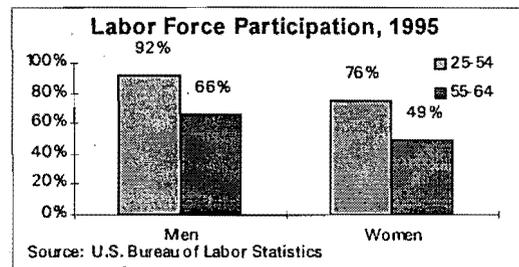
II. WHO ARE THE “PRE-65 YEAR OLDS”

The number of 55 to 64 year olds will rise rapidly in the next decade. In the United States, there are about 21 million people ages 55 to 64.

Today, they represent about 8 percent of the entire population. However, as the Baby Boom generation enters its 50s, both the number and proportion of pre-65 year olds will rise. As a result, the number of people between 55 and 64 years old is expected to increase to 30 million by 2005 and 35 million by 2010 — to 12 percent of the U.S. population, over a 50 percent increase.



Transition period for many. Americans ages 55 to 64 years old are more likely to have weaker connection to the labor force. About 12 million (57 percent) of the 21 million are active workers, compared to 83 percent of people 25 through 54 years old. Of the non-workers, about 60 percent or about 6 million are retired. In fact, about one-third of all retirees are younger than 65 years old. The remaining 3 million includes people who have never worked or are not seeking work. Some of these people, particularly men, are displaced workers (e.g., company closes down or position abolished). While 8 percent of displaced workers 25 to 54 years old leave the labor force, 25 percent of those aged 55 to 64 do.

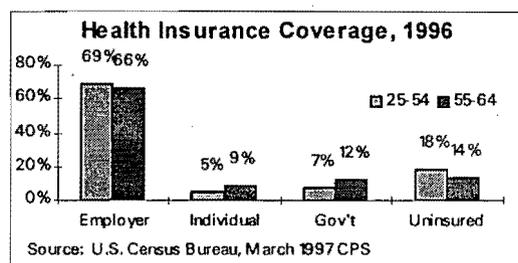


In addition to work transitions, the pre-65 year olds are more likely to experience changes in their marital status. One in five people ages 55 to 64 are widowed or divorced compared to one in eight people ages 25 to 54. Of women in this age group, 13 percent are widowed and 13 percent divorced. Since nearly half of women in this age bracket are non-workers, these events have profound effects on their economic status and likelihood of having health insurance.

Health status is worse, especially for retirees and non-workers. In addition to their changing work and marital status, the pre-65 year olds are distinct from younger groups because of their health. People ages 60 to 64 are nearly three times more likely to report fair to poor health as those ages 35 to 44. The probability of experiencing health problems such as heart disease, emphysema, heart attack, stroke and cancer is double that of people ages 45 to 54. Within this group, active workers are the healthiest, while early retirees and nonworkers have considerably worse health on average. This contrasts the usual image of early retirees as healthy individuals looking to extend their leisure time. Instead, poor health is a primary reason for early retirement.

III. HEALTH INSURANCE COVERAGE FOR PEOPLE AGES 55 TO 64

Most have health coverage. The proportion of 55 to 64 year olds covered by any type of health insurance (86 percent) is slightly more than the national average of 84 percent.



Different type of employer-sponsored insurance.

Like younger groups, the pre-65 year olds are mostly covered by employer-sponsored insurance (about 66 percent in 1996). However, this similarity masks the fact that about one-quarter of this coverage is for retirees and their spouses, not active employees. Also, a number of 55 to 64 year olds are covered through "COBRA" which allows those leaving firms with 20 or more employees to buy coverage through that firm for 18 months.

Nearly twice as likely to purchase individual insurance. Work transitions, which may limit access to employer-sponsored insurance, may account for the higher rate of coverage of the pre-65 year olds by individual insurance. Unlike employer-based health insurance, individual health insurance is usually less regulated and much more expensive for older and/or sicker people. For instance, the General Accounting Office found men aged 55 would have to pay two to three times more for the same policy as a 25 year old. People 55 to 64 years old who purchase individual insurance tend to have enough concerns about and problems with their health and financial resources to purchase this type of coverage.

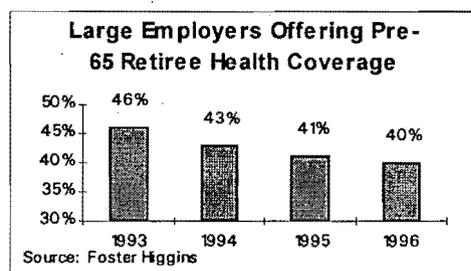
Higher rate of public coverage due to increased Medicare coverage. Medicare covers 6 percent of people 55 to 64 years old relative to 1 percent of 25 to 54 year olds. This reflects the increase in people with severe disabilities who become eligible for Part A Medicare after receiving 24 month of Social Security disability payments.

Who are the uninsured. The 3 million uninsured people ages 55 to 64 fall into three groups: workers, retirees, and non-workers. About 50 percent of the uninsured are workers: 20 percent in full-time jobs and 30 percent in part-time jobs. About 10 to 15 percent of uninsured in this age group are retired and mostly did not have access to retiree health coverage. They tend to have worked in small firms, in the manufacturing sector, lack a pension, and had low incomes while working. In addition, 15 to 20 percent are unemployed or displaced workers. Other distinctive characteristics of the uninsured include their poor health, relatively low income, and marital status. Nearly half of the uninsured ages 55 to 64 are widowed, divorced, separated or never married, foreclosing the option of getting work-based insurance through a spouse.

IV. TRENDS IN HEALTH COVERAGE FOR PEOPLE AGES 55 TO 64

Demographics assure increasing number of pre-65 uninsured. Both recent trends and demographics suggest that the number of uninsured who are 55 to 64 years old will increase. In recent years, the proportion of uninsured ages 55 to 64 has increased. After remaining stable at 12 percent from 1982 to 1992, it climbed to 14 percent in 1996. It is not clear whether this increase will continue in the future. However, even if this rate remains constant, the aging of the Baby Boom generation will shift the proportion of all Americans who are uninsured into this age group. By 2005, if the rate of uninsured remains unchanged, about 4.1 million people 55 to 64 year olds will lack insurance, a 25 percent increase over the current 3 million.

Continued lower access to retiree health coverage. A second trend affecting the coverage of people ages 55 to 64 is the recent decline in retiree health insurance. About one in five insured in this age group receives retiree health insurance. Retiree health insurance coverage expanded during the 1980s as down-sizing firms chose to encourage early retirement rather than lay off workers. However, the proportion of full-time workers in medium to large firms with access to pre-65 retiree coverage dropped from 43 percent in 1991 to 38 percent in 1995. The proportion of large employers who offer pre-65 retiree coverage fell from 46 percent in 1993 to 40 percent in 1996. For those with access to employer retiree coverage, costs have increased. The percent of employers who require their early retirees to pay premiums increased from 85 to 95 percent between 1991 and 1996. Although it is not clear that this trend will continue, it seems likely in light of the baby boom generation's approach to retirement.



V. RELATIONSHIP BETWEEN HEALTH COVERAGE AND WORK DECISIONS

Retiree health coverage may encourage retirement. Given the strong link between employment and health insurance, retirement decisions are likely affected by the availability and affordability of health coverage. Access to retiree health insurance may increase the likelihood of early retirement, by as much as 50 percent according to some estimates. This may be caused by large employer contributions to retiree health coverage, which essentially subsidize retirement. Similar large effects were estimated for the Health Security Act which included an employer mandate, community rating and subsidies for some early retirees; an estimated 350,000 to 600,000 people would retire early due to these policies. Lesser effects have been found for policies like COBRA that only offer small subsidies. Rather than providing a retirement incentive, such policies may remove barriers to affordable health insurance.

Other work effects. Retirement is only one of the job-related decisions affected by health insurance. The lack of insurance options causes "job lock", preventing pre-65 year olds from changing jobs for fear of losing insurance. This group may also face age discrimination in job changes since hiring them could raise premiums for some firms. Finally, the lack of affordable insurance may prevent older workers from taking "bridge jobs" to retirement: self-employment or part time work as they phase out of their careers. Thus, health insurance's role in labor force participation and productivity of the pre-65 year olds is complicated.

