



Health Insurance Association of America

**Charles N. Kahn III**  
President

October 11, 2000

The Honorable Bill Clinton  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, DC 20500

Dear Mr. President:

Before Congress adjourns, we urge your leadership and support to help Americans meet their long-term care (LTC) needs by enacting an above-the-line tax deduction for LTC insurance premiums and a \$3,000 tax credit for LTC caregiver costs, actions supported by AARP and HIAA. An HIAA survey released today, finds that one third of Americans over age 55 believe offering tax relief for private LTC insurance premiums is the most important step government can take to meet their LTC needs.

As you know, the tax credit would ease the burden of families currently struggling with the LTC needs of a loved one. The above-the-line deduction for LTC insurance would expand private LTC coverage by up to 24 percent above current growth and generate more than enough future savings in Medicaid spending to offset the cost of the tax deduction. This tax relief will help families cope with and prepare for their LTC needs.

Already your Administration and this Congress have taken great strides in emphasizing the importance of LTC. The Health Care Financing Administration will soon begin your education initiative to make Medicare beneficiaries better aware of LTC and LTC financing issues. Also, thanks in large part to your support, more than 13 million federal employees, military personnel, qualified family members, and retirees will soon have the opportunity to purchase private long-term care insurance. We share your hope that this program will help raise awareness among the nation's private employers of the benefits that LTC coverage can provide to their workers.

Although time is short, with your support, this Congress can enact legislation that will begin to bring relief to families struggling with current LTC needs. We applaud your leadership on this issue, and HIAA stands ready to assist you and Congress to bring LTC tax relief to America's families before our current window of opportunity closes.

The Health Insurance Association of America (HIAA) is the nation's most prominent trade association representing the private health care system. Its 294 members provide health, long-term care, dental, disability, and supplemental coverage to more than 123 million Americans. It is the nation's premier provider of self-study courses on health insurance and managed care. If you have any questions, please call me at (202) 824-1858 or have your staff contact Sharon Cohen, Senior Vice President, Federal Affairs, at (202) 824-1845.

Sincerely,

A handwritten signature in black ink, appearing to be "CKahn", written over a horizontal line.

CC: U.S. House  
U.S. Senate

# LONG-TERM CARE INSURANCE

9/21/00

DRAFT

## BACKGROUND

In 1996, the Health Insurance Portability and Accountability Act (HIPAA) established favorable tax treatment for certain long-term care insurance policies.

- ◆ In doing so, HIPAA also set important consumer protection standards for federally qualified long-term care insurance policies.
- ◆ This was done by a cross-reference in the Internal Revenue Code (IRC) to provisions of the Long-term care Model Act and Regulation developed by the National Association of Insurance Commissioners (NAIC). The NAIC is an organization of the chief insurance regulators from the 50 states, the District of Columbia, and the U.S. territories whose purpose is to protect consumers through appropriate regulation of insurance.

There are several shortcomings with long-term care insurance currently. We need to address these shortcomings to protect American families relying on long-term care insurance for future care of family members.

Some shortcomings include:

- ◆ Lapse in coverage;
- ◆ Inadequate information for purchasers of long-term care insurance; and
- ◆ Unexpected increases in premiums.

There is a way to address these shortcomings to protect individuals who purchase long-term care insurance. Some solutions have been developed by the NAIC. Since 1996, the NAIC further amended its model act and regulation to better protect purchasers of long-term care insurance policies. In order for these important protections to apply to federally qualified long-term care insurance policies, the IRC would need to be amended to clarify that federally qualified long-term care insurance policies would need to meet the specific standards in the updated NAIC models.

In recent testimony to the Senate Special Committee on Aging, the HIAA, American Council of Life Insurers (ACLI), and other stakeholders expressed general support for applying many of the new consumer protections in the updated NAIC Model Act and Regulation to federally qualified long-term care policies.

## DISCUSSION

**Lapse in coverage caused by increased premiums.** Some insurance companies have increased premiums for long-term care insurance. Individuals with long-term care insurance were forced to pay the higher premiums to keep their coverage. Others had to drop their coverage because of their inability (having a fixed income) to pay the higher premiums. Regardless of when one purchases long-term care insurance, if an individual is on a fixed income, the individual's ability to handle higher premiums is likely to decrease over time. In such cases, individuals should not lose everything that they've paid into a long-term care policy.

### S.2225/H.R. 3872

- ◆ The bill establishes consumer protections by cross-referencing the new standards established by the NAIC model act and regulation requiring all federally-qualified long-term care policies to have contingent non-forfeiture benefits.

### NAIC Model

- ◆ The NAIC model requires contingent non-forfeiture. This benefit is triggered if an individual's premium increases by a specific (cumulative) percentage measured from the time such policy is purchased. Once triggered, the consumer has a right to do any of the following:
  - ◆ pay the higher premium to maintain the same level of coverage;
  - ◆ pay the premium amount charged prior to the increase BUT receive lower benefits (less coverage although the period of coverage remains the same); and
  - ◆ convert the coverage to a shortened benefit period (without paying additional premiums).

The NAIC, HIAA, and ACLI have testified that each supports this requirement.

**Inadequate information for purchasers of long-term care insurance.** In some cases, long-term care policies are sold to individuals without giving the consumer specific information about the benefits provided under the policy and without disclosing to the consumer that the premiums for the policy may increase in the future. Individuals buying long-term care insurance need this important information. Without such information, individuals may find that they've made a very costly mistake – buying a policy that is not right for them.

S.2225/H.R.3872

- ◆ Currently the bill does not require insurance companies to provide adequate information to purchasers of long-term care insurance.

NAIC Model

- ◆ The NAIC model addresses this problem by requiring insurance companies to provide important information to individuals, including:
  - ◆ Rate increase history for the past 10 years; and
  - ◆ A statement about the possibility of a rate increase with an explanation of the consumer's rights in the event of the increase (the applicant must sign an acknowledgement of the potential for rate increase).
- ◆ The NAIC model also requires (a suitability test) the insurance company and the consumer to determine:
  - ◆ Whether the consumer will be able to afford the policy even if premiums remain the same (will the individual's income go down or become fixed);
  - ◆ Whether the consumer will be able to afford the policy if premiums increase; and
  - ◆ Whether the benefits are appropriate for the particular individual.

The NAIC believes that federally qualified long-term care insurance policies should comply with the new information disclosure requirements and the suitability provisions in the NAIC model act and regulation. *{The disclosure requirements are a bigger issue for the NAIC than the suitability provisions}*

HIAA testified that it supports the disclosure to consumers relating to premium. HIAA generally supports defining minimum standards in the relationship between the insurer and consumer.

ACLI generally believes that these consumer protections are best handled by the states. ACLI did not explicitly oppose requiring federally qualified long-term care insurance policies to comply with these protections.

## Information disclosure and suitability testing

**Option 1: Require federally qualified long-term care insurance policies to comply with the new consumer protections relating to information disclosure and suitability in the NAIC model.**

### Pro

- ◆ Federal protections are important because states are not required to adopt the NAIC models. Some states may choose not to enact the new consumer protections in the NAIC model. Others may not be able to enact the new protections quickly. In those states, absent federal law, consumers will not be protected.
- ◆ Consumers benefit immediately. Amending federal law to include these protections would mean that all federally qualified long-term care insurance policies would have to comply with these requirements right away.

### Con

- ◆ A federal standard will be hard to enforce. There is no penalty if an insurance company violates the disclosure and suitability requirements. The penalty will be on the consumer because the consumer will not be able to claim the tax deduction for premiums paid for the policy.
- ◆ The federal government should not be regulating insurance, a traditional state function.

**Option 2: Require federally qualified long-term care insurance policies to comply with either the NAIC model or with stronger state-based requirements relating to disclosure and suitability.**

This option has similar pros/cons as option 1. However, this option allows for more state flexibility and stronger state-based protections for consumers.

**Unexpected increases in premiums and rate stabilization.** There are few restrictions on rate increases. There have been documented cases where the annual premium for long-term care insurance increased from \$700 to \$10,000. Many older Americans lost their long-term care insurance and everything they paid into those policies.

S.2225/H.R.3872

- ◆ Currently the bill does not protect individuals against unexpected premium increases. *Sen. Grassley recently held a hearing and expressed a strong interest in amending his bill to address this problem.*

NAIC Model

- ◆ The NAIC model establishes a new rating process to protect consumers from rate increases. The new process encourages insurance companies to establish initial premiums at proper levels and also penalizes them in the future if a rate increase is required.

The NAIC believes that:

- ◆ States should handle the rate setting area;
- ◆ Congress should not implement the rate reforms in the NAIC model until the states have an opportunity to enact those reforms;
- ◆ If states fail to implement the rate practice amendments, then Congress could revisit this issue.

The NAIC also believes that if Congress implements the rate reforms, then there should be a transition period before the new requirements become effective to allow the states to amend their laws (before preemption occurs).

Both HIAA and ACLI believe that standards on rates should be set by states and that these standards should not be in federal law.

## Rate stabilization

### **Option 1: No new federal standard on rates.**

#### Pro

- ◆ Gives states an opportunity to enact NAIC model standards on rate stability.

#### Con

- ◆ This doesn't help consumers now.

### **Option 2: Establish a federal standard based on the NAIC model, with a delayed effective date.**

#### Pro

- ◆ Gives states time to adopt NAIC model.
- ◆ The NAIC model standards have not been tested in the marketplace. A transition period will enable the model standards to be evaluated through state implementation.
- ◆ Consumers are protected because if some states don't adopt the NAIC model, then the federal standard would apply.

#### Con

- ◆ It would be difficult for the federal government to enforce standards on rate setting.

### **Option 3: Establish a federal standard based on either the NAIC model or other comparable approach, with a delayed effective date.**

#### Pro

- ◆ Similar to Option 2.
- ◆ Consumers will be protected immediately in states with reforms already in place (different from the ones in the NAIC model).
- ◆ States will have more flexibility without being penalized (preempted) for strong consumer protections that are different from the NAIC model.

*Hope from the Senate Aging Committee is considering this option. The NAIC probably will not oppose this as long as the standard is state-based (and not a new federal approach).*

#### Con

- ◆ Similar to Option 2.

Summary: Long-term Care and Retirement Security Act of 2000 (S. 2225/H.R.3872)

- ◆ The bill creates an “above the line” tax deduction for individuals for premiums paid for long-term care insurance.
- ◆ The bill establishes consumer protections by requiring federally qualified long-term care insurance to comply with the standards established by the National Association of Insurance Commissioners (chief insurance regulators in every state are members). New standards include:
  - ◆ Contingent non-forfeiture requirements (protecting individuals against rate increases and lapse in coverage)
  - ◆ *Although currently the issue of substantial rate increases is not addressed in the bill, Sen. Grassley is working with the NAIC and others to address it.*
  - ◆ *Also, there is no requirement to provide adequate information to (suitability testing for) purchasers of long-term care insurance. This problem is also being discussed with the NAIC.*
- ◆ The bill establishes a tax credit for caregivers and the chronically ill.
  - ◆ The credit is phased in over 4 years from \$1000 to \$3000 (and is phased out for high income individuals -- \$75,000 for individual and \$150,000 joint returns)
  - ◆ The tax credit is available for caregivers:
    - ◆ Taxpayer, spouse of taxpayer, or any individual for whom the taxpayer can claim a deduction (under section 151) – only one credit even if more than one person takes care of the individual’s long-term care needs.
    - ◆ Generally, the credit is available for the caregiver if the caregiver is assisting a baby, a child, or an adult.

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# LONG-TERM CARE INSURANCE

9/18/00

## BACKGROUND

American families who buy long-term care insurance must have better protections. There are several shortcomings with long-term care insurance currently. We should address these shortcomings to protect American families relying on long-term care insurance for future care of family members.

- ◆ Some shortcomings include:
  - ◆ unexpected increases in premiums and non-payment;
  - ◆ benefits not reflecting inflation; and
  - ◆ inadequate information for purchasers of long-term care insurance.
  
- ◆ There is a way to address these shortcomings to protect individuals who purchase long-term care insurance. Some solutions have been developed by the National Association of Insurance Commissioners (NAIC). The NAIC is the organization of the chief insurance regulators from the 50 states, the District of Columbia, and the U.S. territories whose purpose is to protect consumers through appropriate regulation of insurance.

*Lapse rates ?  
Other policies -  
and some numbers..*

*other ?*

## DISCUSSION

**Increases in premiums.** Premiums for long-term care insurance may increase periodically and individuals who purchase long-term care insurance may be forced to pay the higher premiums in order to keep their coverage. Regardless of when one purchases long-term care insurance, if an individual is on a fixed income, the individual's ability to handle higher premiums is likely to decrease over time. In such cases, individuals should not lose everything that they've paid into a long-term care policy.

- ◆ The NAIC addressed this problem through its Model on Long-term Care Insurance (summer 2000) by requiring long-term care policies to include "contingent non-forfeiture" benefits. This is triggered if an individual's premium increases by a specific (cumulative) percentage measured from the time such policy is purchased. Once triggered, the consumer has a right to do any of the following:
  - ◆ pay the higher premium to maintain the same level of coverage;
  - ◆ pay the premium amount charged prior to the increase BUT receive lower benefits (less coverage although the period of coverage remains the same); and
  - ◆ convert the coverage to a shortened benefit period (without paying additional premiums).
- ◆ Long-term care policies with "contingent non-forfeiture" clauses protect American families by ensuring that if the premium increases, the long-term care policy isn't canceled and that the individual doesn't lose everything that was paid into the policy.

**Non-payment.** Due to life events, individuals who purchase long-term care policies sometimes are not able to make payments for their long-term care insurance. For example, if one is in the hospital, it is difficult for him or her to pay bills. Whatever the reason for not paying the premium for a long-term care policy, the individual should not lose all the money paid into that policy.

- This is final new?
- ◆ The NAIC Model (summer 2000) addresses this problem by requiring long term care insurance policies to include "non-forfeiture" clauses. Consumers are not required to purchase this benefit, but if they do, then the consumer would have the right to:
    - ◆ benefits under the policy for a shortened period; and
    - ◆ amount of benefits would not be less than 100% of all premiums paid.