VI. ISSUES WITH POLICIES TO INCREASE HEALTH COVERAGE OPTIONS

Today, people approaching 65 years old have less, and probably declining, access to employer-sponsored insurance. Since this type of insurance is often the only affordable option for this group, the question is raised: are there policies that can improve insurance options? Ideas raised include extending the COBRA continuation coverage to "bridge" to Medicare eligibility and allowing a Medicare "buy in". These policies give the pre-65 year olds an option to join some "pool" which spreads their risk over many more people and lowers their average premium. Designing such policies is quite difficult, however, in light of the pre-65 year olds' poor health, existing coverage options, and policies' possible effects on work decisions.

Trade-offs between participation, adverse selection and retirement effect. The high health care costs of people ages 55 to 64 years old make the central question in any policy discussion: how much is the premium? The amount of the premium relative to other available policies determines how many and what type of people will take the option. To simplify the issue, assume that there are two options: setting the premium at an actuarially fair price and subsidizing the premium to make it more affordable.

A fairly priced policy would probably cost less than an individual policy for sick people but more than an individual policy for healthy people and COBRA coverage. This means that it would attract the sicker part of the individual market and the higher income or sick uninsured who can afford and/or need this coverage. It could also provide coverage for workers either who are less healthy and would like to retire or who want to change jobs but could not previously because of job lock. It might not, however, cover many uninsured since one-quarter have incomes below 200 percent of poverty and probably could not afford an unsubsidized policy. Thus, policies without premium assistance would likely cover fewer but more needy people. This "adverse selection" could be costly to insurers and other people covered by the policy.

On the other hand, if a policy includes subsidies to lower premium costs, it would likely attract healthier and a larger number of participants since the premium would be lower than what is offered to most in the individual market. While more of these participants would be uninsured, a number could be individuals who previously had private insurance but for whom this option is less expensive ("crowd out"). This could also have a larger effect on worker's job decisions, potentially accelerating the decline of retiree health coverage and increasing early retirement. This could make the cost of subsidies extremely high, most likely outweighing the benefits from adding healthier people to the pool and reducing adverse selection.

V. CONCLUSION

Policy options probably are needed to assist people ages 55 to 64 afford health insurance. Despite the high coverage rate of 55 to 64 year olds, the type and stability of that coverage is questionable. And, the need for affordable insurance will grow as the proportion of Americans in this age group swells. However, the merits of these policies must be weighed carefully with the concerns about their effectiveness, cost and indirect effect on work behavior.

POLICY OPTIONS

MEDICARE HIGH-INCOME PREMIUM

- **Income thresholds for 1999:**

Option 1.

Single beneficiaries: Beginning at \$50,000 with full payment at \$90,000

Couple: Beginning at \$65,000 with full payment at \$110,000

After 1999, eligibility thresholds would be indexed to inflation.

Option 2.

Single beneficiaries: Beginning at \$75,000 with full payment at \$100,000

Couple: Beginning at \$90,000 with full payment at \$115,000

After 1999, eligibility thresholds would be indexed to inflation.

- **Administration:** This premium increase would be administered by the Treasury Department.

MEDICARE FRAUD AND OTHER SAVINGS

- EPO
- Managed care reimbursement
- Miscellaneous Medicaid administrative matching rates
- Cats and dogs

MEDICARE BUY-IN FOR PRE-65 ELDERLY

- **Eligibility limits:**

Option 1: Age only: Restrict to those greater than 60 or 62 years old

Option 2: Age and other criteria: Spouses of Medicare beneficiaries; displaced workers

For both options: Require people to exhaust COBRA before becoming eligible; no access to employer or other public coverage.

- **Premiums:** Eligible people would pay the full managed care payment rate, age-rated and risk adjusted. The risk amount would be "amortized" or paid as an add-on to the Medicare premiums over the course of the person's lifetime.

Preliminary costs: \$0.5 to 4 billion over 5 years

PRIVATE LONG-TERM CARE INSURANCE FOR MEDICARE BENEFICIARIES

- **Option 1: Demonstration of public/private insurance option:** On a demonstration basis, develop a Medicare / private long-term care option. The plan would be a risk-sharing arrangement where Medicare would bear most of the catastrophic risk and pay for the post-acute long-term care. The private plan would cover the risk between the post-acute and catastrophic benefit. This demonstration would be geographically limited.

Preliminary costs: \$1 to 2 billion over 5 years

- **Option 2: Encourage private long-term care options:** Allow private long-term care plans that meet certain standards to market to Medicare beneficiaries similar to Medicare Choice plans. An advisory council, consisting of private insurers, aging groups, and state insurance commissioners, could develop the guidelines for plans.

Preliminary costs: \$1 to 2 billion over 5 years

MEDICARE CLINICAL TRIAL COVERAGE

- **Medicare coverage of certain clinical trials:** Allow Medicare to cover patient care costs associated with certain cancer-treatment clinical trials that are of high quality, specifically:
 - Clinical trials that are sponsored by the National Cancer Institute;
 - Clinical trials that are sponsored by an organization that has a peer-review process that is comparable to that of NCI, as determined by the Secretary; and
 - Clinical trials that are approved under a review process determined by the National Cancer Policy Board.
- **Beneficiary protections:** Enrollment and choices for beneficiaries would be guaranteed.

Preliminary costs: \$1.7 to 3 billion over 5 years

MEDICAID DEMONSTRATION FOR PEOPLE WITH DISABILITIES

- **Option 1:** Budget-neutral 1115 waivers

Preliminary costs: None

- **Option 2:** Provide states with incentives to move people out of the nursing homes.

Preliminary costs: \$350 million over 5 years

DEMONSTRATION FOR FAMILIES BETWEEN JOBS

- **Provide limited Federal subsidies to subset of states for the purchase of transitional health insurance coverage:** Provide Federal funding for time-limited (6 months) premium assistance to uninsured, low-income families (less than 200 percent of poverty) in several states, to test the approach for general use. Eligibility rules and subsidy amounts would be the same across states.
- **State-run test of different approaches:** States would submit applications for the Federal funds and propose their own unique approach. We would choose states to receive funds on both the merits and diversity of their approaches. For example, we could choose some states that use COBRA, use Medicaid, and subsidize parents of children enrolled in CHIP.

Preliminary costs: \$2.5 to 4 billion over 5 years

CHILDREN'S HEALTH OUTREACH

- **Option 1: Bonus for outreach:** States would receive a "bonus" for enrolling new children in Medicaid — an extra matching amount for each additional child enrolled in Medicaid. This amount would be based on the states' increase in covered children, costs per child, and new matching rate under the Children's Health Insurance Program (CHIP). Successful states would get this amount at the end of the year based on their performance.

Preliminary costs: \$2.5 to 4 billion over 5 years

- **Option 2: Financial incentives for eligibility simplification:** A series of policy changes could facilitate enrollment in Medicaid and CHIP. First, states could access the 90 percent matching rate for the TANF \$500 million set-aside for outreach for all children (not just children losing AFDC/Medicaid). Second, we could expand the "presumptive eligibility" provision in the BBA so it (a) more types of people/sites could give children temporary Medicaid coverage and (b) the expenditures for such children are not subject to the \$24 billion Federal allotment limit. Third, we could simplify Medicaid eligibility rules for children to make it easier for states to use a single application for both Medicaid and CHIP.

Preliminary costs: \$0.5 to 1 billion over 5 years

SMALL BUSINESS INSURANCE OPTIONS

- **Encourage responsible association plan:** [Still working on this]

Preliminary costs: None

- **Voluntary purchasing cooperatives:** To give small businesses the same negotiating power as large businesses, encourage them to band together in purchasing cooperatives. Offer \$25 million per year in grants to cover the start-up costs for such cooperatives.

Preliminary costs: \$100 million over 5 years

Medicare Investment Options

(preliminary estimates - dollars in millions - net premium offset)

| | FY 99 | FY 00 | FY 01 | FY 02 | FY 03 | Total |
|---|-------|-------|-------|-------|-------|-------|
| Provide Coverage for Certain Cancer Clinical Trials | 160 | 270 | 370 | 450 | 520 | 1,770 |
| Eliminate Coinsurance for Screening Mammography | 30 | 40 | 40 | 40 | 45 | 195 |
| Eliminate the 3-year Limitation on Coverage of Immunosuppressives after Transplants | 20 | 35 | 45 | 50 | 55 | 205 |
| Provide Coverage of Insulin and Syringes for Diabetics | 420 | 740 | 760 | 770 | 780 | 3,470 |
| Provide Coverage of an Annual Physical | 450 | 625 | 650 | 680 | 710 | 3,115 |
| Increase the OT/PT Cap from \$1,500 to \$2,000 | 25 | 25 | 25 | 25 | 25 | 125 |
| Provide Coverage for Smoking Cessation Programs and Nicotine Patches | | | | | | |

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Long term care Demo system

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NEW INITIATIVES

| <i>PROPOSAL</i> | <i>COST</i> | <i>STATUS</i> |
|---|---|---|
| <p>Child Care: Modify the Child and Dependent Care Tax Credit (CDCTC) by raising the top rate from 30 percent (current law) to 50 percent and moving the phase-out range from \$10,000-\$28,000 (current law) to \$30,000-\$59,000. <i>(Mandatory)</i></p> | <p>FY 1999: \$270 million</p> <p>Five-Year: \$5.2 billion</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Child Care: Provide a tax credit to businesses that incur costs related to providing child care services to their employees. <i>(Mandatory)</i></p> | <p>FY 1999: \$637 million (based on JCT costing of Senator Kohl's proposal)</p> <p>Five-Year: \$2.6 billion (based on JCT costing of Senator Kohl's proposal)</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Child Care: Establish the Child Care Provider Scholarship Fund <i>(Discretionary)</i></p> | <p>FY 1999: \$50 million (\$150 million in HHS budget request)</p> <p>Five-Year: \$250 million</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Child Care: Expand the Child Care Apprenticeship Training Program to fund the training of child care providers working toward a degree equivalent to the Child Development Associate degree, with on the job observation and practice. <i>(Discretionary)</i></p> | <p>FY 1999: \$10 million (DOL budget request)</p> <p>Five-Year: \$27 million (DOL budget request)</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Child Care: Establish a Child Care Research and Evaluation Fund to support data and research and technology development and utilization. <i>(Discretionary)</i></p> | <p>FY 1999: \$50 million (HHS budget request)</p> <p>Five Year: \$250 million</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Child Care: Establish an Early Learning and Quality Fund to provide challenge grants to communities for early learning and parent involvement activities. <i>(Discretionary)</i></p> | <p>FY 1999: \$200 to \$400 million (\$800 million in HHS budget request)</p> <p>Five-Year: Approximately \$2 billion</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |

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| <p>Child Care: Increase the Early Head Start (children 0-3) set-aside (5 percent under current law), while increasing overall funding in Head Start to ensure that boosting the set-aside does not reduce the resources available for children 3-5. <i>(Discretionary)</i></p> | <p>FY 1999: \$30 million Five-Year: \$500 million (based on NEC option to double Early Head Start set-aside)</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Education: Expand the 21st Century Community Learning Center Program to provide start-up funds to additional school-community partnerships to establish before- and after-school programs for school-age children at public schools. <i>(Discretionary)</i></p> | <p>FY 1999: \$100 million (\$400 million in DOE request) Five Year: \$500 million</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Education: Establish a demonstration project for states to test innovative approaches to assisting parents who to stay at home with their children. <i>(Discretionary)</i></p> | <p>FY 1999: N/A Five Year: N/A</p> | <p>Memo submitted into POTUS on 12/11/97.</p> |
| <p>Education: Education Opportunity Zones -- This proposal would designate from 20 to 40 urban rural school districts as Education Opportunity Zones. High-poverty school districts would be eligible for funds if they adopt tough reform measures and show real improvements over time in student achievements. <i>(Discretionary)*</i></p> | <p>FY 1999: \$320 million Five Year: \$1.1 billion</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Education: School/College Partnership -- A grant program to promote strong partnerships between colleges and high-poverty middle and high schools, with the goal of enabling more youth to go on to college. This initiative would encourage colleges to adopt the Eugene Lang model for helping disadvantaged youngsters. <i>(Discretionary)*</i></p> | <p>FY 1999: \$300 million Five Year: \$2.9 billion</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Education: Hispanic Education Initiative -- A plan to improve educational opportunities for Hispanic Americans; with goal of decreasing current disparity in dropout rates. Includes a number of administrative actions, as well as targeted investments in programs for migrant, adult, and bilingual education. <i>(Discretionary)</i></p> | <p>FY 1999: \$153 million Five Year: \$765 million</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Education: Indian Education Initiative. <i>(Discretionary)</i></p> | <p>FY 1999: \$75 million Five Year: \$375 million</p> | <p>Memo submitted into POTUS on 12/9/97.</p> |

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| <p>Education: Technology Teacher Training -- options include (1) expanding various innovation grants to ensure that within four years, all new teachers will be ready to use educational technology, or (2) using the Technology Literacy Challenge Fund to train and certify at least one "master teacher" in every school. <i>(Discretionary)</i></p> | <p>FY 1999: \$100 million Five Year: \$500 million</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Education: Learning on Demand -- An initiative, related to some of Governor Romer's ideas, to encourage the use of technology (e.g., the internet, CD-ROM, interactive TV) for lifelong learning. Will begin the process of giving all Americans "anytime, anywhere" access to affordable and high-quality learning opportunities. <i>(Discretionary)</i></p> | <p>FY 1999: \$50 million Five Year: \$250 million</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Education: Class Size Reduction Initiative -- This is a five-year initiative to increase early reading by reducing class size in grades 1 and 2 to a maximum of 18. <i>(Mandatory)</i></p> | <p>FY 1999: \$615 million Five Year: \$9.2 billion</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Education: School Construction -- An initiative to address the problem of the crumbling school infrastructure. <i>(Mandatory or Tax)</i></p> | <p>FY 1999: Five Year:</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Civil Rights Enforcement: The initiative involves EEOC and six agencies who have jurisdiction of civil rights enforcement. Funds will be used for activities such as alternative dispute resolution, increased compliance targeting, improved technology and data collection, and reduction in case backlog. <i>(Discretionary Spending)</i></p> | <p>FY 1999: \$106 million Five Year: N/A</p> | <p>Memo submitted into POTUS on 12/9/97</p> |
| <p>Crime: Community-Based Prosecutors & Justice -- A five year competitive grant program to increase the number of local prosecutors interacting directly with communities and to encourage local prosecutors to reorient their emphasis from "assembly line" processing of cases to solving specific crime and disorder problems in their communities. <i>(Discretionary Spending)</i></p> | <p>FY 1999: \$100 Million Five-Year: \$500 Million</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |

| | | |
|--|---|--|
| <p>Health Care: Medicare -- Pre-65 Coverage initiative. Addressing growing concerns about coverage for the pre-65 population, options are being developed to enhance access to health care through Medicare and/or COBRA. This initiative also would help lay the foundation for reforms to extend the Medicare eligibility age from 65 to 67.</p> <p><i>(Mandatory)</i></p> | <p>FY 1999: Up to \$1 billion</p> <p>Five-Year: Up to \$5 billion</p> | |
| <p>Health Care: Medicare -- Clinical Cancer Trials Coverage. This initiative would allow Medicare to pay for high quality cancer clinical trials giving beneficiaries access to some of the most cutting-edge treatments, which offers the potential to expedite new treatments for cancer.</p> <p><i>(Mandatory)</i></p> | <p>FY 1999: \$200 to \$400 million</p> <p>Five-Year: \$1.7 billion to \$2 billion</p> | |
| <p>Health Care: Private Long-Term Care Options -- This initiative would build on new information that Medicare provides to beneficiaries on their choice of health plans by directing programs to include information regarding long-term care options.</p> <p><i>(Mandatory)</i></p> | <p>FY 1999: \$5 to \$50 million</p> <p>Five-Year: \$25 million to \$300 million</p> | |
| <p>Health Care: Children's Health Outreach -- Addressing the fact that the \$24 billion children's investment did not provide enhanced resources for states to target 3 million eligible but not enrolled in Medicaid, this proposal would provide incentives for states to do a greater job of outreach to these population through a series of school-based and child care based outreach activities.</p> <p><i>(Mandatory)</i></p> | <p>Five-Year: \$1 to \$2 billion</p> | |
| <p>Health Care: Workers Between Jobs Demonstration -- Addressing the insecurities of the workforce in a transitional job market, this policy -- consistent with your last two budgets but downsized into a demo -- would provide temporary premium assistance to workers between jobs.</p> <p><i>(Mandatory)</i></p> | <p>FY 1999: \$250 to \$500 million</p> <p>Five-Year: \$0.5 to \$3 billion</p> | |
| <p>Health Care: Voluntary Purchasing Cooperatives -- To address the fact that small business employers and employees still face great difficulties in obtaining affordable health care coverage, this initiative would provide competitively awarded grants to states to establish <u>voluntary</u> purchasing cooperatives.</p> <p><i>(Mandatory)</i></p> | <p>FY 1999: \$10 to \$20 million</p> <p>Five-Year: \$50 to \$100 million</p> | |