**Benefits not reflecting inflation.** Benefits under long-term care policies need to reflect real world prices for services covered by such policies. For example, a policy purchased 10 years ago providing a specific dollar benefit for each day in a nursing home, would not reflect the price of a nursing home now and would not help the family who really need that benefit now. The level of benefits should be adjusted for inflation.

- ◆ The NAIC Model addresses this problem by requiring long term care policies to allow for “adjustment for inflation.” Consumers have the right to purchase a policy that provides benefits adjusted for inflation.

**Inadequate information for purchasers of long-term care insurance.** In some cases, long-term care policies are sold to individuals without giving the consumer specific information about the benefits provided under the policy and without disclosing to the consumer that the premiums for the policy may increase in the future. Individuals buying long-term care insurance need important information about their rights and responsibilities. Without such information, individuals may find that they’ve made a very costly mistake, buying a policy that is not right for them. It is important to decide whether long-term care insurance is appropriate for the individual or family purchasing the policy.

- ◆ The NAIC Model addresses this problem by requiring important information to be given to individuals. The Model requires the insurance company and the consumer to determine:
  - ◆ whether the consumer will be able to afford the policy even if premiums remain the same (will the individual’s income go down or become fixed?);
  - ◆ whether the consumer will be able to afford the policy if premiums increase; and
  - ◆ whether the benefits are appropriate for the particular individual.

As more American families rely on long-term care insurance, it is important to address these significant shortcomings. Individuals who rely on their long-term care insurance must be protected in cases of unexpected increases in premiums and non-payment, benefits not reflecting inflation, and the lack of good information that purchasers of long-term care insurance need to make informed decisions.

*Do the insurance*

**Bill Summary & Status for the 106th Congress****NEW SEARCH | HOME | HELP | ABOUT COSPONSORS****H.R.3872**Sponsor: Rep Johnson, Nancy L. (introduced 3/9/2000)Related Bills: S.2225

Latest Major Action: 3/9/2000 Referred to House committee

Title: To amend the Internal Revenue Code of 1986 to allow individuals a deduction for qualified long-term care insurance premiums, use of such insurance under cafeteria plans and flexible spending arrangements, and a credit for individuals with long-term care needs.

**COSPONSORS(61), ALPHABETICAL** [followed by Cosponsors withdrawn]: (Sort: by date)

<u>Rep Abercrombie, Neil</u> - 5/18/2000	<u>Rep Ackerman, Gary L.</u> - 6/9/2000
<u>Rep Allen, Thomas H.</u> - 9/7/2000	<u>Rep Baldacci, John Elias</u> - 9/20/2000
<u>Rep Barr, Bob</u> - 9/20/2000	<u>Rep Bass, Charles F.</u> - 4/6/2000
<u>Rep Berkley, Shelley</u> - 5/11/2000	<u>Rep Bilirakis, Michael</u> - 3/23/2000
<u>Rep Bonilla, Henry</u> - 7/13/2000	<u>Rep Boucher, Rick</u> - 9/7/2000
<u>Rep Buyer, Steve E.</u> - 3/30/2000	<u>Rep Camp, Dave</u> - 9/7/2000
<u>Rep Cook, Merrill</u> - 5/4/2000	<u>Rep Costello, Jerry F.</u> - 9/7/2000
<u>Rep Coyne, William J.</u> - 5/25/2000	<u>Rep Crowley, Joseph</u> - 5/25/2000
<u>Rep Davis, Jim</u> - 6/28/2000	<u>Rep Deal, Nathan</u> - 6/9/2000
<u>Rep Foley, Mark</u> - 5/4/2000	<u>Rep Forbes, Michael P.</u> - 6/9/2000
<u>Rep Franks, Bob</u> - 5/25/2000	<u>Rep Gilchrest, Wayne T.</u> - 3/23/2000
<u>Rep Gonzalez, Charles A.</u> - 7/27/2000	<u>Rep Goode, Virgil H., Jr.</u> - 3/23/2000
<u>Rep Goodlatte, Bob</u> - 5/4/2000	<u>Rep Hall, Ralph M.</u> - 4/6/2000
<u>Rep Hall, Tony P.</u> - 3/23/2000	<u>Rep Kelly, Sue W.</u> - 3/23/2000
<u>Rep Klink, Ron</u> - 9/7/2000	<u>Rep Kuykendall, Steven T.</u> - 6/28/2000
<u>Rep Larson, John B.</u> - 7/27/2000	<u>Rep Lowey, Nita M.</u> - 4/6/2000
<u>Rep Manzullo, Donald A.</u> - 3/30/2000	<u>Rep Mascara, Frank</u> - 9/20/2000
<u>Rep McDermott, Jim</u> - 3/23/2000	<u>Rep McGovern, James P.</u> - 3/30/2000
<u>Rep Millender-McDonald, Juanita</u> - 3/23/2000	<u>Rep Mollohan, Alan B.</u> - 5/11/2000
<u>Rep Morella, Constance A.</u> - 9/7/2000	<u>Rep Norwood, Charlie</u> - 5/4/2000
<u>Rep Oxley, Michael G.</u> - 5/25/2000	<u>Rep Paul, Ron</u> - 3/30/2000
<u>Rep Pomeroy, Earl</u> - 6/9/2000	<u>Rep Price, David E.</u> - 5/11/2000
<u>Rep Pryce, Deborah</u> - 5/25/2000	<u>Rep Rahall, Nick J., II</u> - 3/30/2000
<u>Rep Ramstad, Jim</u> - 5/25/2000	<u>Rep Ryun, Jim</u> - 6/28/2000
<u>Rep Sandlin, Max</u> - 9/20/2000	<u>Rep Saxton, Jim</u> - 9/7/2000
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<u>Rep Stupak, Bart</u> - 5/11/2000	<u>Rep Thurman, Karen L.</u> - 3/9/2000
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Rep Weygand, Robert A. - 5/18/2000

**Bill Summary & Status for the 106th Congress**

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**S.2225**Sponsor: Sen Grassley, Charles E. (introduced 3/9/2000)Related Bills: H.R.3872

Latest Major Action: 3/9/2000 Referred to Senate committee

Title: A bill to amend the Internal Revenue Code of 1986 to allow individuals a deduction for qualified long-term care insurance premiums, use of such insurance under cafeteria plans and flexible spending arrangements, and a credit for individuals with long-term care needs.

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**COSPONSORS(10), ALPHABETICAL** [followed by Cosponsors withdrawn]: (Sort: by date)Sen Baucus, Max - 5/16/2000Sen Bayh, Evan - 3/23/2000Sen Burns, Conrad R. - 9/14/2000Sen Chafee, Lincoln D. - 5/9/2000Sen Graham, Bob - 3/9/2000Sen Hagel, Chuck - 3/28/2000Sen Hutchison, Kay Bailey - 6/7/2000Sen Jeffords, James M. - 4/26/2000Sen Lieberman, Joseph I. - 6/7/2000Sen Mikulski, Barbara A. - 3/23/2000

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CNN

**SHOW:** CNN MORNING NEWS 09:00

September 19, 2000; Tuesday 10:07 AM Eastern Time

Transcript # 00091914V09

**SHOW-TYPE:** PACKAGE/LIVE REPORT

**SECTION:** News; Domestic

**LENGTH:** 1027 words

**HEADLINE:** Clinton to Push for Broader **Long-Term Care** Legislation

**BYLINE:** Bill Hemmer, Major Garrett

**HIGHLIGHT:** In Washington today, President Clinton, at this hour, expected to sign a bill that would help government workers with long-term health costs. The president is also proposing a similar plan for all Americans.

**BODY:**

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**BILL HEMMER, CNN ANCHOR:** In Washington today, President Clinton, at this hour, expected to sign a bill that would help government workers with long-term health costs.

As CNN White House correspondent Major Garrett now reports, the president also proposing similar plan for all Americans.

(BEGIN VIDEOTAPE)

**MAJOR GARRETT, CNN WHITE HOUSE CORRESPONDENT (voice-over):** When it comes to the benefits of **long-term care** coverage, Roberta Webb is a believer.

Webb is 86. Five years ago, her husband, a career FBI agent, took out a **long-term care** policy. Such policies covering nursing home around-the-clock homecare, which her husband received after falling gravely ill last year.

**ROBERTA WEBB:** He was in his own surroundings and with the dogs here to -- and the family and dropping in and the neighbors, and this and that. And I was watching to see that everything was done right, though I couldn't do it.

**GARRETT:** A widow now, Webb has her own around-the-clock care.

**WEBB:** I've gotten to where I am sort of shaky about getting in and out of the shower, and I need help with all that now.

**GARRETT:** But Webb is one of a relatively small number with **long-term care** coverage, and it is not

cheap.

Webb will pay \$6,000 a year for hers. The new legislation could save her up to \$1200 and make **long-term care** more affordable to millions more.

CHARLES KHAN, HEALTH INSURANCE ASSOCIATION OF AMERICA: The number of people over 85 will more than triple. And those people really will need, many of them will require nursing home, will require assistance in their homes. And so this need for **long-term care** insurance will only grow.

GARRETT: The hope is that the private sector will follow the federal model, and provide less expensive group coverage for **long-term care**. SEN. CHARLES GRASSLEY (R-IA), CHAIRMAN, AGING COMMITTEE: It sets a very, very good example for what we want people in the private sector to do.

(END VIDEOTAPE)

GARRETT: The president will use today's signing ceremony to push for a \$3,000 tax credit to further reduce the cost of **long-term care**. Congress wants to make all long-term case insurance premiums tax deductible. And both sides say a compromise is in sight -- Bill.

HEMMER: Major Garrett at the White House. Expect that signing ceremony in about 15-20 minutes' time. We will have it live when it happens. Major, thanks.

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## Newsday

### President Clinton Signs Long-Term Care Insurance Plan

Aired September 19, 2000 - 12:07 p.m. ET

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JEANNE MESERVE, CNN ANCHOR: Long-term care insurance coverage for the chronically ill got a high-profile push today. The president signed legislation that would make group coverage available to federal workers, active duty personnel and retired military. He's hoping private companies will follow his lead.

CNN's Major Garrett is at the White House -- Major.

MAJOR GARRETT, CNN WHITE HOUSE CORRESPONDENT: Good day, Jeanne.

The legislation the president signed today here at the White House will affect 20 million Americans: as you said, federal workers, military workers and their immediate families. It's not a direct government benefit. It doesn't provide any new services. What it does allow these folks to do, however, is purchase long-term care insurance at group rates, something they couldn't do before this legislation was signed.

The president said at the signing ceremony he hopes this will be one of many steps the White House and Congress take this year to address long-term care issues.

(BEGIN VIDEO CLIP)

WILLIAM J. CLINTON, PRESIDENT OF THE UNITED STATES: Today's signing represents an important step toward making the -- toward meeting the phenomenal demographic changes that we're facing in a humane and decent and, I believe, highly intelligent way. It helps to make sure that the aging of America will be, on balance, a great blessing and not an overwhelming burden to our children and our grandchildren.

(END VIDEO CLIP)

GARRETT: Long-term care is usually for the elderly, but also younger folks can need it too. It is essentially for those people who cannot carry out daily functions: dress themselves, clothe themselves and get around their house. Nursing home care can cost \$50,000 a year, and if you don't have insurance to cover those costs, many families can be bankrupted.

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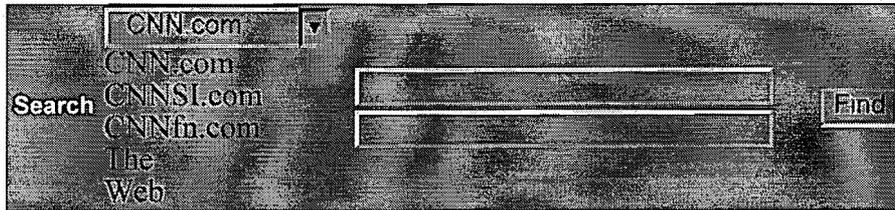
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The White House and Congress are working on further measures, tax deductions and tax credits, to further reduce those costs. They might be wrapped up as the budget wars continue this month -- Jeanne. MESERVE: Major Garrett at the White House, thank you.

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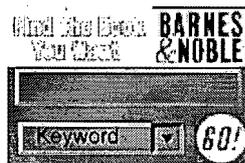
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**PRESIDENT CLINTON ENACTS LEGISLATION TO PROVIDE LONG-TERM CARE  
INSURANCE TO FEDERAL WORKERS**

**Urges the Congress to Act Now to Assist All Families with Long-Term Care Needs**

**September 19, 2000**

Today, President Clinton will sign into law the Long Term Care Security Act, which authorizes the Office of Personnel Management (OPM) to negotiate with private insurers to offer more affordable, high-quality, long-term care insurance policies to Federal employees, retirees, and their families. This initiative will provide a new insurance option to 13 million Americans, and will serve as a model program for private employers throughout the nation. The President will also urge the Congress to take additional legislative steps this fall to provide assistance to the millions of Americans of all ages who currently have extraordinary unmet long-term care needs and who can not purchase private long-term care policies at any price. Specifically, he will call on the Congress to pass his \$3,000 tax credit for the chronically ill; to reauthorize and strengthen the Older Americans Act by adding a new caregivers initiative; and to pass a long-overdue and voluntary Medicare prescription drug benefit.

**MILLIONS OF AMERICANS HAVE LONG-TERM CARE NEEDS**

- **An increasing number of Americans have a range of long-term care needs.** Over five million Americans have significant limitations due to illness or disability and thus require long-term care. Approximately, two-thirds are older Americans. Also, millions of adults and a growing number of children have long-term care needs because of health condition from birth or a chronic illness developed later in life.
- **The aging of Americans will only increase the need for quality long-term care options.** The number of Americans age 65 years or older will double by 2030 (from 34.3 to 70 million), so that one in five Americans will be elderly. The number of people 85 years or older, nearly half of whom need assistance with everyday activities, will grow even faster – from approximately 4 million to 9 million.
- **Families, who are the primary caregivers for people with long-term care needs, pay a big price for this care.** Although it is difficult to quantify, one study found that the economic value of care giving for families ranges from \$4,800 to \$10,400 per caregiver. As such, this new \$3,000 tax credit could cover up to 60 percent of families' costs. In addition, not only are caregiving responsibilities expensive, they can be physically demanding and psychologically exhausting.