| | | |
|--|--|--|
| <p>Health Care: National Institutes of Health Budget -- Recognizing the great potentials of the age of biology and the potential to develop new treatments and cures for costly diseases, this proposal would substantially increase resources at the NIH to expedite progress in the areas with the most potential. <i>(Mandatory)</i></p> | <p>FY 1999: \$1 billion 1.4 Five-Year: \$10 to \$15 billion</p> | |
| <p>Health Care: Race and Health Initiative -- This proposal contains a number of public health education and prevention efforts to reduce extreme racial disparities in health care. <i>(Discretionary)</i></p> | <p>FY 1999: \$100 million Five-Year: N/A</p> | <p>Memo submitted into POTUS on 12/9/97</p> |
| <p>Health Care: AIDS Spending -- This initiative would increase funds for prevention, treatment, and education for people with HIV/AIDS <i>(Discretionary)</i></p> | <p>FY 1999: \$115 million Five-Year: N/A</p> | <p>Memo submitted into POTUS on 12/9/97</p> |
| <p>Housing/Welfare: Welfare to Work Housing Vouchers -- A proposal for 50,000 new housing vouchers to assist welfare recipients who must relocate in order to find employment, as well as to help address the shortage of affordable housing. <i>(Mandatory)</i></p> | <p>FY 1999: \$100 to \$300 million Five-Year: \$1.3 billion</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Housing: Raise the cap on the Low Income Housing Tax Credit (LIHTC) -- A proposal to partially offset the loss of the credit's value since 1986 because of inflation and population growth. <i>(Mandatory)</i></p> | <p>FY 1999: \$120 million Five-Year: \$600 million</p> | <p>Memo submitted into POTUS on 12/6/97.</p> |
| <p>Housing: Homeownership Initiative -- A play-by-the-rules homeownership proposal to provide assistance to families who have paid their rent on time but have some impediment to buying their own home. <i>(Discretionary)</i></p> | <p>FY 1999: \$30 million Five-Year: \$150 million</p> | |
| <p>Labor/Jobs: Child Labor Initiative -- A comprehensive Child Labor Action Plan, anchored by a \$150 million commitment to the International Program on the Elimination of Child Labor (IPEC) -- a voluntary program of the International Labour Organization which is dedicated to the elimination of child labor. <i>(Discretionary)</i></p> | <p>FY 1999: \$84 million Five-Year: \$420.5 million</p> | <p>Memo submitted into POTUS on 12/9/97</p> |

| | | |
|---|--|---|
| <p>Labor/Jobs: Unemployment Insurance -- This initiative would expand coverage to as many as 450,000 workers, many low-wage; and save the Federal government billions of dollars during the next recession by establishing a better trigger for extended Unemployment Insurance benefits. The proposal would also address the administrative financing problems of the current system.</p> <p><i>(Mandatory)</i></p> | <p>OMB and Labor are working on a technical budget solution that would make this entire package of proposals revenue-neutral.</p> <p>FY 1999: \$0 to \$164 million</p> <p>Five-Year: \$0 to \$264 million</p> | |
| <p>Labor/Jobs: Community and Economic Adjustment Initiative --As part of Fast Track debate, we proposed creation of the Office of Community and Economic Adjustment (OCEA). This office will be modeled after the DoD's Office of Economic Adjustment (OEA) -- the Administration's first point of contact with communities experiencing a military base closure or defense plant closing. The OCEA would coordinate the Administration's response to regions impacted by a major plant closing or trade, by working with Labor, Commerce, SBA, HUD, Treasury, and other government entities. This group would provide planning grants and expertise to help communities develop comprehensive economic adjustment strategies.</p> <p><i>(Discretionary)</i></p> | <p>FY 1999: \$50 million</p> <p>Five-Year: \$250 million</p> <p>* Already included in FY 1999 budget</p> | <p>Memo submitted into POTUS on 12/9/97</p> |
| <p>Pensions: An expanded pension coverage initiative that focuses on a simplified defined benefit plan for small businesses, based on the SAFE plan proposed by the American Society of Pension Actuaries (ASPA). Also looking at a payroll deduction IRA proposal, faster (three-year) vesting requirement for employer matching contributions in 401(k) plans, encouraging automatic enrollment in 401(k) plans, a tax credit for small businesses to promote establishment of retirement plans, and a pension right-to-know proposal.</p> <p><i>(Revenue Loss)</i></p> | <p>Five-Year: \$860 million</p> <p>The only potential new pension proposal with a significant revenue impact is the simplified defined benefit plan, the only element about which there is not consensus. In addition, there are pension items previously proposed by the Administration such as non-discrimination rule changes that also have a budgetary impact.</p> | |
| <p>Climate Change: A \$5 billion package over 5 years of tax cuts and R&D to spur energy efficiency and reductions in greenhouse gas emissions. A commitment to this package was announced as part of the President's climate change announcement on October 22nd.</p> | <p>Five-Year: \$5 billion</p> | |

$$\frac{99}{3}$$

$$\frac{\text{Over } 5}{16}$$

\$4 Billion

superfund
VA tobacco
tobacco tax

\$29 Billion over 5 years

4- (49 over 5)

~~1997~~ FY '99 Budget FY

HEALTH BUDGET OPTIONS

(Dollars in billions, fiscal years)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 5 Years |
|--|-------------|-------------|-------------|--------------|--------------|--------------|
| MEDICARE | | | | | | |
| Anti-Fraud * | -0.1 | -0.4 | -0.4 | -0.4 | -0.5 | -1.8 |
| Reduce payment for EPO | -0.045 | -0.065 | -0.065 | -0.07 | -0.075 | -0.3 |
| Payment for drugs | -0.07 | -0.13 | -0.15 | -0.16 | -0.18 | -0.7 |
| Partial hospitalization | -0.015 | -0.015 | -0.02 | -0.03 | -0.04 | -0.1 |
| MSP | -0.01 | -0.14 | -0.16 | -0.18 | -0.2 | -0.7 |
| | | | | | | |
| Pre-65 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 1.7 |
| Displaced workers | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 | 0.2 |
| | | | | | | |
| Clinical Cancer | 0.2 | 0.3 | 0.4 | | | 0.9 |
| | | | | | | |
| Long-Term Care Info. | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.025 |
| MEDICAID | | | | | | |
| Presumptive eligibility | 0.09 | 0.09 | 0.12 | 0.13 | 0.14 | 0.57 |
| TANF | 0.05 | 0.06 | 0.07 | 0.07 | 0.08 | 0.33 |
| CHILDREN'S HEALTH INSURANCE PROGRAM | | | | | | |
| Puerto Rico | 0.034 | 0.034 | 0.034 | 0.024 | 0.024 | 0.15 |
| OTHER | | | | | | |
| Voluntary Purchasing Coops | 0.025 | 0.025 | 0.025 | 0.025 | 0.025 | 0.125 |
| TOBACCO | | | | | | |
| Tobacco Revenue | -9.783 | -11.825 | -13.359 | -14.554 | -16.082 | -65.603 |
| | | | | | | |
| 21st Century Trust Fund | 1.98 | 3.35 | 4.82 | 6.42 | 8.01 | 24.58 |
| NIH | 1.15 | 2.18 | 3.27 | 4.45 | 5.71 | 16.76 |
| NSF | 0.437 | 0.628 | 0.841 | 1.074 | 1.202 | 4.182 |
| Other | 0.395 | 0.543 | 0.708 | 0.893 | 1.101 | 3.639 |
| | | | | | | |
| Settlement Spending | 1.90 | 2.30 | 2.70 | 2.80 | 2.80 | 12.50 |
| | | | | | | |
| Federal/State Funds | 3.98 | 4.47 | 5.05 | 5.78 | 6.75 | 26.02 |
| Federal (57%) | 2.27 | 2.55 | 2.88 | 3.29 | 3.85 | 14.83 |
| State (43%) | 1.71 | 1.92 | 2.17 | 2.48 | 2.90 | 11.19 |
| | | | | | | |
| Residual | 1.92 | 1.71 | 0.79 | -0.44 | -1.47 | 2.51 |

* Net of premium offset

BUDGET MEETING
December 17, 1997

AGENDA

- I. CHILD CARE (Bruce Reed and Elena Kagan)**
- II. FOOD STAMPS (Jack Lew)**
- III. HIGHER EDUCATION (Bob Shireman)**
- IV. SCHOOL CONSTRUCTION/TAA (Gene Sperling)**
- V. REVENUES (Bob Rubin and Larry Summers)**

OVERALL CHILD CARE PACKAGE

DISCRETIONARY PROGRAMS

Five-year Cost

| | |
|---|---------------------------|
| 1. Expand After-School Programs | \$0.5-1.0 billion |
| Helps 1,500-4,000 schools provide after-school programs for 75,000-200,000 children | |
| 2. Standards Enforcement Fund | \$0.5 billion |
| Helps states to improve licensing systems and enforce health and safety standards | |
| 3. Provider Training | \$250-300 million |
| Provides 50,000 scholarships per year for child care workers to get advanced training | |
| 4. Research & Evaluation | \$50-150 million |
| | |
| 5. Expand Head Start & Early Head Start | \$1.4-1.7 billion |
| Enables over 50,000 additional children to receive Early Head Start in 2003 | |
| TOTAL DISCRETIONARY | \$2.7-3.65 billion |

MANDATORY SPENDING

| | |
|--|-----------------------|
| 1. Expand Child Care and Development Block Grant | \$4-9 billion |
| Increases number of low-income children receiving subsidies from 1 million in FY98 to between 1.54 million and 2.26 million in FY2003. See attached chart. | |
| 2. Early Learning Fund | \$2-3 billion |
| Provides funds to states and communities to improve early childhood education and child care quality for children 0-5. | |
| TOTAL MANDATORY SPENDING | \$6-12 billion |

TAX CREDITS

| | |
|--|----------------------------|
| 1. Expand Child and Dependent Care Tax Credit | \$5.2 billion |
| Raises top rate from 30% to 50% and phase-down from \$10-28k to \$30-59k, for avg. tax cut of \$358 -- eliminating tax liability for most families below 200% of poverty w/high child care costs | |
| 2. Kohl Business Tax Credit for Child Care | \$1-2 billion |
| Business credit for expenses incurred in building, expanding, or operating child care facilities | |
| TOTAL TAX | \$6.2-7.2 billion |
| OVERALL TOTAL FOR SPENDING AND TAX | \$14.9-22.8 billion |

**NUMBER OF CHILD CARE SLOTS FOR LOW-INCOME FAMILIES THROUGH
THE CHILD CARE BLOCK GRANT**

| | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 |
|---|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------------|
| Baseline # of children served through CCDBG (current law) | 1 million children | 1.07 million children | 1.13 million children | 1.2 million children | 1.26 million children | 1.32 million children |
| Option One: \$4 billion increase over 5 years | -- | \$0.8 billion |
| 100% federal dollars | | 1.29 million children | 1.35 million children | 1.42 million children | 1.49 million children | 1.54 million children |
| 80-20% match | -- | 1.34 million children | 1.41 million children | 1.48 million children | 1.54 million children | 1.6 million children |
| Option Two: \$9 billion increase over five years | -- | \$1.2 billion | \$1.5 billion | \$1.6 billion | \$2.0 billion | \$2.7 billion |
| 100% federal dollars | | 1.39 million children | 1.55 million children | 1.6 million children | 1.82 million children | 2.07 million children |
| 80-20% match | | 1.48 million children | 1.65 million children | 1.75 million children | 1.96 million children | 2.26 million children |

*The Child and Development Block Grant (CCDBG) is funded through three streams: discretionary, mandatory non-matching, and mandatory matching (based on FMAP: average of 56% federal, 44% state). Each stream is funded at roughly \$1 billion in FY 1998. The mandatory matching stream is responsible for nearly all of the block grant growth in the outyears.

*These calculations use FY 1998 dollars and assume a per-child cost of \$3,617, which largely represents the subsidy, but also includes set-asides and administrative costs.

SUMMARY OF IMMIGRANT OPTIONS
(Five Year Costs)

| | Dollars in Billions |
|--|---------------------------|
| 1) Exempt Vulnerable Groups from Food Stamps Restrictions | |
| A) Exempt families with children from the ban. Apply prior law rules for deeming sponsor's income (first three years in the country instead of deeming until citizenship). | 2.0 |
| -Exempt only children from the ban (\$0.7 billion) | |
| -Exempt parents of children from the ban (\$1.3 billion). | |
| B) Extend exemption for refugees and asylees from 5 to 7 years, as provided for in SSI and Medicaid in the BBA. | 0.2 |
| C) Provide exemption for Hmong so that they are treated as if they meet the veterans exemption. | 0.1 |
| D) Exempt disabled and elderly who entered before welfare reform was enacted, as provided for in SSI and Medicaid in the BBA. | 0.4 |
| 2) Give States Option to Provide Health Assistance to Legal Immigrant Children | |
| A) Give States the option to provide Children's Health Insurance Program (CHIP) assistance to legal immigrant children (only available to States that create a CHIP program outside Medicaid). | 0.0 |
| B) Give States the option to provide Medicaid to legal immigrant children. | 0.2 |

| Student Loan Options | Costs (cumulative) | Savings (cumulative) |
|---|-----------------------|-------------------------|
| <p>Miscellaneous Reforms. These are primarily aimed at improving financial incentives, and reducing costs, in the guaranteed loan program. Recall guaranty agency reserves, eliminate bankruptcy discharges, require flexible repayment options, eliminate payments for supplemental pre-claims assistance, reduce default retention.</p> | | \$3.6 billion |
| <p>Direct Federal Insurance. This is needed in order to achieve the reforms and savings described above. Cost: \$0.7 billion.</p> | (\$0.7 billion) | \$2.9 billion |
| <p>Reduce student-paid fees from 4% to 3%. This addresses a problem where some agencies are undercutting direct lending. In the guarantee program, the 4% fee is composed of a 3% Federal fee and a 1% insurance premium charged by intermediaries (guaranty agencies). Some of these agencies have attempted to undermine direct lending by <i>not</i> charging the 1%, making direct loans more expensive. This option eliminates the insurance premium and reduces direct loan fees to the same level of 3%. Cost: \$0.6 billion.</p> | (\$1.3 billion) | \$2.3 billion |
| <p>Eliminate fees on need-based loans. To minimize the cost of this option, this is a phase-down in the out-years, to 2% in 2001, 1% in 2002, 0 in 2003. Cost: \$0.4 billion.</p> | (\$1.7 billion) | \$1.9 billion |

Veterans Tobacco Cost and Savings Options

BASELINE

- The Veterans Affairs General Counsel has recently ruled that the VA must pay monthly service-connected disability benefits to veterans for tobacco-related illness that occur after separation from the military, if the veteran became addicted to nicotine while serving in the military.
- OMB estimates that 542,000 veterans are potentially eligible to claim benefits under this ruling, and an additional 6,600 will become eligible annually.
- Depending on how quickly the VA moves to process tobacco-related claims -- and how much more money they have to spend on the associated administrative costs -- this new benefit could cost between \$2.5 billion and \$26.3 billion over FY 1998-2003.
 - If we add no new resources to process these claims, VA will pay an estimated 2.5 billion in higher mandatory benefits (Option 1).
 - If we add modest additional resources to process benefits (\$39 million over 5 years), VA will pay \$8.9 billion in higher benefits (Option 2).
 - If we add sufficient benefits to process all backlogged claims by 2002, VA will pay an additional \$26.3 billion in higher benefits (Option 3).