**ENACTING NEW LONG-TERM CARE INSURANCE OPTION FOR FEDERAL**

**EMPLOYEES.** The legislation President Clinton will sign today, the Long Term Care Security Act (HR 4040), provides the 13 million Federal employees, retirees, and their families with a new option to purchase non-subsidized, quality private long-term care insurance. The new insurance options will cover a range of services at group rates, including home health care, adult day care, and nursing home care. This legislation allows OPM to use its purchasing power to negotiate savings of 15 to 20 percent on commercial long-term care insurance rates and to ensure that such products meet high quality standards. It will establish the Federal government as a model employer and provide private-sector companies with a model for offering quality long-term care insurance. Because employers are only beginning to learn how to provide these benefits to their workers, only about 4 million Americans – 1.5 percent of all Americans – have private long-term care insurance. OPM anticipates that approximately 300,000 Federal employees will participate in this program.

**CHALLENGING THE CONGRESS TO PASS INITIATIVES TO HELP AMERICANS WHO NEED LONG-TERM CARE ASSISTANCE NOW.** The Administration's long-term care initiative, unveiled by President Clinton and Vice President Gore, First Lady Hillary Rodham Clinton and Tipper Gore, includes:

- **Supporting people with long-term care needs and their families through a \$3,000 tax credit.** This initiative acknowledges and supports millions of Americans with long-term care needs or the family members who care for and house their ill or disabled relatives through a phased in \$3,000 tax credit. This new tax credit supports the diverse needs of families by compensating a wide range of formal or informal long-term care for people of all ages with three or more limitations in activities of daily living (ADLs) or a comparable cognitive impairment. It would provide needed financial support to about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children per year. This credit would be phased in beginning with \$1,000 in 2001 and rising in \$500 increments, so eligible people would receive \$3,000 in 2005 and thereafter. The credit would be phased out beginning at \$110,000 for couples and \$75,000 for unmarried taxpayers. It costs about \$8.8 billion over five years and \$26.6 billion over 10 years.
- **Reauthorizing and strengthening the Older Americans Act (OAA) to assist family caregivers of seniors.** For more than 35 years, the OAA has helped millions of seniors lead more independent lives by enabling communities to offer them vital, everyday basics like transportation and meals-on-wheels. Today, President Clinton will urge the Congress to reauthorize the OAA and strengthen it by funding our Family Caregivers Program. This nationwide program would support families who care for elderly relatives with chronic illnesses or disabilities by enabling states to utilize a visible, reliable network to provide quality respite care and other support services. This program, which costs more than \$1.25 billion over 10 years, would assist approximately 250,000 families nationwide. Recent studies have found that services like respite care can relieve caregiver stress and delay nursing home entry, and that support for families of Alzheimer's patients can delay institutionalization for up to a year.
- **Passing a new, voluntary Medicare prescription drug benefit.** Older Americans who lack prescription drug coverage have been found to become institutionalized at twice the rate of those seniors with prescription drug coverage. In addition, this population requires and utilizes a much greater proportion of medications to manage and treat chronic conditions. For this reason, a meaningful, affordable, voluntary Medicare prescription drug benefit is a critical component of an effective long-term care strategy.

**BUILDS ON THE NEW NURSING HOME INITIATIVE RECENTLY UNVEILED BY THE CLINTON-GORE ADMINISTRATION.** Today's announcement builds on President Clinton's recent action to improve nursing home quality nationwide. The initiative: (1) invests \$1 billion over 5 years in a new grant program to increase staffing levels nationwide and improve quality of nursing home care; (2) imposes immediate penalties on nursing facilities placing residents at risk and reinvests these funds in the new grant program; (3) directs the Health Care Financing Administration to establish national minimum staffing requirements and complete recommendations for appropriate reimbursement within two years; (4) helps families make informed decisions by providing accurate information on staffing levels; and (5) launches a new campaign to identify and prevent unintended weight loss and dehydration among nursing home residents.

Final 9/18/00 9:15 p.m.  
John Pollack

**PRESIDENT WILLIAM JEFFERSON CLINTON  
STATEMENT ON SIGNING HR 4040  
HELPING AMERICANS REACH FOR LONG-TERM CARE  
THE WHITE HOUSE  
September 19, 2000**

Thank you, Joan Madaras (muh-DARE-us), for your daily courage and for coming here to share your story. Let me thank the members of Congress, for their leadership. I also want to pay special tribute to Janice Lachance (Director of the Office of Personnel Management), who has been instrumental in this important effort, as well as the National Association of Retired Federal Employees, the National Treasury Employees Union, the Retired Officers Association and the other groups that have worked with such determination.

It's hard to believe it was nearly eight years ago that I signed my first bill as President – the Family and Medical Leave Act, which has helped more than 25 million Americans take time off from work to care for a child or a sick loved one. Today we come here in that same spirit, to sign the Long-Term Care Security Act. Over time, this legislation will help even more families meet the challenge of caring for our aging parents and grandparents.

In one sense, the growing challenge of long-term care is the price our nation is paying for some of the most remarkable gains in human history. Thanks to growing prosperity, healthier lifestyles and the daily miracles of modern medicine, Americans are living longer and better lives than ever before.

In 1900, the average American couldn't expect to live beyond 50. Today, the average American's life expectancy is 77, and rising. Amazing as it sounds, there are currently more than 65,000 living Americans at least 100 years old. That's enough to fill up every seat in the Houston Astrodome, and still put two teams out on the field.

These numbers are only going to keep rising as the Baby Boomers age. By 2030, one out of every five Americans will be 65 or older, and there will be 9 million over 85.

We all know there are many joys to aging – wisdom, retirement and grandchildren. But unfortunately, age can also come at the cost of our good health, independence, and sometimes a lifetime of savings. The cost of nursing home care now tops \$50,000 a year – an extraordinary sum that few families can afford. Even home care is expensive, both in terms of direct costs and lost income, when a family member is the primary caregiver.

The legislation I am about to sign – the Long-Term Care Security Act – will help families plan ahead for such contingencies. It will enable current and former federal employees, military personnel, and all of their families to choose from a menu of quality, long-term care insurance options, and purchase their choice at reduced group rates. That means that as many as 13 million

people will now be able to plan for the future, without the fear of financial ruin, should costly care ever become necessary.

This legislation will also benefit the public at large, by spurring more American companies to offer their employees the option of affordable, high-quality, long-term care insurance that will be there when they need it. The insurance industry itself is enthusiastic about this prospect, calling our legislation “a model for private-sector employers.” And we thank them for that support.

We are also pleased that this groundbreaking legislation has enjoyed strong bipartisan backing. It is further proof that, when we put progress before partisanship, we can tackle our country’s toughest challenges together.

Today’s signing represents an important step towards meeting the tremendous demographic and health-care challenges that confront our aging population. The Long-Term Care Security Act helps many families plan for the future by enabling them to buy good insurance. However, we cannot be satisfied with this accomplishment. There are millions of people already chronically ill who can’t buy insurance at any price, and need help right now.

As we speak, in homes all across the country, seven million Americans are caring for an elderly loved one. For some, it is an easy joy – a chance to share memories over a cup of coffee, or to sit quietly on the front porch. For others, it means constant labor, or watching the terrible shroud of Alzheimer’s transform a soul mate into a stranger. Still more are struggling with the high cost of prescription drugs. These are burdens shouldered every day, week after week and month after month, with remarkable determination and love.

We need to lighten their load, and do it this year. Congress should pass our \$3,000 tax credit to provide chronically ill Americans and their families with desperately needed financial relief. This \$27 billion initiative would eventually cover up to 60% of the costs that families incur providing long-term care.

This is the kind of tax cut that American families need. It’s a tax cut we can afford. It’s a tax cut that will improve the lives of those who need help the most.

And we should do something else, too. Something that is long overdue. After 5 years of waiting, we should finally reauthorize the Older Americans Act. For more than 35 years, the OAA has helped millions of seniors lead more independent lives by enabling communities to offer them vital, everyday basics like transportation and meals-on-wheels. And as we reauthorize this legislation, we should strengthen it by funding our Caregivers’ Initiative. This will provide families with the information, counseling and support services they need to sustain their selfless mission, day in and day out.

Finally, there’s one more long-term care issue Congress needs to address this fall: passing a voluntary, affordable Medicare prescription drug benefit. Studies show that seniors who lack prescription drug coverage are twice as likely to be admitted to nursing homes as those who have

coverage. But we don't need studies to tell us that seniors should be able to get the prescription drugs they need, and get them at a cost they can afford. That's just common sense.

In this time of unprecedented prosperity, we have a golden opportunity to meet the challenges of an aging American population. Now is the time for Congress to act in the same bipartisan spirit that produced the Long-Term Care Security Act, which we celebrate today.

It has often been said that the truest measure of a society is the manner in which it raises its children, and cares for those in their twilight years. Today, in the sunshine of our prosperity, let us recommit ourselves to this ideal – that every older American might know our nation's profound gratitude, and live out their days with dignity, security, and love.

Thank you.

MEMORANDUM FOR GENE SPERLING

FROM: EDWIN C. PARK

SUBJECT: 11 AM MONDAY MEETING ON LONG-TERM CARE TAX ISSUES  
KEY POINTS

DATE: September 17, 2000

On Monday, at 11 am, you will attend a meeting on long-term care tax issues with Ralph Hellmann (Speaker Hastert), Craig Hanna (Gephardt), Mark Childress (Daschle), Chuck Brain (WH) and John Talisman (Treasury).

The meeting would discuss long-term care tax issues related to the Patients Bill of Rights (PBOR) legislation. Our intent is to leverage support of the Republican proposal for a 100 percent above-the-line deduction to purchase private long-term care insurance, included in the Senate version of PBOR, for their support of our FY 2001 \$3,000 long-term care tax credit proposal and consumer protection limitations on use of the 100 percent deduction. Resolution of the long-term care issue in our favor at this meeting would advance one of our targeted tax cut priorities as well as further overall PBOR negotiations. Attached is a background memo on long-term care tax proposals, a memo summarizing differences between the House and Senate versions of PBOR, and documents related to our long-term care tax credit and the Republican 100 percent long-term insurance tax deduction.

Key points to keep in mind for the meeting include:

- Our \$3,000 tax credit proposal provides financial assistance to those with immediate long-term care needs and who cannot purchase private long-term care insurance at virtually any price because insurers do not sell their products to the already chronically ill population.
- The number one priority for the aged and disability communities is our tax credit policy because it provide assistance to those who need help now and because private long-term care insurance is not certain to provide reliable assistance for those with future needs (without appropriate consumer protections). In addition, a tax deduction benefits those with higher incomes who are more likely to purchase private long-term care insurance now.
- While the Treasury Department and HHS strongly oppose the tax deduction policy and question the value to consumers of private long-term care insurance products, we have indicated willingness to accept the deduction if appropriate consumer protections are included and the tax credit is fully financed.
- Largely because the insurance industry views the long-term care tax deduction as a very high priority, Republicans have a great desire to get such legislation enacted. Moreover, as is likely, if there is no success on a Medicare prescription drug benefit, the Republicans would like to have an achievement on long-term care that they hope would be well received by the aging and the disabled communities. For this reason, there appears to be a good opportunity

to trade their tax deduction priority (subject to appropriate consumer protections on the deduction) for our policy priority: the tax credit. (FYI: the number one opponent to our tax credit is Archer).

### Other Points

- Treasury and HHS both oppose the long-term care tax deduction on policy grounds.
- First, it does not offer any assistance to Americans who currently have long-term care needs or their family caregivers. Because long-term care insurance policies are medically underwritten (unlike group health plans), insurers deny coverage to those with current long-term care needs (such as the most chronically ill) altogether or charge unaffordable premiums. Encouraging purchase of private long-term care insurance helps younger, healthier persons not those with current needs.
- Second, encouraging purchase of long-term care insurance may not benefit beneficiaries when they finally access long-term care benefits. Many policies do not include appropriate consumer protections that are recommended by the National Association of Insurance Commissioners (NAIC) and others. Important protections include information disclosure, inflation adjustments, and nonforfeiture provisions. For example, insurers must provide information to consumers on premium history, when and how they may raise premiums, and beneficiary options when premiums are raised. Also, plans should include limits on premium increases (such as no higher than inflation) and benefit adjustments for inflation (so that a benefit with \$100 for nursing home care a day is actually meaningful and is adjusted for inflation annually). Policies should also include nonforfeiture provisions. A significant percentage of beneficiaries (about 61 percent) let their policies lapse. Irrespective of coverage period or premiums paid, beneficiaries may forfeit 100 percent of the value of their coverage when they do not pay premiums and let their policies lapse.
- Third, a deduction tends to benefit those at higher incomes (because of the applicable marginal tax rate). Those with low incomes at the 15 percent income tax rate would receive only a 15 percent deduction on the cost of a long-term care policy which could cost anywhere from \$1,000 to \$3,000. Persons in higher income are most likely to already have private long-term care insurance.
- Despite these concerns, we are willing to work with the Speaker and understand that the long-term care insurance tax deduction is a priority for him and other House Republicans. As a result, we are willing to offer support of the deduction in exchange for:
  - Our \$3,000 long-term tax credit proposal. It provides immediate assistance to those currently with the most serious long-term care needs (those who are unable to perform 3 activities of daily living (ADLs)). It is targeted towards lower and middle income persons (phases out at higher incomes) and it is equitable, benefiting persons of all benefits equally and
  - Appropriate consumer protections for private long-term care insurance. Ensure that to qualify for the deduction, long-term care policies must meet standards developed by the

National Association of Insurance Commissioners and others that includes information disclosure, inflation adjustments and non-forfeiture provisions. This guarantees that the revenues lost to the Treasury actually go to purchasing meaningful long-term care coverage for Americans as they become older and more frail. We would expect the proposed NAIC standards to be updated and strengthened to include appropriate additional protections. We would also require that the Secretary certify such plans as meeting NAIC standards and whatever additional standards (such as inflation adjustments or nonforfeiture) required by the Secretary, before plans qualify for the long-term care above-the-line deduction.