POLICY

- The Administration proposed to repeal this benefit in the FY 1998 budget. However, there were no savings associated with the repeal because OMB had not yet added the costs of the benefit to the mandatory baseline.
- Options 1 and 2 are consistent with a policy to repeal this benefit.

Veterans Tobacco Cost and Savings Options
 (preliminary estimates; dollars in millions)

| | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 1998 -2003 |
|--|---------|---------|---------|---------|---------|---------|------------------|
|--|---------|---------|---------|---------|---------|---------|------------------|

Option 1

No additional discretionary resources
 for administrative costs of administering the
 benefit for tobacco-related illness

| | | | | | | | |
|----------------------------------|---|-----|-----|-----|-----|-----|-------|
| Increased discretionary spending | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increased mandatory costs | 8 | 139 | 309 | 487 | 673 | 856 | 2,472 |

Option 2

Modest additional discretionary spending

| | | | | | | | |
|----------------------------------|---|-----|-----|-------|-------|-------|-------|
| Increased discretionary spending | 0 | 2 | 4 | 9 | 12 | 14 | 41 |
| Increased mandatory costs | 8 | 139 | 721 | 1,543 | 2,657 | 3,806 | 8,874 |

Option 3

Sufficient additional discretionary spending
 to process all backlogged claims by 2001

| | | | | | | | |
|----------------------------------|---|-----|-------|-------|-------|-------|--------|
| Increased discretionary spending | 0 | 24 | 56 | 68 | 0 | 0 | 148 |
| Increased mandatory costs | 8 | 139 | 6,290 | 9,575 | 5,124 | 5,205 | 26,341 |

Tobacco Revenue Scenarios

Attached are exhibits that assume:

- Tobacco receipts rising from 50¢ in 1999 to \$1.00 in 2003 to \$1.50 in 2008 in real 1999\$.
- Annual net payments to states are fixed at levels assumed by parties involved with the Settlement (rising from \$4b in 1999 to \$8b by 2004). (The settlement itself specifies no particular level of payment.)
 - No account has been taken of the possibility that (57% of) these funds could offset planned Federal efforts. Doing so could add \$15b (57% of \$26b) over 5 years and \$38b over 10 years. We have not taken into account that funds could be spent as the state portion of a federally matched program.
- Tobacco Settlement/Constituency Payments:
 - Some items are included, but any that arguably will be undertaken by the US government or states have been dropped (e.g., Public Health Trust Fund, cessation research) or reduced considerably (e.g., FDA enforcement, cessation trust fund).
 - Civil suit reimbursement included at the levels projected by parties involved in the negotiation (\$2.8b over 5 yrs; \$12.8b over 10).
 - Included limited funds for international efforts and payments to farmers (\$100m per year each, \$200m beginning 2004)

Scenario A: Protecting State & Most Settlement Funding, But Not Federal Research

- Under this scenario, \$27b would be available for Federal research and related activities in the first five years, \$74b over 10 years.

Scenario B: Protecting State & Most Federal Research, But Not Settlement Items (Except Litigation Claims)

- Under this scenario, \$32b would be available for Federal research and related activities in the first five years, \$83b over 10 years. The Federal share was estimated by assuming the Federal government receives first call after the state allocations and payment of civil lawsuit claims. The resulting Federal revenues would rise from \$4b in 1999 to \$12b in 2008.
- Settlement-related and constituency claims (e.g., farmers) would be reduced substantially.

USING TOBACCO REVENUES TO FUND VARIOUS INITIATIVES

Revenues in billions current \$; per-pack equivalents in real & current \$

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | FY99-03 | FY99-08 |
|--------------------------------------|------|------|------|------|------|------|------|------|------|------|---------|---------|
| PER PACK REVENUES -- Real 1999\$ | 0.50 | 0.65 | 0.80 | 0.90 | 1.00 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | | |
| -- Current \$ | 0.50 | 0.67 | 0.85 | 0.98 | 1.13 | 1.28 | 1.43 | 1.60 | 1.77 | 1.96 | | |
| TOTAL REVENUES (billions current \$) | 8.1 | 10.0 | 12.2 | 13.4 | 15.0 | 16.6 | 18.1 | 19.7 | 21.3 | 23.0 | 59 | 157 |

A Protecting State and Most Tobacco Settlement Funding, But Not Federal Research

| | | | | | | | | | | | | |
|---------------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|------------|
| Research & Other Federal Funds | 3.3 | 4.2 | 6.0 | 5.1 | 6.7 | 6.4 | 7.9 | 9.5 | 9.0 | 10.7 | 25 | 69 |
| Annual Net Payments to States | 4.0 | 4.5 | 4.5 | 6.5 | 6.5 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 26 | 66 |
| Tobacco Settlement/Constituency Funds | <u>0.8</u> | <u>1.3</u> | <u>1.7</u> | <u>1.8</u> | <u>1.8</u> | <u>2.2</u> | <u>2.2</u> | <u>2.2</u> | <u>4.3</u> | <u>4.3</u> | <u>7</u> | <u>23</u> |
| Total Uses -- Package A | <u>8.1</u> | <u>10.0</u> | <u>12.2</u> | <u>13.4</u> | <u>15.0</u> | <u>16.6</u> | <u>18.1</u> | <u>19.7</u> | <u>21.3</u> | <u>23.0</u> | <u>59</u> | <u>157</u> |

B Protecting State and Federal Funding, But Not Settlement Items (Except Litigation Claims)

| | | | | | | | | | | | | |
|---------------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|------------|
| Research & Other Federal Funds | 4.1 | 5.1 | 6.9 | 6.1 | 7.7 | 7.4 | 8.9 | 10.5 | 10.1 | 11.8 | 30 | 79 |
| Annual Net Payments to States | 4.0 | 4.5 | 4.5 | 6.5 | 6.5 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 26 | 66 |
| Tobacco Settlement/Constituency Funds | <u>0.0</u> | <u>0.4</u> | <u>0.8</u> | <u>0.8</u> | <u>0.8</u> | <u>1.2</u> | <u>1.2</u> | <u>1.2</u> | <u>3.2</u> | <u>3.2</u> | <u>3</u> | <u>13</u> |
| Total Uses -- Package B | <u>8.1</u> | <u>10.0</u> | <u>12.2</u> | <u>13.4</u> | <u>15.0</u> | <u>16.6</u> | <u>18.1</u> | <u>19.7</u> | <u>21.3</u> | <u>23.0</u> | <u>59</u> | <u>157</u> |

Comparing Federal Funds to Potential Needs

| | | | | | | | | | | | | |
|--------------------------------|-----|-----|-----|-----|-----|-----|-----|------|------|------|----|----|
| Federal Funds under Scenario A | 3.3 | 4.2 | 6.0 | 5.1 | 6.7 | 6.4 | 7.9 | 9.5 | 9.0 | 10.7 | 25 | 69 |
| Federal Funds under Scenario B | 4.1 | 5.1 | 6.9 | 6.1 | 7.7 | 7.4 | 8.9 | 10.5 | 10.1 | 11.8 | 30 | 79 |
| Doubling NIH in 10 Years | 1.0 | 2.0 | 3.1 | 4.3 | 5.6 | 7.0 | 8.5 | 10.1 | 11.8 | 13.6 | 16 | 67 |

Receipts net of other tax losses.