- The Speaker may ask about our FEBHP initiative whereby FEBHP would be authorized to offer long-term care policies to federal employees. This was part of our FY 2001 budget proposal. It is scheduled to be signed on Tuesday. The Speaker may ask why we do not like an above-the-line deduction when we are providing a subsidy to federal employees. We should make clear that such policies are not subsidized. Rather, FEBHP would negotiate with insurers (as large private employers do) to offer a long-term care product as an option for federal employees but the employees must pay 100 percent of the premium cost of such plans. Therefore, it is not inconsistent with our concerns about the Republican tax deduction.

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Long Term Care Tax File

MEMORANDUM TO GENE SPERLING

FROM: EDWIN C. PARK

SUBJECT: BACKGROUND ON LONG TERM CARE TAX CREDIT ISSUES

DATE: September 17, 2000

I. Patients Bill of Rights (PBOR) Negotiations

This discussion on our long-term care tax credit proposal and the Republicans' long-term care insurance tax deduction is part of the overall Patients Bill of Rights negotiations. In your meeting with Speaker Hastert, we hope to leverage our long term care tax credit proposal and consumer protection conditions (disclosure, inflation adjustments, and non-forfeiture) on use of the Republicans' long-term care insurance deduction, for support of their deduction, which Republicans continue to strongly signal they want to pass. The intent is to resolve the long-term care access issue, which would make it slightly easier for Hastert to negotiate with Lott and with Norwood-Dingell-Kennedy-Daschle to produce a PBOR bill that the President could sign.

As you know, the House passed the Norwood-Dingell legislation, which we support, on October 6, 1999. The Senate passed a version of the legislation on October 14, 1999 that we oppose because it did not include a number of patient protections included in the Norwood-Dingell bill. It limited the scope of the protections to self-insured ERISA plans (leaving out 135 million enrollees), limited the right to sue (substantial harm test, limits on non-economic damages, and preempt state laws and state jurisdiction); and provided inadequate access to emergency room care, specialists, and clinical trials. We also oppose the so-called access provisions that expand Medical Savings Accounts (MSAs), individual health tax deductions, association health plans (AHPs) and Health Marts, and long-term care insurance tax deductions.

PBOR remains stalled on the Hill. The Administration has threatened a veto on the Labor/HHS appropriations bill because among other reasons, it includes the Senate-passed version of the PBOR legislation (as sponsored by Nickles). While the conference report for Labor/HHS has not yet been filed, it is likely to not include the Senate version of PBOR. On June 8<sup>th</sup>, Senator Daschle offered the House-passed version of PBOR (as sponsored by Norwood and Dingell and supported by the Administration) as an amendment to the Defense appropriations bill. The amendment was tabled 48-51 (with 4 R's voting for - Chafee, Fitzgerald, McCain and Specter - and one D absent). On June 29<sup>th</sup>, Senator Dorgan offered an amendment applying any PBOR legislation to all plans and that federal legislation would not supercede more generous state laws. The amendment was defeated 47-51 (with the same 4 R's voting for but 2 D's absent). Nickles then passed the Senate-passed version of PBOR as an amendment to Labor/HHS on an identical vote of 51-47. Because two D's were absent and would have voted for the House version and Miller (D) has replaced Coverdell (R) in the Senate, the Democrats should have the votes to force a tie with the Vice President casting the deciding vote. It is an issue whether Democrats will have such an opportunity to bring PBOR as an amendment for a vote on the Floor.

## II. Long Term Care

About 13 million Americans have some long-term care needs, defined as being unable to perform at least one activity of daily living (ADL), such as eating, toileting, transferring, bathing, dressing, and continence. Of those, 5 million have significant limitations, being unable to perform three or more ADLs without assistance. Nearly 2 million live in nursing homes and the remainder live in the community and receive care from family caregivers. More than two-thirds of the 5 million are elderly – nearly half of all persons age 85 or older need assistance with ADLs. Long-term care will become a more difficult issue to address because of the increase in the number of elderly over the next century. The number of persons age 65 or older will double by 2030 (from 34.3 million to 64.9 million) so that 20 percent of all Americans would be elderly). The number of persons age 85 or older will more than double from 4.0 million to 8.4 million.

The Congressional Budget Office estimates that the United States spent \$123.1 billion on long-term care services in 2000. It projects that spending would increase by 280 percent to \$308.1 billion by 2040. The sources of most long-term care spending are Medicaid and personal spending. Medicaid is the largest payer of long-term care in the nation, focusing on nursing home care. 35 percent of total long-term care spending is through Medicaid. Two-thirds of nursing home residents are covered by Medicaid and about 80 percent of Medicaid long-term care spending is attributable to nursing home services (about \$50,000 per year). The remaining 20 percent is for home and community-based services which the President has encouraged by approving over 300 1915(c) waivers that permit States to provide care in the community for beneficiaries who would otherwise be in institutional care. 35 percent of spending on long-term care is from personal out-of-pocket spending by those with long-term care needs and their family caregivers. The costs are not just financial – two-thirds of working caregivers report experiencing work conflicts, less pay, and unpaid leaves. More than half of caregivers is elderly with one-third having poor or fair health. Medicare provides 24 percent (Medicare provides only extended care services of short duration, not for long-term care). Private insurance covers only 4 million Americans and constitutes only 4 percent of total long-term care spending. Other sources provide the remaining 4 percent.

## III. President's FY 2001 LTC Tax Credit Proposal

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	5 Yr	10 Yr
Cost	-\$0.1	-\$1.2	-\$1.8	-\$2.5	-\$3.2	-\$3.5	-\$3.6	-\$3.6	-\$3.6	-\$3.5	-\$8.8	-\$26.6

While Medicaid provides significant financial assistance for persons with severe long-term care needs who require nursing home services, there is little assistance for family caregivers who take care of dependents with long-term care needs in their homes. The only resources available are the family's personal income and assets. As a result, in the FY 2001 budget, the President has proposed a \$3,000 tax credit, when fully implemented, for a taxpayer with long-term care needs or a spouse or dependents with long-term care needs.<sup>1</sup> The tax credit would be available for taxable years after December 31, 2000 and would be implemented over 5 years

<sup>1</sup> In the FY 2000 budget, the President proposed a \$1,000 tax credit for taxable years after December 31, 1999 with similar requirements.

(starting at \$1,000 in 2001, \$1,500 in 2002, \$2,000 in 2003, \$2,500 in 2004, and \$3,000 in 2005). The tax credit would be phased out for high-income taxpayers by \$50 for each \$1,000 by which the taxpayer's modified adjusted gross income (AGI) exceeds \$110,000 for joint filers, \$75,000 for single filers, and \$55,000 for married individuals filing separately. The credit would not generally be refundable unless a taxpayer claims three or more credit amounts (this long-term care credit, the current childcare credit, and the proposed disabled worker credit). The refundable amount would be the amount by which those credits increase as a result of a tax liability limit increase (excess of social security taxes over EIC). The cost of the tax credit proposal is \$8.8 billion/5 years and \$26.6 billion/10 years. The Treasury Department estimates that the tax credit would assist 2 million taxpayers with long-term care needs (1.2 million elderly, 500,000 non-elderly adults, and 250,000 children).

To qualify for the tax credit, there are three requirements. First, a dependent with long-term care needs must have an income that does not exceed a modified gross income threshold (sum of personal exemption, standard deduction, and additional deduction for the elderly and blind or about \$7,400). Second, the dependent must reside with the taxpayer for at least one full year or six months if the dependent is a parent, ancestor, child, or descendent of the taxpayer. Third, the taxpayer or dependent must be determined to have long-term care needs. For a person age six or older, a physician must certify that for at least six months the person is unable to perform three activities of daily living (ADLs) without substantial assistance from another individual. ADLs are basic life functions such as eating, toileting, transferring, bathing, dressing, and continence. Substantial assistance is defined as hands-on assistance (direct physical aid) or stand-by assistance (offering aid when necessary within arm's reach). An individual may also qualify if he is certified to require substantial supervision for at least six months to be protected from threats to safety/health from himself or others because of cognitive impairments and is unable to perform one ADL. For a child age two to six, a physician must certify that the child for at least six months needs substantial assistance for 2 ADLs. For a child under age 2, a physician must certify that the child requires special durable medical equipment or attention by a skilled practitioner. At least some part of the six month period must occur during the taxable year for which the taxpayer is filing for a credit. To continue to qualify for the credit, the person with long-term care needs must be recertified by a physician every three years.

- Effectiveness of Tax Credit: The tax credit proposal is intended to target lower or middle income taxpayers currently with the most severe and current long-term care needs or caring for dependents with such needs. The lowest income persons with long-term care needs may qualify for Medicaid while those with higher incomes would be able to afford long-term care private insurance. Any person unable to perform 3 ADLs by definition requires long-term care and because long-term care insurance is medically underwritten (you can deny on basis of health status determined through physical exams/medical history), insurance is not an option. This would also encourage care at home for persons with long-term needs rather than in a nursing home (which costs about \$50,000 per year). A tax credit would also be more equitable because all taxpayers would benefit (rather than on the basis of income – higher income, the higher the deduction and therefore the benefit). 75 percent of elderly taxpayers have incomes below \$50,000 and a survey determined that 40 percent of family caregivers have household incomes below \$30,000 per year.

- Those Helped: The Treasury Department estimates that there are 5 million persons with long term care needs who would be eligible for the tax credit in the first year (2 million elderly, 900,000 non-elderly adults, 500,000 children, and 1.6 million nursing home residents). 2 million persons (40 percent) would actually receive assistance (directly as a taxpayer or through a taxpayer caring for them) in the first year. The participation rates would be 59 percent for the elderly, 54 percent for the non-elderly adults, 50 percent of children, and 4 percent of the nursing home population.

#### IV. Republican LTC Tax Deduction Proposal

Year <sup>2</sup>	2000	2001	2002	2003	2004	2005	5 Yr	10 Yr
Cost	-\$0.1	-\$1.0	-\$1.2	-\$1.4	-\$1.6	-\$1.7	-\$6.9	-\$17.2

Included in the Senate version of the PBOR legislation is a 100 percent above-the-line tax deduction for premiums by taxpayers purchasing private long-term care insurance but not through an employer-subsidized long-term care plan. The deduction would not apply for self-employment tax purposes. The deduction would be effective for taxable years after December 31, 1999. The cost of the proposal is \$6.9 billion/5 years and \$17.2 billion/10 years.

The House version of the PBOR legislation as well as Nickles' Labor/HHS amendment includes a modified version of the above-the-line tax deduction. It would provide a deduction for taxpayers paying premiums that are 50 percent or more of the cost of a long-term care plan for taxable years after December 31, 2002. The percentage deduction would phase-up to 100 percent, starting at 25 percent for 2002-2004, 35 percent in 2005, 65 percent in 2006, and 100 percent thereafter. The cost of that proposal is \$1.2 billion over 5 years and \$9.7 billion/10 years.

- Effectiveness of Deduction: 75 percent of taxpayers pay federal income taxes at no higher than the 15 percent marginal tax rate. As a result, for those persons, they would receive at best only a 15 percent subsidy to purchase long-term care insurance which could cost anywhere from \$1,000 to \$3,100 a year for persons age 65. In addition, a deduction would do little to purchase long-term coverage for those with the most needs now. Such policies are medically underwritten (thereby precluding purchasing coverage for those already with long-term needs altogether). A deduction would also benefit those with higher incomes (for example, those in marginal tax brackets of 36 percent or 39.6 percent would get subsidies at those percentages) who are more likely to already be able to afford long-term care insurance.
- Consumer Protections: A major problem with private long-term care insurance today is that policies lack sufficient protections for beneficiaries. The National Association of Insurance Commissioners (NAIC) and others have recommended that long-term care insurance products include appropriate consumer protections such as information disclosure, inflation adjustments, and nonforfeiture provisions. We support requiring these protections as a condition of eligibility for the long-term care tax deduction.
  - Disclosure Requirements: Many purchasers of long-term care insurance are not provided appropriate information on rate increases, options when rate increases occur, and

<sup>2</sup> The Joint Tax Committee provides individual year estimates for only the first six years.

information about inflation adjustments and nonforfeiture options. NAIC has included information disclosure as part of their draft Model Regulation (adopted August, 2000) on long-term care insurance.

- Inflation Premium Limits and Inflation Adjustment for Benefits: 61 percent of long-term care insurance purchasers are expected to let their policies lapse for reasons other than death during the first nine years of a policy. As persons get older, their income falls and they may be less able to pay premiums to continue their coverage. Some limitation on premium increases such as increases not greater than CPI may encourage continued coverage. Also, currently, private long-term care insurance is modeled on traditional indemnity insurance, policies that for example pay \$100 per day for nursing home care, \$80 per day in assistive living services, and \$50 per day for home health services. Insurers either do not adjust these benefits for inflation for long-term care or charge significantly higher premiums for such protections. As a result, a beneficiary purchasing long-term care insurance at age 40 may find that such insurance provides little in the way of services when they reach age 80.
- Nonforfeiture: If a beneficiary fails to pay premiums on a timely basis, the beneficiary may forfeit 100 percent of the value of his previously paid premiums and 100 percent of the value of any benefits owed to him. In light of the 61 percent lapse rate, long-term care insurance should include nonforfeiture provisions (beneficiary is guaranteed a percentage of the value of his policy based on premium contributions and period of time). Otherwise, contribution to an IRA, a 401(k) or other forms of savings and paying for long-term care services directly out of such savings is a far more attractive option for persons with long-term care needs.
- Value of Protections: Informal Treasury Department calculations show that a 40 year old purchasing long-term care insurance without inflation adjustments and nonforfeiture protections would accumulate \$44,000 in benefits by age 90 with a 4 percent post-tax rate of return. A 60 year old would accumulate \$45,000 by age 90. As a comparison, a 40 year old purchasing long-term care insurance with protections or investing amounts equal to premiums for such insurance would accumulate \$123,000. A 60 year old would accumulate \$102,000 by age 90.

Also included in the House version of PBOR and Nickles' Labor/HHS PBOR amendment is a provision permitting long-term care insurance to be offered as part of cafeteria plans and for premiums to be reimbursed under flexible spending accounts. The cost of this proposal is \$0.5 billion/5 years and \$1.2 billion/10 years.

- Encouraging cafeteria plan and flexible spending accounts for long-term care insurance may discourage employers from offering a long-term care benefit as part of their overall health benefits package.

V. Our Position

- While we have significant concerns about the Republican LTC insurance tax deduction, we are committed to our tax credit proposal which assists those with long-term care needs now and are therefore willing to accept the deduction. However, the deduction must include consumer protection conditions on use of the deduction – such as information disclosure, inflation adjustments, and non-forfeiture.
- The intent of this offer is to advance one of our priority targeted tax cuts and to further overall PBOR negotiations.



Health Insurance Association of America

Long-Term Care Tax Incentives  
File

## HIAA AND AARP CALL FOR BIPARTISAN SUPPORT FOR LONG-TERM CARE INITIATIVES

### Media Briefing

**WHAT:** A press briefing to announce agreement between HIAA and AARP in support of tax relief for purchasers of private long-term care insurance, and tax credits for people who need long-term care – or their caregivers.

**WHEN:** Wednesday, March 8, 2000 11:30am

**WHERE:** 428 Russell Senate Office Building, Washington, DC

**WHO:**

- Chip Kahn, President, HIAA
- Betty Severyn, Member, AARP Board of Directors
- The Honorable Nancy Johnson (R-CT)
- The Honorable Karen Thurman (D-FL)
- The Honorable Charles Grassley (R-IA)
- The Honorable Bob Graham (D-FL)

**ESSENCE:** The nation's long-term care system risks being overwhelmed by the cost of providing care to millions of baby boomers reaching retirement age. By the year 2020, one of every six Americans will be age 65 or older – 20 million more seniors than exist today.

HIAA and AARP are uniting to call for Congressional action to prevent a national long-term care crisis. In a letter to Members of Congress, both groups call for tax relief for people who purchase private long-term care insurance, and a tax credit for people who need long-term care – or their caregivers.

**PLEASE NOTE:** This briefing is open only to members of the media. Because we anticipate heavy interest, we would appreciate receiving RSVPs from members of the media as soon as possible, to any of the contacts listed below.

<b>FOR MORE INFORMATION:</b>	Richard Coorsh, HIAA	(202) 824-1787	<a href="mailto:rcoorsh@hiala.org">rcoorsh@hiala.org</a>
	Carrie Tydings, HIAA	(202) 824-1786	<a href="mailto:ctydings@hiala.org">ctydings@hiala.org</a>
	Gloria Wedderburn, HIAA	(202) 824-1810	<a href="mailto:gwedderburn@hiala.org">gwedderburn@hiala.org</a>
	Steve Hahn, AARP	(202) 434-2592	<a href="mailto:shahn@aarp.org">shahn@aarp.org</a>
	Joanetta Bolden, AARP	(202) 434-2574	<a href="mailto:jbalden@aarp.org">jbalden@aarp.org</a>



Health Insurance Association of America

## MEMO

DATE: March 8, 2000  
TO: Chris Jennings  
FROM: Robin Bowen, HIAA  
SUBJECT: House/Senate LTC Proposal

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Per your conversation with Chip Kahn, please find enclosed a copy of the bill language agreed to by HIAA and AARP for the above-the-line deduction for long-term care insurance and the long-term care tax credit.

This is the final version produced by the Senate Legislative Counsel. Senator Grassley wants to introduce the proposal today.

106TH CONGRESS  
2D SESSION

**S.** \_\_\_\_\_

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IN THE SENATE OF THE UNITED STATES

Mr. GRASSLEY (for himself and Mr. GRAHAM) introduced the following bill;  
which was read twice and referred to the Committee on \_\_\_\_\_

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**A BILL**

To amend the Internal Revenue Code of 1986 to allow individuals a deduction for qualified long-term care insurance premiums, use of such insurance under cafeteria plans and flexible spending arrangements, and a credit for individuals with long-term care needs.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Long-Term Care and  
5 Retirement Security Act of 2000".

1 **SEC. 2. TREATMENT OF PREMIUMS ON QUALIFIED LONG-**  
2 **TERM CARE INSURANCE CONTRACTS.**

3 (a) **IN GENERAL.**—Part VII of subchapter B of chap-  
4 ter 1 of the Internal Revenue Code of 1986 (relating to  
5 additional itemized deductions) is amended by redesi-  
6 gating section 222 as section 223 and by inserting after  
7 section 221 the following new section:

8 **“SEC. 222. PREMIUMS ON QUALIFIED LONG-TERM CARE IN-**  
9 **SURANCE CONTRACTS.**

10 “(a) **IN GENERAL.**—In the case of an individual,  
11 there shall be allowed as a deduction an amount equal to  
12 the applicable percentage of the amount of eligible long-  
13 term care premiums (as defined in section 213(d)(10))  
14 paid during the taxable year for coverage for the taxpayer,  
15 his spouse, and dependents under a qualified long-term  
16 care insurance contract (as defined in section 7702B(b)).

17 “(b) **APPLICABLE PERCENTAGE.**—For purposes of  
18 subsection (a)—

19 “(1) **IN GENERAL.**—Except as otherwise pro-  
20 vided in this subsection, the applicable percentage  
21 shall be determined in accordance with the following  
22 table based on the number of years of continuous  
23 coverage (as of the close of the taxable year) of the  
24 individual under any qualified long-term care insur-  
25 ance contracts (as defined in section 7702B(b)):

<b>"If the number of years of continuous coverage is—</b>	<b>The applicable long-term care percentage is—</b>
Less than 1 .....	60
At least 1 but less than 2 .....	70
At least 2 but less than 3 .....	80
At least 3 but less than 4 .....	90
At least 4 .....	100.

1           “(2) SPECIAL RULES FOR INDIVIDUALS WHO  
2 HAVE ATTAINED AGE 55.—In the case of an indi-  
3 vidual who has attained age 55 as of the close of the  
4 taxable year, the following table shall be substituted  
5 for the table in paragraph (1).

<b>"If the number of years of continuous coverage is—</b>	<b>The applicable long-term care percentage is—</b>
Less than 1 .....	70
At least 1 but less than 2 .....	85
At least 2 .....	100.

6           “(3) ONLY COVERAGE AFTER 1999 TAKEN INTO  
7 ACCOUNT.—Only coverage for periods after Decem-  
8 ber 31, 1999, shall be taken into account under this  
9 subsection.

10           “(4) CONTINUOUS COVERAGE.—An individual  
11 shall not fail to be treated as having continuous cov-  
12 erage if the aggregate breaks in coverage during any  
13 1-year period are less than 60 days.

14           “(c) COORDINATION WITH OTHER DEDUCTIONS.—  
15 Any amount paid by a taxpayer for any qualified long-  
16 term care insurance contract to which subsection (a) ap-  
17 plies shall not be taken into account in computing the  
18 amount allowable to the taxpayer as a deduction under  
19 section 162(l) or 213(a).”

1 (b) CONTINGENT NONFORFEITURE REQUIREMENTS  
2 ADDED TO CONSUMER PROTECTION PROVISIONS.—

3 (1) Section 7702B(g)(2)(A)(i) of the Internal  
4 Revenue Code of 1986 (relating to model regulation)  
5 is amended by adding at the end the following new  
6 subclause:

7 “(XII) Section 23 (relating to  
8 contingent nonforfeiture benefits), if  
9 the policyholder declines the offer of a  
10 nonforfeiture provision described in  
11 paragraph (4).”

12 (2) Section 7702B(g)(2)(A)(ii) of such Code  
13 (relating to model Act) is amended by adding at the  
14 end the following new subclause:

15 “(III) Section 8 (relating to con-  
16 tingent nonforfeiture benefits), if the  
17 policyholder declines the offer of a  
18 nonforfeiture provision described in  
19 paragraph (4).”

20 (c) REFERENCE TO NAIC MODEL ACT UPDATED.—  
21 Section 7702B(g)(2)(B)(i) of the Internal Revenue Code  
22 of 1986 (relating to model provisions) is amended by strik-  
23 ing “January 1993” and inserting “January 1999”.

1 (d) LONG-TERM CARE INSURANCE PERMITTED TO  
2 BE OFFERED UNDER CAFETERIA PLANS AND FLEXIBLE  
3 SPENDING ARRANGEMENTS.—

4 (1) CAFETERIA PLANS.—Section 125(f) of the  
5 Internal Revenue Code of 1986 (defining qualified  
6 benefits) is amended by inserting before the period  
7 at the end “; except that such term shall include the  
8 payment of premiums for any qualified long-term  
9 care insurance contract (as defined in section  
10 7702B) to the extent the amount of such payment  
11 does not exceed the eligible long-term care premiums  
12 (as defined in section 213(d)(10)) for such con-  
13 tract”.

14 (2) FLEXIBLE SPENDING ARRANGEMENTS.—  
15 Section 106 of such Code (relating to contributions  
16 by an employer to accident and health plans) is  
17 amended by striking subsection (c).

18 (e) CONFORMING AMENDMENTS.—

19 (1) Section 62(a) of the Internal Revenue Code  
20 of 1986 is amended by inserting after paragraph  
21 (17) the following new item:

22 “(18) PREMIUMS ON QUALIFIED LONG-TERM  
23 CARE INSURANCE CONTRACTS.—The deduction al-  
24 lowed by section 222.”

1           (2) Section 7702B(g)(2)(A)(i) of such Code, as  
2 amended by subsection (b)(1), is amended by strik-  
3 ing "7A" both places it appears, "7B", "7C", "7D",  
4 "7E", "8", "9", "9F", "10", "11", "12", and "23"  
5 the first place it appears and inserting "6A", "6B",  
6 "6C", "6D", "6E", "7", "8", "8F", "9", "10",  
7 "11", and "22", respectively.

8           (3) Section 4980C(c)(1)(A) of such Code is  
9 amended by striking "13", "14", "20", "21",  
10 "21C(1)", "21C(6)", "22", "24", and "25" and in-  
11 sserting "12", "13", "19", "20C(1)", "20C(6)",  
12 "21", "25", and "26", respectively.

13           (4) The table of sections for part VII of sub-  
14 chapter B of chapter 1 of such Code is amended by  
15 striking the last item and inserting the following  
16 new items:

          "Sec. 222. Premiums on qualified long-term care insurance con-  
          tracts.

          "Sec. 223. Cross reference."

17           (f) EFFECTIVE DATES.—

18           (1) IN GENERAL.—Except as provided in para-  
19 graphs (2) and (3), the amendments made by this  
20 section shall apply to taxable years beginning after  
21 December 31, 1999.

22           (2) CONSUMER PROTECTION PROVISIONS.—The  
23 amendments made by subsections (b), (c), (e)(2),  
24 and (e)(3) shall apply to policies issued after the

1 date which is 1 year after the date of the enactment  
2 of this Act.

3 (3) CAFETERIA PLANS AND FLEXIBLE SPEND-  
4 ING ARRANGEMENTS.—The amendments made by  
5 subsection (c) shall apply to taxable years beginning  
6 after December 31, 2001.

7 **SEC. 3. CREDIT FOR TAXPAYERS WITH LONG-TERM CARE**  
8 **NEEDS.**

9 (a) IN GENERAL.—Subpart A of part IV of sub-  
10 chapter A of chapter 1 of the Internal Revenue Code of  
11 1986 (relating to nonrefundable personal credits) is  
12 amended by inserting after section 25A the following new  
13 section:

14 **“SEC. 25B. CREDIT FOR TAXPAYERS WITH LONG-TERM**  
15 **CARE NEEDS.**

16 **“(a) ALLOWANCE OF CREDIT.—**

17 **“(1) IN GENERAL.—**There shall be allowed as a  
18 credit against the tax imposed by this chapter for  
19 the taxable year an amount equal to the applicable  
20 credit amount multiplied by the number of applica-  
21 ble individuals with respect to whom the taxpayer is  
22 an eligible caregiver for the taxable year.

23 **“(2) APPLICABLE CREDIT AMOUNT.—**For pur-  
24 poses of paragraph (1), the applicable credit amount

1 shall be determined in accordance with the following  
2 table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable credit amount is—</b>
2000 .....	\$1,000
2001 .....	1,500
2002 .....	2,000
2003 .....	2,500
2004 or thereafter .....	3,000.

3 “(b) LIMITATION BASED ON ADJUSTED GROSS IN-  
4 COME.—

5 “(1) IN GENERAL.—The amount of the credit  
6 allowable under subsection (a) shall be reduced (but  
7 not below zero) by \$100 for each \$1,000 (or fraction  
8 thereof) by which the taxpayer’s modified adjusted  
9 gross income exceeds the threshold amount. For  
10 purposes of the preceding sentence, the term ‘modi-  
11 fied adjusted gross income’ means adjusted gross in-  
12 come increased by any amount excluded from gross  
13 income under section 911, 931, or 933.

14 “(2) THRESHOLD AMOUNT.—For purposes of  
15 paragraph (1), the term ‘threshold amount’ means—

16 “(A) \$150,000 in the case of a joint re-  
17 turn, and

18 “(B) \$75,000 in any other case.

19 “(3) INDEXING.—In the case of any taxable  
20 year beginning in a calendar year after 2000, each  
21 dollar amount contained in paragraph (2) shall be  
22 increased by an amount equal to the product of—

1           “(A) such dollar amount, and

2           “(B) the medical care cost adjustment de-  
3           termined under section 213(d)(10)(B)(ii) for  
4           the calendar year in which the taxable year be-  
5           gins, determined by substituting ‘August 1999’  
6           for ‘August 1996’ in subclause (II) thereof.