HEALTH CARE INVESTMENT OPTIONS FOR FY 1999 BUDGET

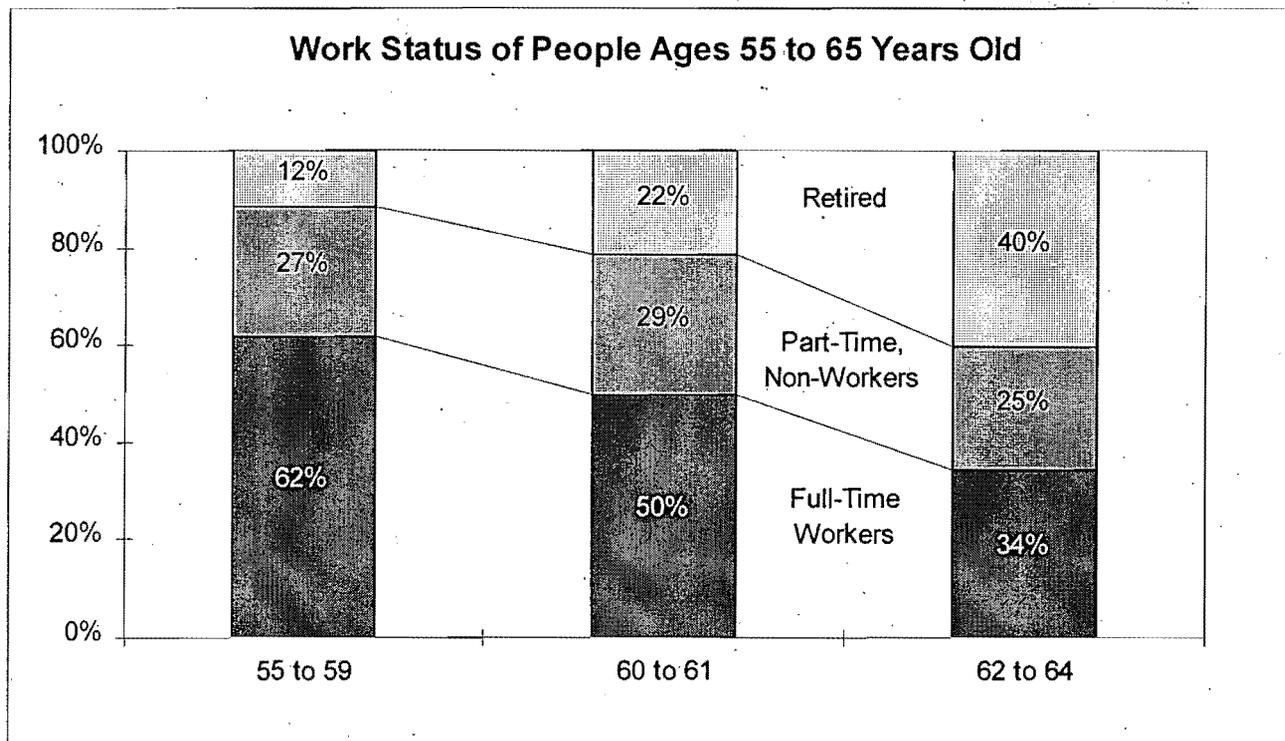
December 4, 1997

AGENDA

- Pre-65 Options
- Other Health Investment Initiatives

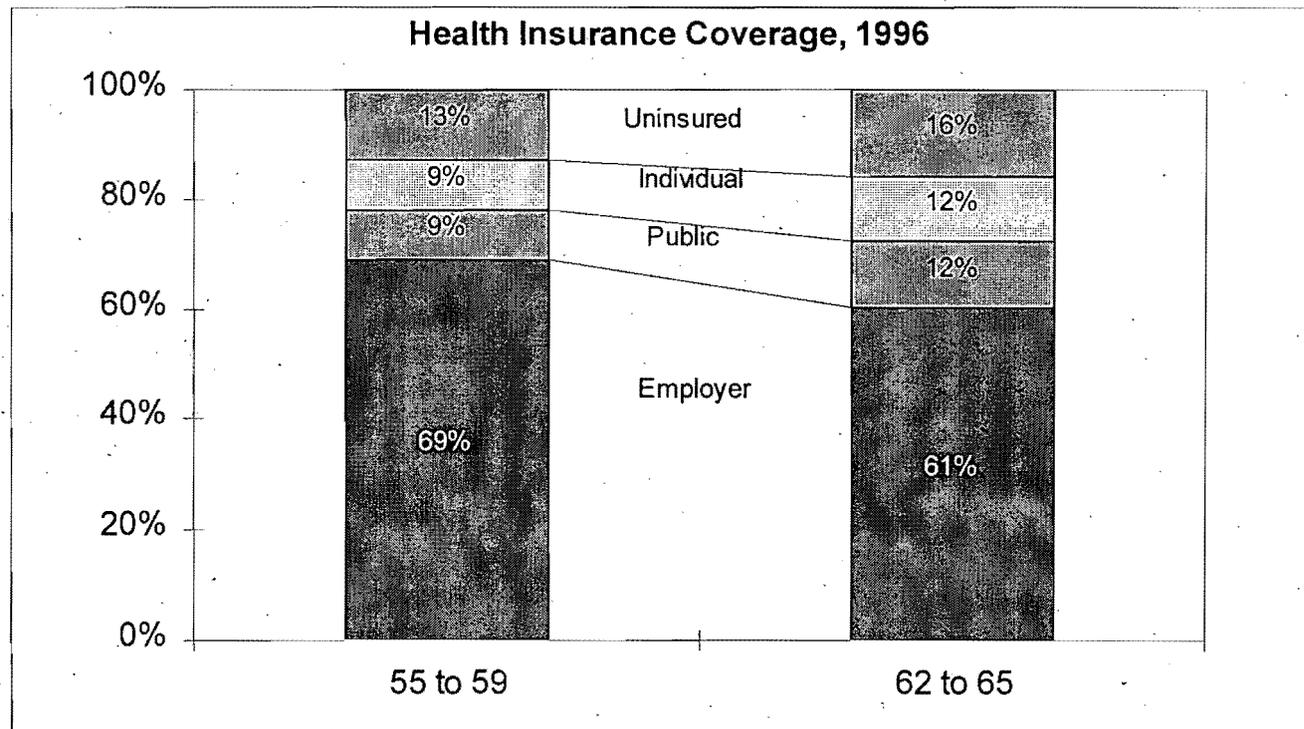
CLOSER LOOK AT PEOPLE 55 TO 65 YEARS OLD

- As people approach 65 years old, they are less likely to work full-time (chart).
- Similarly, the proportion of the uninsured who are retired increases:
 - 12 percent of uninsured ages 55 to 59 are retired, compared to
 - 43 percent of the uninsured ages 62 to 65.



As Proportion of Workers Declines, So Does Access to Affordable Health Insurance

- People ages 62 to 65, compared to people ages 55 to 59, are (chart):
 - More likely to be uninsured: 16 versus 13 percent
 - More likely to purchase more costly individual insurance (12 to 9 percent).
- This age group also has increased health problems compared to the 55 to 59 year olds:
 - More likely to report fair to poor health (26 versus 20 percent).



GROUPS WITH SPECIAL ACCESS PROBLEMS

- **“Broken Promise” Retirees:** Some employers have terminated retiree health coverage programs, leaving retirees without work and often without health coverage options.
 - Although the number affected is unknown and likely small, this group is highly visible.

- **Displaced Workers:** About 700,000 workers ages 55 to 65 lose their jobs due to plant closings, their jobs being eliminated and other unforeseen events.
 - About 55 percent are re-employed, relative to 75 percent of workers ages 25 to 54.
 - Nearly half of those remaining unemployed lose group coverage.

- **Widows, Divorcees, and Never Married People:** About 40 percent of all uninsured in this age bracket are widowed, divorced or never married.
 - About 750,000 women ages 55 to 65 are uninsured and unmarried.

- **Medicare Spouses:** About 420,000 of the 3 million uninsured ages 55 to 65 have spouses covered by Medicare.
 - Almost all (92 percent) are women.
 - Only about 15 percent of these uninsured spouses are full-time workers.

PROBLEM: AFFORDABILITY AND / OR ACCESS

- As with younger populations, many of the uninsured pre-65 year olds simply cannot afford health insurance.
 - One-third of the uninsured people ages 55 to 65 years old are poor.
 - Nearly half of all uninsured 55 to 65 year olds who report fair to poor health are poor.
- However, this population has unique access problems.

- Older people tend to be sicker:

People ages 60 to 64 are nearly three times more likely to report fair to poor health as those ages 35 to 44.

People ages 55 to 65 have twice the probability of experiencing heart disease, emphysema, heart attack, stroke and cancer as people ages 45 to 54.

- Access to employer-based insurance declines as people approach age 65.
- The reliance on individual insurance — which can be prohibitively expensive due to underwriting or age rating — increases.

Premiums for a healthy 59 year olds range from \$3,500 to \$10,000 per year.