7           If any increase determined under the preceding sen-  
8           tence is not a multiple of \$50, such increase shall  
9           be rounded to the next lowest multiple of \$50.

10          “(c) DEFINITIONS.—For purposes of this section—

11           “(1) APPLICABLE INDIVIDUAL.—

12           “(A) IN GENERAL.—The term ‘applicable  
13           individual’ means, with respect to any taxable  
14           year, any individual who has been certified, be-  
15           fore the due date for filing the return of tax for  
16           the taxable year (without extensions), by a phy-  
17           sician (as defined in section 1861(r)(1) of the  
18           Social Security Act) as being an individual with  
19           long-term care needs described in subparagraph  
20           (B) for a period—

21           “(i) which is at least 180 consecutive  
22           days, and

23           “(ii) a portion of which occurs within  
24           the taxable year.

1 Such term shall not include any individual oth-  
2 erwise meeting the requirements of the pre-  
3 ceding sentence unless within the 39½ month  
4 period ending on such due date (or such other  
5 period as the Secretary prescribes) a physician  
6 (as so defined) has certified that such indi-  
7 vidual meets such requirements.

8 “(B) INDIVIDUALS WITH LONG-TERM CARE  
9 NEEDS.—An individual is described in this sub-  
10 paragraph if the individual meets any of the fol-  
11 lowing requirements:

12 “(i) The individual is at least 6 years  
13 of age and—

14 “(I) is unable to perform (with-  
15 out substantial assistance from an-  
16 other individual) at least 3 activities  
17 of daily living (as defined in section  
18 7702B(c)(2)(B)) due to a loss of  
19 functional capacity, or

20 “(II) requires substantial super-  
21 vision to protect such individual from  
22 threats to health and safety due to se-  
23 vere cognitive impairment and is un-  
24 able to perform, without reminding or  
25 cuing assistance, at least 1 activity of

1 at least 1 activity of daily living (as so  
2 defined) or to the extent provided in  
3 regulations prescribed by the Sec-  
4 retary (in consultation with the Sec-  
5 retary of Health and Human Serv-  
6 ices), is unable to engage in age ap-  
7 propriate activities.

8 “(ii) The individual is at least 2 but  
9 not 6 years of age and is unable due to a  
10 loss of functional capacity to perform  
11 (without substantial assistance from an-  
12 other individual) at least 2 of the following  
13 activities: eating, transferring, or mobility.

14 “(iii) The individual is under 2 years  
15 of age and requires specific durable med-  
16 ical equipment by reason of a severe health  
17 condition or requires a skilled practitioner  
18 trained to address the individual’s condi-  
19 tion to be available if the individual’s par-  
20 ents or guardians are absent.

21 “(2) ELIGIBLE CAREGIVER.—

22 “(A) IN GENERAL.—A taxpayer shall be  
23 treated as an eligible caregiver for any taxable  
24 year with respect to the following individuals:

25 “(i) The taxpayer.

1                   “(ii) The taxpayer’s spouse.

2                   “(iii) An individual with respect to  
3 whom the taxpayer is allowed a deduction  
4 under section 151 for the taxable year.

5                   “(iv) An individual who would be de-  
6 scribed in clause (iii) for the taxable year  
7 if section 151(c)(1)(A) were applied by  
8 substituting for the exemption amount an  
9 amount equal to the sum of the exemption  
10 amount, the standard deduction under sec-  
11 tion 63(c)(2)(C), and any additional stand-  
12 ard deduction under section 63(c)(3) which  
13 would be applicable to the individual if  
14 clause (iii) applied.

15                   “(v) An individual who would be de-  
16 scribed in clause (iii) for the taxable year  
17 if—

18                   “(I) the requirements of clause  
19 (iv) are met with respect to the indi-  
20 vidual, and

21                   “(II) the requirements of sub-  
22 paragraph (B) are met with respect to  
23 the individual in lieu of the support  
24 test of section 152(a).

1           “(B) RESIDENCY TEST.—The require-  
2           ments of this subparagraph are met if an indi-  
3           vidual has as his principal place of abode the  
4           home of the taxpayer and—

5                   “(i) in the case of an individual who  
6                   is an ancestor or descendant of the tax-  
7                   payer or the taxpayer’s spouse, is a mem-  
8                   ber of the taxpayer’s household for over  
9                   half the taxable year, or

10                   “(ii) in the case of any other indi-  
11                   vidual, is a member of the taxpayer’s  
12                   household for the entire taxable year.

13           “(C) SPECIAL RULES WHERE MORE THAN  
14           1 ELIGIBLE CAREGIVER.—

15                   “(i) IN GENERAL.—If more than 1 in-  
16                   dividual is an eligible caregiver with re-  
17                   spect to the same applicable individual for  
18                   taxable years ending with or within the  
19                   same calendar year, a taxpayer shall be  
20                   treated as the eligible caregiver if each  
21                   such individual (other than the taxpayer)  
22                   files a written declaration (in such form  
23                   and manner as the Secretary may pre-  
24                   scribe) that such individual will not claim

1 such applicable individual for the credit  
2 under this section.

3 “(ii) NO AGREEMENT.—If each indi-  
4 vidual required under clause (i) to file a  
5 written declaration under clause (i) does  
6 not do so, the individual with the highest  
7 modified adjusted gross income (as defined  
8 in section 32(c)(5)) shall be treated as the  
9 eligible caregiver.

10 “(iii) MARRIED INDIVIDUALS FILING  
11 SEPARATELY.—In the case of married indi-  
12 viduals filing separately, the determination  
13 under this subparagraph as to whether the  
14 husband or wife is the eligible caregiver  
15 shall be made under the rules of clause (ii)  
16 (whether or not one of them has filed a  
17 written declaration under clause (i)).

18 “(d) IDENTIFICATION REQUIREMENT.—No credit  
19 shall be allowed under this section to a taxpayer with re-  
20 spect to any applicable individual unless the taxpayer in-  
21 cludes the name and taxpayer identification number of  
22 such individual, and the identification number of the phy-  
23 sician certifying such individual, on the return of tax for  
24 the taxable year.

1       “(e) TAXABLE YEAR MUST BE FULL TAXABLE  
2 YEAR.—Except in the case of a taxable year closed by rea-  
3 son of the death of the taxpayer, no credit shall be allow-  
4 able under this section in the case of a taxable year cov-  
5 ering a period of less than 12 months.”

6       (b) CONFORMING AMENDMENTS.—

7           (1) Section 6213(g)(2) of the Internal Revenue  
8 Code of 1986 is amended by striking “and” at the  
9 end of subparagraph (K), by striking the period at  
10 the end of subparagraph (L) and inserting “, and”,  
11 and by inserting after subparagraph (L) the fol-  
12 lowing new subparagraph:

13           “(M) an omission of a correct TIN or phy-  
14 sician identification required under section  
15 25B(d) (relating to credit for taxpayers with  
16 long-term care needs) to be included on a re-  
17 turn.”

18           (2) The table of sections for subpart A of part  
19 IV of subchapter A of chapter 1 of such Code is  
20 amended by inserting after the item relating to sec-  
21 tion 25A the following new item:

          “Sec. 25B. Credit for taxpayers with long-term care needs.”

22       (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 1999.

# When it comes to long-term care...

## You can't beat togetherness!

Millions of Americans need long-term care services, but not everyone can pay for them.

Working together, leaders in Congress, seniors' groups, and insurers have joined in support of a way to help Americans meet their long-term care needs.

Simple reforms would protect individuals and families from financial risk, give consumers greater choice, and ease the burden on public programs:

- An above-the-line tax deduction for the purchase of private long-term care insurance would help Americans meet the costs of long-term care and avert a national crisis in financing such services;
- A \$3000 tax credit would give relief to people who need long-term care services (and to their caregivers);
- And, federal support for counseling on long-term care choices and home- and community-based services would offer more options to seniors and their families.



"Coverage is the Cure."  
—Harry & Louise

LET'S WORK TOGETHER FOR TODAY'S SENIORS...  
AND TOMORROW'S



Health Insurance Association of America

Draft #11 (March 3, 2000)

**AARP-HIAA Joint Letter on Long-Term Care Tax Issues**

Dear Senator/Member of Congress:

We are writing to express our strong support for two initiatives that will provide some help to millions of Americans who need long-term care services. We urge Congress to pass this year both a \$3,000 long-term care tax credit for people who need long-term care services or their caregivers, and additional tax relief to help more Americans purchase private long-term care insurance. We hope that our joint support will encourage members of Congress from both political parties to reach across the aisle and to work together with the Administration to help Americans meet their growing long-term care needs.

Unless Congress begins now to take steps to address long-term care (LTC), the coming demographic tidal wave of baby boomers will overwhelm our nation's patchwork long-term care system and leave millions of Americans unprepared for the heavy financial and emotional burden of LTC. In 2020, one of six Americans will be age 65 or older – 20 million more seniors than today. By 2040, individuals 85 and older (the group most likely to require LTC) will more than triple to over 12 million.

Today, fully 42 percent of LTC in this country is paid for by the individuals needing care or their families (33 percent), and the insurance that they purchase (9 percent). But without substantial assistance, the full cost of long-term care is out of reach of most families. The average cost of a one-year nursing home stay is over \$46,000 – and growing. Helping people pay for these services directly and helping them purchase quality insurance products should be part of our nation's answer to this long-term care need.

Tax Credit for Long-Term Care Services

The main providers of LTC in our country today are family members – typically wives and daughters. To help individuals or their family members pay for LTC services, we recommend that Congress write into law the President's proposal for a \$3,000 tax credit for people with LTC needs or their caregivers.

~~While a tax credit will not reach many modest income individuals (almost half of Americans age 65 or older do not file tax returns because their incomes are too low),~~ many older people who need LTC today are maintaining some of their independence by relying on family members for assistance. A \$3,000 tax credit would ~~certainly~~ not be enough to purchase all the LTC services that a severely disabled person needs, but it would make a difference. Caregivers often lose wages and benefits, sometimes even jobs, to care for their loved ones. In short, these caregivers – most often women – may

give up their own future income security to provide long-term care today for a mother or mother-in-law.

#### Tax Deductibility for Long-Term Care Insurance Premiums

At the same time that we provide a tax credit to help people pay for long-term care services, we also need to do more to encourage people to prepare for their own future LTC needs. Stronger tax incentives for the purchase of private LTC insurance coverage – coupled with strong consumer protection standards – would help individuals and families protect themselves against the financial risk of LTC, give consumers much greater choice, and help ease the burden on public LTC programs.

While the tax clarifications enacted as part of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) are a good first step, they are not enough. Due to the limitations imposed on the medical itemized deduction, HIPAA's tax benefits help primarily those workers whose employers contribute toward a LTC insurance policy on their behalf (only 2 percent of the current LTC insurance market). However, the vast majority of Americans who have LTC insurance purchase individual policies. These people may deduct LTC insurance premiums only if they itemize deductions and only if their medical expenses exceed 7.5 percent of adjusted gross income. Only 4.5 percent of all tax returns report medical expenses as itemized deductions.

To go beyond HIPAA, we recommend that Congress provide an above-the-line tax deduction for LTC insurance premiums. The deduction also should be available, to the extent feasible, for the portion of employer-provided coverage paid by employees, and that long-term care insurance should be treated as a qualified benefit under cafeteria plans and flexible spending accounts. We also support updating the HIPAA consumer protection standards so that references to the January 1993 versions of the National Association of Insurance Commissioners' (NAIC) model act and regulations on long-term care are amended to refer to the June 1998 versions (the NAIC's most current models).

#### Other Long-Term Care Provisions

In addition to the tax credit for long-term care services, there are several other modest initiatives that we believe would help people manage their LTC needs. These include proposals to: enable states to build upon their current networks to provide family caregivers with support services such as respite care, as well as counseling and information; expand Medicaid eligibility for people in home- and community-based settings to enable states to provide services to nursing-home qualified beneficiaries with incomes up to 300 percent of the SSI limit without requiring a Federal waiver; encourage partnerships between low-income housing for the elderly and Medicaid; and provide access to private LTC insurance coverage for federal workers and retirees and their dependents.

Clearly, we cannot solve the entire LTC crisis facing America's families this year. And, our two organizations are unlikely to agree on a common agenda to achieve that.

However, AARP and HIAA do agree on these steps at this time, and we encourage the Congress and the Administration to take the opportunity that our healthy economy provides to enact the provisions outlined above this year. If you have any questions, please contact Sharon Cohen, HIAA's Senior Vice President of Federal Affairs at (202) 824-1845 or [scohen@hiaa.org](mailto:scohen@hiaa.org) or Tricia Smith, AARP's Senior Coordinator for Health Issues, Federal Affairs Department at 202-434-3770 or [psmith@aarp.org](mailto:psmith@aarp.org).

## THE PRESIDENT TRIPLES HIS LONG-TERM CARE TAX CREDIT AND URGES CONGRESS TO PASS A LONG-TERM CARE INITIATIVE IN 2000

January 18, 2000

Today, the Clinton Administration confirmed that the President's budget will include a \$3,000 tax credit for people with long-term care needs or their caregivers -- tripling the credit over last year's proposal and increasing the total investment in long-term care to \$28 billion over 10 years. This credit is the centerpiece of the President's historic long-term care initiative that has won praise from senior groups and health policy experts. The initiative tackles the complex problem of long-term care that affects millions of elderly, people with disabilities and families who care people in need. In addition to the (1) tax credit, the initiative will (2) provide funding for services which support family caregivers of older persons; (3) improve equity in Medicaid eligibility for people in home- and community-based settings; (4) encourage partnerships between low-income housing for the elderly and Medicaid; and (5) encourage the purchase of quality private long-term care insurance by Federal employees. This initiative complements the Administration's effort, spearheaded by the Vice President, to improve the quality of care in nursing homes. The President will commend Congress on giving this initiative serious consideration in the last session and urged it to finish the job this year.