In states like Florida, policies are often underwritten, increasing costs significantly

BASE POLICY OPTION

- **Restrict Eligibility to People Ages 62 to 65 Year Olds**
 - This age group is:
 - Less likely to have access to employer insurance and COBRA
 - Less likely to work (so the policy does not induce retirement)
 - More likely to rely on expensive individual insurance
 - About 900,000 are uninsured and 700,000 buy individual insurance.
- **“Amortized” Payments but No Subsidies**
 - **Costly:** The higher costs for this age group make subsidies very expensive.
 - **Possibly reduces retiree health coverage:** May encourage employers to end coverage; could possibly increase retirement.
- **Medicare Buy-In rather than COBRA**
 - People ages 62 to 65 are less likely to have access to a COBRA option
 - Connects participants with eventual insurer.
 - Avoids criticism that the policy is a business mandate and increases premiums

STRUCTURE AND POTENTIAL ANNUAL COST OF BUY-IN

- Eligible people pay premiums (without subsidies) to buy into Medicare.
 - **Standard premium:** This amount is paid while enrolled, like private premiums.
 - **“Amortized” amount:** The additional amount due to the extra costs of this group would be amortized, or paid for in installments for the rest of the beneficiary’s life.
- Medicare would cover the non-amortized amount of the premium up front, at a cost, but would recover that cost over time as the beneficiary pays the amortized premium amount.

POTENTIAL ANNUAL COSTS

| POTENTIAL ENROLLMENT | AVERAGE MONTHLY COSTS | STANDARD PREMIUM | AVG. COSTS MINUS PREMIUM | POSSIBLE MEDICARE PAYMENT |
|---------------------------------|-----------------------|------------------|--------------------------|---------------------------|
| 100,000 People in Poor Health * | \$915 | \$305 | \$610 | \$0.7 billion |
| 200,000 People in Fair Health* | \$458 | \$305 | \$153 | \$0.4 billion |
| 300,000: Both Groups | \$610 | \$305 | \$305 | \$1.1 billion |

Notes:

Approximates the first-year Medicare costs; assumes participants would not begin paying amortized premium until age 65
 Assumes that the cost is the difference between the actual average monthly costs and the standard premium.

* These numbers represent about 100 percent of the uninsured/ individually insured people in poor health and 80 percent of the uninsured/ individually insured people in fair health in the 62 to 65 year old age group.

OTHER POSSIBLE OPTIONS

- **“COBRA” Option for “Broken Promise” Retirees**
 - Retirees 55 to 65 who had health coverage but whose former employer “broke the promise” to continue that coverage could buy into that employers’ plan, like COBRA
 - Premium could be set at 125 to 150 percent of the group rate.
 - *Rationale:* Gives retirees an affordable option and holds employer somewhat accountable for ending coverage for retirees

- **Medicare Buy-In for Special Groups**
 - Certain groups of 55 to 65 year olds lacking access to employer insurance and often COBRA (listed below) could buy into Medicare in the same way that the 62 to 65 year olds would:
 - Displaced workers who have been uninsured and unemployed
 - Medicare beneficiaries’ spouses who lose coverage when their spouse retires
 - Unmarried people without access to a spouse’s insurance.
 - *Rationale:* Their small numbers, lower access to COBRA, and low risk of crowding out other types of coverage may argue for a Medicare option for these groups.

OTHER PRIORITY HEALTH INVESTMENT OPTIONS

MEDICARE

- **Private long-term care options:** Allow standardized private long-term care plans to market to beneficiaries through the managed care information system (\$20 to 25 million over 5)
- **Clinical cancer trial coverage:** Cover the patient care costs associated with certain, high-quality cancer treatment clinical trials (\$1.7 to 3 billion over 5)

COVERAGE INITIATIVES

- **Children's health outreach:** Options range from providing bonus payments for enrolling Medicaid eligible uninsured to expanding presumptive eligibility (\$0.5 to 4 billion over 5)
- **Demonstration for workers changing jobs:** Fund several states to help pay for premiums for families losing coverage due to job change using different models (\$1 to 4 billion over 5)
- **Demonstration for de-institutionalizing people with disabilities:** Fund several state demonstration of approaches to help people live in the community (\$50 to 100 million over 5)
- **Small business group purchasing:** Fund voluntary purchasing cooperatives for small businesses; explore other ideas for lowering their insurance costs (\$50 to 100 million over 5)

RESEARCH

- **Increase the National Institutes of Health (NIH) budget** (\$5 to 15 billion over 5)

Possible Health Entitlements Initiatives

| | 5-Year Costs (\$ billions) |
|--|-------------------------------|
| Improve access to health insurance for pre-Medicare eligible individuals* | \$15 - \$55 ? |
| State grants for health insurance for workers between jobs* | \$3 - \$15 |
| Expand Medicare coverage to include cancer-related clinical trials | \$1 - \$3 |
| Enhanced Kid's Health FMAP for children eligible, but not enrolled in Medicaid | \$0 - \$15 |
| Design Medicaid long-term care demonstration for the disabled | \$0.4 - \$2 |
| Design Medicare long-term care demonstration for the elderly | \$0 - \$4 |
| Create an incentive program to reduce errors and eliminate fraud in Medicaid | \$0 - \$0.3 |
| Give grants to states to establish voluntary purchasing cooperatives* | \$0.1 |
| Raise or eliminate lifetime benefit limits for private health plans | \$0.2 |
| Increase CDC community-based testing for lead poisoning in children (Medicaid costs) | \$0.2 - \$0.3 |
| Limit health insurance premium variation | \$0 |
| Modify Medicaid upper payment limit for managed care contracts | \$0 |
| Reform FEHBP | possible savings |
| Total | \$21.9 - \$94.9 |

* These proposals could have lower costs if they were conducted as demonstrations.

Note: All cost estimates are preliminary.

Note: Proposals to restore benefits to certain legal immigrants are also being considered.

These proposals have 5-year Medicaid costs of \$0.9 - \$2 billion.

POTENTIAL MANDATORY SAVINGS PROPOSALS
(IN MILLIONS OF DOLLARS)

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| | <u>FY 1999</u> | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 99-03 Total</u> |
|---|----------------|----------------|----------------|----------------|----------------|---------------------------|
| Restrict States' ability to shift administrative costs from TANF to Food Stamps and Medicaid..... | -523 | -544 | -580 | -621 | -665 | -2933 |
| Recall education loan guaranty agency reserves..... | -237 | -237 | -237 | -236 | -236 | -1183 |
| Reduce excess payments to student loan intermediaries..... | -704 | -452 | -533 | -550 | -573 | -2814 |
| Restructure child support enforcement financing (8% of administrative expenditures)..... | -93 | -309 | -367 | -419 | -601 | -1789 |
| Above CSE recommendation plus 5.6% additional administrative savings..... | -234 | -241 | -248 | -256 | -263 | -1242 |
| Reduce export enhancement (EEP)..... | -230 | -259 | -188 | -198 | -208 | -1083 |
| Collect State Bank Exam fee (Federal Reserve)..... | -100 | -104 | -109 | -114 | -119 | -546 |
| Close the Agriculture loophole allowing income support abuse (AMTA)..... | -125 | -114 | -97 | -92 | -92 | -520 |
| Improve Food Stamp Quality Control and Retailer Integrity..... | -63 | -63 | -63 | -63 | -63 | -315 |
| Total Savings..... | -2309 | -2323 | -2422 | -2549 | -2820 | -12425 |

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POTENTIAL SAVINGS -- MANDATORY OR DISCRETIONARY
(IN MILLIONS OF DOLLARS)

| | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 99-03 Total |
|---|----------------|----------------|----------------|----------------|----------------|---------------------------|
| Reinstate Superfund taxes..... | -1765 | -1375 | -1395 | -1432 | -1471 | -7438 |
| Extend 2.5 cent general fund tax on gasohol..... | -57 | -259 | -330 | -343 | -357 | -1346 |
| Use \$0.05 of the gas tax to pay for Research..... | -525 | -525 | -525 | -525 | -525 | -2625 |
| Subtotal, Mand./Disc. proposals..... | -2347 | -2159 | -2250 | -2300 | -2353 | -11409 |
| TOTAL, All-Proposals..... | -4656 | -4482 | -4672 | -4849 | -5173 | -23834 |