### MILLIONS OF AMERICANS HAVE LONG-TERM CARE NEEDS

- **An increasing number of Americans have a range of long-term care needs.** Over five million Americans have significant limitations due to illness or disability and thus require long-term care. Approximately, two-thirds are older Americans. Also, millions of adults and a growing number of children have long-term care needs because of health condition from birth or a chronic illness developed later in life.
- **The aging of Americans will only increase the need for quality long-term care options.** The number of Americans age 65 years or older will double by 2030 (from 34.3 to 69.4 million), so that one in five Americans will be elderly. The number of people 85 years or older, nearly half of whom need assistance with everyday activities, will grow even faster.

### FINANCIAL AS WELL AS SUPPORT SERVICES ARE NEEDED

- **Families, who are the primary caregivers for people with long-term care needs, pay a big price for this care.** Although it is difficult to quantify, one study found that the economic value of care giving for families ranges from \$4,800 to \$10,400 per caregiver. As such, this new \$3,000 tax credit could cover up to 60 percent of families' costs.
- **Many family caregivers need supportive services to ensure that they do not place themselves at risk.** Families and friends caring for people with long term care needs often need information and assistance in getting to supportive resources. Most of those who are the primary caregivers of older persons who have limitations in their level of functioning are elderly themselves. Frequently, these caregivers are providing physically demanding and psychologically exhausting care which places their own health and mental health at risk. These stresses tend to be even more severe for families of persons with Alzheimer's Disease, who generally have greater demands placed on their personal time, experience family conflicts, lack adequate sleep, and are faced with financial hardships because of jobs sacrificed or employment curtailed or compromised.
- **Private insurance is an important but relative new and untested option.** Only about 4 million Americans -- 1.5 percent of all Americans -- have private long-term care insurance. Employers are only beginning to learn how to provide these benefits to their workers.

**\*PRESIDENT'S LONG-TERM CARE INITIATIVE.** The Clinton Administration's long-term care initiative, which invests \$10 billion over 5 years and \$28 billion over 10 years, includes:

- **Supporting families with long-term care needs through a \$3,000 tax credit.** This initiative acknowledges and supports millions of Americans with long-term care needs or the family members who care for and house their ill or disabled relatives through a \$3,000 tax credit. This credit would be phased in beginning with \$1,000 in 2001 and rising in \$500 increments, so eligible people would receive \$3,000 in 2005 and thereafter. The credit would be phased out beginning at \$110,000 for couples and \$75,000 for unmarried taxpayers. This new tax credit supports the diverse needs of families by compensating a wide range of formal or informal long-term care for people of all ages with three or more limitations in activities of daily living (ADLs) or a comparable cognitive impairment. It would provide needed financial support to about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children per year. It costs about \$8.8 billion over five years and \$26.6 billion over 10 years.
- **Establishing a commitment to provide services to assist family caregivers of older persons.** Recent studies have found that services like respite care can relieve caregiver stress and delay nursing home entry, and that support for families of Alzheimer's patients can delay institutionalization for up to a year. This nationwide program would support families who care for elderly relatives with chronic illnesses or disabilities by enabling states to utilize a visible, reliable network to provide: quality respite care and other support services; critical information about community-based long-term services that best meet a families' needs; and counseling and support, such as teaching model approaches for caregivers that are coping with new responsibilities and offering training for complex care needs, such as techniques to manage wandering and agitated behavior in late-stage Alzheimer's Disease. This program, which costs more than \$1.25 billion over 10 years, would assist approximately 250,000 families nationwide.
- **Improving Equity in Medicaid eligibility for people in home- and community-based care settings.** Historically, Medicaid policy and practice has inadvertently discriminated against people with long-term care needs who want to live in the community by making it much easier to provide coverage in nursing homes than in the community. This proposal would enable states to provide services to nursing-home qualified beneficiaries at 300 percent of the Supplemental Security Income (SSI) limit (about \$15,000) without requiring a complicated and frequently time-consuming Federal waiver. This proposal contributes towards this goal of giving people with long-term care needs the choice of remaining in their homes and communities. It costs \$140 million over 5 years, \$370 million over 10 years.
- **Encouraging partnerships between low-income housing for the elderly and Medicaid.** This proposal would provide \$100 million in competitive grants to qualified low-income elderly housing projects (Section 202 projects) to convert some or all units into assisted living, so long as Medicaid home and community-based services and services for non-Medicaid residents are readily available. As people living in these housing facilities age, their need for long-term care services rises, often leaving them with no choice but to move to a nursing home. This proposal would allow such people to "age in place" by funding the conversion of their units or the buildings that they live in into assisted living facilities. Only sites that agree to bring Medicaid home and community-based services into their converted assisted living facilities would qualify for grants, to ensure that low-income elderly have access to this opportunity.
- **Having the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees.** The Office of Personnel Management (OPM) to use its market leverage and set a national example by offering non-subsidized, quality private long-term care insurance to all federal employees, retirees, and their families at group rates. This proposal will provide employers a nationwide model for offering quality long-term care insurance. OPM anticipates that approximately 300,000 Federal employees would participate in this program.

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## **DRAFT: PRESIDENT ANNOUNCES LONG-TERM CARE INITIATIVE**

### **BACKGROUND**

- **Strong and growing need for long-term care.** About 2 million Americans live in nursing homes and another 5 million Americans live in the community, but have health problems that make them dependent on others for at least 2 activities of daily living (e.g., bathing, dressing). As the population ages and the baby boom generation retires, this number will increase dramatically. The Census Bureau projects that the number of people age 65 years or older will double by 2030, and the number of people 85 years or older will grow even faster. Today, one in four people age 85 years or older resides in a nursing home.
- **Little private savings or public coverage of long-term care.** Only about 4 million Americans -- 1.5 percent of all Americans -- have private long-term care insurance. Private insurance pays for a little over 10 percent of home health care and 5 percent of nursing home care. Medicare does not explicitly cover long-term care, although it pays for about 40 percent of formal home health costs. Medicaid, the payer of last resort for people impoverished by long-term care costs and the poor, pays for two-thirds of nursing home residents, but only 15 percent of home health care.
- **Large costs to individuals and families.** Because of the lack of insurance coverage, long-term care costs account for nearly half (44 percent) of all out-of-pocket health expenditures for Medicare beneficiaries. Concern about long-term care costs is not limited to the elderly and people with disabilities. Their children, other relatives and friends provide a surprisingly large amount of formal and informal long-term care. According to an HHS study, one in three Americans voluntarily provide some unpaid informal care to an ill or disabled family member or friend. The amount of this care has been valued in the tens to hundreds of billions of dollars a year.

### **POLICIES**

- **Promoting private long-term care insurance while helping families now.** The President has proposed a long-term care initiative that both encourages the young and healthy to insure against future long-term care costs and provides direct, immediate assistance to people with long-term care needs or their caregivers who face the large personal and financial costs of providing long-term care.
- **Tax credit for people with long-term care needs or their caregivers.** People with long-term care needs or the families who house and care for such relatives could receive a \$750, partially refundable tax credit beginning in 2000. This would help about 2.9 million people, at a cost of \$4.6 billion by 2003, \$13.9 billion between 2000 and 2008 (according to preliminary Treasury estimates).

- People with long-term care needs are defined as having two or more limitations in ADLs (bathing, dressing, eating, toileting, transferring and incontinence management) lasting for longer than six months or severe cognitive impairment, as certified by a doctor. Virtually all people who meet these criteria need some type of long-term care.
  - The credit would be given on the basis of illness rather than long-term care expenses because, otherwise, it would not help people receiving unpaid long-term care. For example, a husband whose wife cares for him herself rather than paying someone to do it would not receive a credit if it were based on receipts for long-term care expenses.
  - Certain families with “dependents” with long-term care needs could also receive the credit. The current definition of a “dependent” would be expanded to include a person who needs long-term care (described above), lives with the family member, and generally does not have any income tax liability. Because by definition they live in the community, dependents are rarely nursing home residents. This allows families who house and care for relatives needing long-term care to apply for the credit on their behalf. This improves the ability of the credit to help people who do not have enough income to file tax returns.
  - This credit would be administered as an add-on to the current dependent tax credit. As such, it is partially refundable, meaning that a tax filer with three or more dependents may file for a refundable credit.
- **Offering private long-term care policies to Federal employees.** The Federal government would offer its employees and annuitants a range of high-quality private long-term care insurance policies. There would be no Federal contribution for this coverage so that the costs of this provision would relate to administration of this benefit and would be small.
    - The Office of Personnel Management (OPM) would allow private long-term care insurance carriers to offer bids to provide coverage to Federal employees.
    - OPM would set standards for the plans and sort them into benefit classes (e.g., “core” policy plus several types of “enhanced” policies) to facilitate informed choice.
    - Premiums would be paid for through payroll deductions, but agencies, not OPM, send the premiums to the insurers. There would be no trust fund or Federal government contribution.

**DRAFT: PRESIDENT ANNOUNCES LONG-TERM CARE INITIATIVE**

**SUMMARY**

<b>ELIGIBILITY</b>	<b>2000-2003 (\$ billions)</b>	<b>2000-2008 (\$ billions)</b>
<b>2 + ADLS:</b> 2.9 million people		
\$500 credit	-3.1	-9.5
\$750 credit	-4.6	-13.9
\$1,000 credit	-5.9	-18.1
<b>3 + ADLS:</b> 2.2 million people		
\$500 credit	-2.4	-7.5
\$750 credit	-3.6	-10.9
\$1,000 credit	-4.6	-14.2
<b>OFFSETS</b>	About 5	About 15

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- **Offering private long-term care policies to Federal employees.** The Federal government would offer its employees and annuitants a range of high-quality private long-term care insurance policies. There would be no Federal contribution for this coverage so that the costs of this provision would relate to administration of this benefit and would be small.

- The Office of Personnel Management (OPM) would allow private long-term care insurance carriers to offer bids to provide coverage to Federal employees.
- OPM would set standards for the plans and sort them into benefit classes (e.g., “core” policy plus several types of “enhanced” policies) to facilitate informed choice.
- Premiums would be paid for through payroll deductions, but agencies, not OPM, send the premiums to the insurers. There would be no trust fund or Federal government contribution.

## Make Health Care More Affordable

### ASSISTING TAXPAYERS WITH LONG-TERM CARE NEEDS

#### Current Law

Several provisions in the tax code provide assistance to taxpayers with a disabled family member or with long-term care expenses. A taxpayer can receive a child and dependent care tax credit for expenses incurred to care for a disabled spouse or dependent so the taxpayer can work. A low-income working taxpayer can qualify for the earned income tax credit if he or she resides with a disabled adult son or daughter or certain other specified individuals. A taxpayer who itemizes can deduct expenses for qualified long-term care services if he or she is chronically ill or such expenses were incurred on behalf of a chronically ill spouse or dependent. However, taxpayers can only deduct medical expenses, including expenses for qualified long-term care services, which exceed 7.5 percent of adjusted gross income.

#### Reasons for Change

A long illness or a disability can impose significant burdens on individuals and their caregivers. Taxpayers who have long-term care needs or who care for others with such needs do not have the same ability to pay taxes as other taxpayers. Providing a tax credit is an equitable and efficient way of recognizing the formal and informal costs of providing long-term care.

#### Proposal

A taxpayer would be allowed to claim a \$3,000 credit if he or she has long-term care needs. A taxpayer also would be allowed to claim the credit with respect to a spouse or each qualifying dependent who has long-term care needs.<sup>9</sup> The credit (aggregated with the child credit and the

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<sup>9</sup> To qualify as a dependent, an individual must (1) be a specified relative or member of the taxpayer's household; (2) be a citizen or resident of the U.S. or resident of Canada or Mexico; (3) not be required to file a joint tax return with his or her spouse; and (4) receive over half of his or her support from the taxpayer. For purposes of the personal exemption, the dependent must have gross income below the dependent exemption amount (\$2,800 in 2000) if not the taxpayer's child. The taxpayer may be deemed as providing over half the cost of supporting the individual if (a) no one person contributes over half the support of such individual; (b) over half the support is received from persons each of whom, but for the fact that he or she did not provide over half such support, could claim the individual as a dependent; (c) the taxpayer contributes over 10 percent of such support; and (d) the other caregivers, who provide over 10 percent of the support, file written declarations stating that they will not claim the individual as a dependent.

In the FY 2001 budget, the Administration is proposing that the dependency test be simplified. Under the proposal, the support test would be waived if taxpayers meet a residency test. This modification would apply only to child dependents.

proposed disabled worker credit) would be phased-out for certain high-income taxpayers--that is, the aggregate credit amount would be phased out by \$50 for each \$1,000 (or fraction thereof) by which the taxpayer's modified AGI exceeds \$110,000 (in the case of a joint return), \$75,000 (in the case of a taxpayer who is not married), or \$55,000 (in the case of a married individual filing a separate return).

For purposes of the proposed tax credit only, the dependency tests would be modified in two ways. First, the gross income threshold would increase to the sum of the personal exemption amount, the standard deduction, and the additional deduction for the elderly and blind (if applicable). Thus, in 2001, a single individual could not be claimed as a dependent if his or her gross income exceeds approximately \$7,400 (\$8,500 if age 65 or over).

Second, the current-law support tests would be deemed to be met if the taxpayer and an individual with long-term care needs reside together for a specified period. The length of the specified period would depend on the relationship between the taxpayer and the individual with long-term care needs. The specified period would be over half the year if the individual is the parent (including stepparents and in-laws), or ancestor of the parent, or child, or descendant of the child, of the taxpayer. Otherwise, the individual must reside with the taxpayer the full year. If more than one taxpayer resides with the person with long-term care needs and would be eligible to claim the credit for that person, then only the taxpayer with the highest adjusted gross income would be eligible to claim the credit.

An individual age six or older would be considered to have long-term care needs if he or she were certified by a licensed physician (prior to the filing of a return claiming the credit) as being unable for at least six months to perform at least three activities of daily living (ADLs) without substantial assistance from another individual, due to a loss of functional capacity (including individuals born with a condition that is comparable to a loss of functional capacity).<sup>10</sup> As under section 7702B(c)(2)(B), ADLs would be eating, toileting, transferring, bathing, dressing, and continence. Substantial assistance would include both hands-on assistance (that is, the physical assistance of another person without which the individual would be unable to perform the ADL) and stand-by assistance (that is, the presence of another person within arm's reach of the individual that is necessary to prevent, by physical intervention, injury to the individual when performing the ADL).

As an alternative to the three-ADL test described above, an individual would be considered to have long-term care needs if he or she were certified by a licensed physician as (a) requiring substantial supervision for at least six months to be protected from threats to health and safety due to severe cognitive impairment and (b) being unable for at least six months to perform at least one or more ADL or engage in age appropriate activities as determined under regulations

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<sup>10</sup> A portion of the period certified by the physician must occur within the taxable year for which the credit is claimed. After the initial certification, individuals must be re-certified by their physician within three years or such other period as the Secretary prescribes.

prescribed by the Secretary of the Treasury in consultation with the Secretary of Health and Human Services.

A child between the ages of two and six would be considered to have long-term care needs if he or she were certified by a licensed physician as requiring substantial assistance for at least six months with two of the following activities: eating, transferring, and mobility. A child under the age of two would qualify if he or she were certified by a licensed doctor as requiring for at least six months specific durable medical equipment (for example, a respirator) by reason of a severe health condition or requiring a skilled practitioner trained to address the child's condition when the parents are absent. Within five years of enactment, the Department of the Treasury and the Department of Health and Human Services would report to Congress on the effectiveness of the definition of disability for children and recommend, if necessary, modifications to the definition. The taxpayer would be required to provide a correct taxpayer identification number for the individual with long-term care needs, as well as a correct physician identification number (e.g., the Unique Physician Identification Number that is currently required for Medicare billing) for the certifying physician. The IRS would be authorized to use mathematical error procedures to deny credit claims during returns processing if taxpayers do not provide valid taxpayer and physician identification numbers. Further, the taxpayer could be required to provide other proof of the existence of long-term care needs in such form and manner, and at such times, as the Secretary requires.

The credit would be coordinated with the current law child credit and the proposed disabled workers credit to allow these credits to be refundable for a taxpayer claiming three or more credit amounts.<sup>11</sup> As under the current-law child credit, the amount of refundable credit would be the amount that the nonrefundable personal credits would increase if the tax liability limitation of section 26(a) were increased by the excess of the taxpayer's social security taxes over the taxpayer's earned income credit (if any).

The proposal would be effective for taxable years beginning after December 31, 2000. The credit would be phased in at \$1,000 in 2001, \$1,500 in 2002, \$2,000 in 2003, \$2,500 in 2004, and \$3,000 in 2005 and thereafter.

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<sup>11</sup> More than one credit amount could be attributable to a single individual. For example, a disabled worker with long-term care needs would have two credit amounts—a disabled workers credit and a long-term care credit. Similarly, a taxpayer with a child under age 17 with long-term care needs would have two credit amounts—a child credit and a long-term care credit—for that child.

## ENCOURAGE COBRA CONTINUATION COVERAGE

### Current Law

Under present law, the tax treatment of health insurance expenses depends on whether a taxpayer is covered under a health plan paid for by an employer, whether an individual has self-employment income, or whether an individual has medical expenses that exceed a certain threshold. An employer's contribution to a plan providing health benefits coverage for an employee, and his or her spouse and dependents, is excludable from the employee's income for both income and payroll tax purposes. In addition, active employees participating in a cafeteria plan may pay their employee share of premiums on the same tax-preferred basis. A self-employed individual, who is not eligible for subsidized coverage under his or her employer plan or a spouse's employer plan, currently may deduct 60 percent of health insurance premiums, providing the deduction does not exceed self-employed income. Self-employed individuals will be able to deduct 70 percent of health insurance premiums starting in 2002 and 100 percent in 2003, and thereafter. Other individuals who pay for their own health insurance may claim an itemized deduction for their health insurance premiums only to the extent that premiums, when combined with other unreimbursed medical expenses, exceed 7.5 percent of adjusted gross income.

Under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), qualified individuals, primarily separating employees, covered by employer insurance in firms with more than 20 employees are eligible to purchase continuation coverage from their employers. Other covered individuals include spouses and dependent children who would lose coverage as a result of a covered employee's death, divorce or legal separation. The firm may charge a separating employee up to 102 percent of the average cost of the employer's health plan. Depending on the circumstances, former employees and their dependents can elect to continue COBRA coverage for up to 18 to 36 months.

### Reasons for Change

There are several reasons to provide a tax preference for employer-provided health insurance. First, depending on the response of employers and employees to tax preferences, the cost of the tax preference may be more than offset by a reduction in the reliance of individuals on publicly funded programs and on cross subsidies from other consumers. Second, because an employer's decision to hire a worker is generally based on productivity factors rather than on health factors, the current tax preference for employer-provided health insurance acts as an inducement for the pooling of risks across a broad range of individuals.

However, when employees separate from a firm, their tax preferences for health insurance decrease in two ways. First, employer contributions for health insurance tend to decline substantially at termination. Second, employee contributions towards COBRA coverage are made on an after-tax basis. The lack of tax preference for contributions by former employees to COBRA coverage may be one of several reasons why participation in COBRA is so low. Some studies suggest that only 20 to 25 percent of individuals eligible for COBRA actually purchase it.

Under a separate proposal, retired employees whose employers eliminate retiree health benefits after their retirement would be eligible to buy into COBRA until they are sixty-five years of age. Unless retired employees are otherwise eligible for COBRA, employers would be permitted to charge up to 125 percent of the average cost of the employer's group health benefits plan. Because retirees are generally much more expensive to insure than active workers, the 125 percent premium would be expected generally to cost less than a policy purchased in the individual insurance market. Nevertheless, many retirees would find the 125 percent premium to be unaffordable.

### **Proposal**

Individuals who participate in an employer-provided health benefit plan through COBRA would be eligible for a 25% nonrefundable tax credit for their COBRA continuation premiums. For individuals qualifying under the new proposal as retirees whose employers drop coverage, eligibility for the tax credit would continue until they reach age sixty-five. For all others, eligibility for the credit would be limited to the current law COBRA eligibility period (18 to 36 months). To be eligible for the COBRA credit, taxpayers must be under age sixty-five. The Secretary of the Treasury would issue regulations on reporting requirements for employers.

The proposal would be effective for taxable years beginning after December 31, 2001.

## **PROVIDE TAX CREDIT FOR MEDICARE BUY-IN PROGRAM**

### **Current Law**

See the description of current law under "Encourage COBRA Continuation Coverage".

### **Reasons for Change**

Individuals age 55 through 64 are too young for the current Medicare program (unless disabled), yet often are not covered by employer-provided health insurance. Recently there has been growing concern for this age cohort as some employers eliminate retiree health insurance. Because these individuals are older and are more likely to have health problems, individually purchased health insurance is very expensive. Individuals who are not covered by the protections of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) may have difficulty obtaining coverage for pre-existing conditions. Some who are not covered by HIPAA may be denied coverage altogether.

To address these concerns, a separate Administration proposal would extend eligibility to buy into Medicare to older workers, retirees and displaced workers. Premiums plus a surcharge to the Medicare part B premium would be set to make the buy-in self-financing. As with employment based health insurance, a tax incentive is warranted to encourage healthy as well as wealthy individuals to participate, creating a broad risk pool with more affordable premiums.

## **Proposal**

Taxpayers would be allowed to claim a nonrefundable tax credit for health insurance purchased through the new Medicare buy-in program. The credit would equal 25 percent of Medicare buy-in premiums paid by a taxpayer prior to reaching age 65.

Under the Medicare buy-in proposal, individuals age 62 through 64 years of age who do not have access to employer-provided health coverage or certain other subsidized health insurance coverage would be eligible for the program. Qualifying individuals would have a one-time election to voluntarily join the Medicare buy-in program. These individuals would pay a base premium, adjusted for location, that on average equals the average cost of insuring individuals in this age range. The base premium would be paid every year prior to reaching age 65 and would be eligible for the tax credit. Once an individual turns 65 years old, he or she would no longer pay the base premium, but instead would pay an (estimated smaller) amortized amount every year he or she is enrolled in Medicare until age 85. This latter cost would be assessed to cover the above-average costs of this particular risk-pool and would not be eligible for the tax credit.

In addition, workers involuntarily separated from their jobs between 55 and 62 years of age could make a one-time election (per qualifying event) to voluntarily join the Medicare buy-in program. Eligibility would be limited to individuals who do not have access to employer-provided health coverage or certain other subsidized health insurance coverage. In addition, individuals would be required to have had health benefit coverage on their previous job for at least one year. Spouses of eligible individuals would also be eligible. Unlike the 62-64 age group, these individuals would pay a premium each year that would approximately cover the total cost of their risk-pool. Because the entire premium would be paid before reaching age 65, the entire premium would qualify for the tax credit.

The proposal would be effective for taxable years beginning after December 31, 2001.

## **PROVIDE TAX RELIEF FOR WORKERS WITH DISABILITIES**

### **Current Law**

Taxpayers who are handicapped may claim an itemized deduction for impairment-related work expenses. The deduction is treated as a miscellaneous deduction subject to the two-percent of adjusted gross income (AGI) floor.

A handicapped individual is defined as any individual who has a physical or mental disability (including, but not limited, to blindness or deafness), which for such individual constitutes or results in a functional limitation to employment, or who has any physical or mental impairment (including, but not limited to, a sight or hearing impairment), which substantially limits one or more major life activities.

Impairment-related work expenses are defined as expenses for attendant care services at the individual's place of employment and other expenses in connection with such place of

employment which are necessary for the individual to be able to work. Impairment-related work expenses must be ordinary and necessary.

Depreciable capital items are not included under the definition of impairment-related work expenses. Depreciation attributable to these items, however, may be deductible, subject to certain limitations (such as, for example, the two-percent AGI floor).

### **Reasons for Change**

Disabled individuals may incur additional costs in order to work and earn taxable income, and thus do not have the same ability to pay as taxpayers who do not incur such expenses. However, many moderate-income disabled individuals do not benefit from the current-law tax deduction for impairment-related work expenses because they do not have sufficient work-related expenses and other deductions to benefit from itemizing deductions. In addition, many disabled individuals do not benefit from the current-law deduction because they incur significant work-related expenses outside the workplace (which do not qualify for the deduction) or rely on unpaid relatives or friends for assistance. For example, they may require personal assistance to get dressed and be driven to work:

### **Proposal**

A taxpayer would qualify for a \$1,000 tax credit if he or she had earned income and was disabled. The credit could not exceed the disabled individual's earned income during the tax year. The credit (aggregated with the child credit and the proposed long-term care credit) would be phased-out for certain high-income taxpayers--that is, the aggregate credit amount would be phased out by \$50 for each \$1,000 (or fraction thereof) by which the taxpayer's modified AGI exceeds \$110,000 (in the case of a joint return), \$75,000 (in the case of a taxpayer who is not married), or \$55,000 (in the case of a married individual filing a separate return).

A taxpayer with earned income would be considered to be a disabled worker if he or she were certified by a licensed physician (prior to the filing of a return claiming the credit) as being unable for at least 12 months to perform at least one activity of daily living without substantial assistance from another individual, due to loss of functional capacity.<sup>12</sup> As under section 7702B(c)(2)(B), activities of daily living would be eating, toileting, transferring, bathing, dressing, and continence. A taxpayer could potentially qualify for both the proposed long-term care credit and the disabled workers tax credit.

The taxpayer would be required to provide a correct physician identification number (e.g., the Unique Physician Identification Number that is currently required for Medicare billing) for the certifying doctor. The IRS would be authorized to use mathematical error procedures to deny

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<sup>12</sup> A portion of the period certified by the physician must occur within the taxable year for which the credit is claimed. After the initial certification, individuals must be re-certified by their physician within three years or such other period as the Secretary prescribes.

credit claims during returns processing if taxpayers do not provide valid taxpayer and physician identification numbers. Further, the taxpayer could be required to provide other proof of the existence of disability in such form and manner, and at such times, as the Secretary requires.

The credit would be coordinated with the current law child credit and the proposed long-term care credit to allow these credits to be refundable for a taxpayer claiming three or more credit amounts.<sup>13</sup> As under the current-law child credit, the amount of refundable credit would be the amount that the nonrefundable personal credits would increase if the tax liability limitation of section 26(a) were increased by the excess of the taxpayer's social security taxes over the taxpayer's earned income credit (if any).

The proposal would be effective for tax years beginning after December 31, 2000.

## **PROVIDE TAX RELIEF TO ENCOURAGE SMALL BUSINESS HEALTH PLANS**

### **Current Law**

Employer contributions toward employee accident or health insurance costs are generally deductible by employers and excluded from gross income by employees. For participants in cafeteria plans, the employee's premium share may similarly be excluded from gross income. Otherwise, an employee's share of health insurance premiums is an itemized medical expense deduction, but only to the extent that unreimbursed medical or long-term care expenses (including health insurance costs) exceed 7.5 percent of the employee's adjusted gross income.

A self-employed individual may deduct as a trade or business expense 60 percent (increasing to 70 percent in 2002 and 100 percent in 2003) of insurance premiums covering the individual and his or her family, but only if the individual is not eligible to participate in a subsidized health plan maintained by any employer of the individual or of the individual's spouse. The deduction is limited by the self-employed individual's earned income derived from the relevant trade or business, and may not be taken into account for determining self-employment tax.

A multiple employer welfare arrangement, or MEWA, is an employee benefit plan or other arrangement that provides medical or certain other benefits to employees of two or more employers. MEWAs generally are subject to applicable State insurance laws, including provisions that generally comply with requirements imposed on insurance issuers under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and subsequent Federal health laws. MEWAs (whether or not funded through insurance) are also regulated under the

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<sup>13</sup> More than one credit amount could be attributable to a single individual. For example, a disabled worker with long-term care needs would have two credit amounts—a disabled workers credit and a long-term care credit. Similarly, a disabled worker with a child under age 17—a child credit and a disabled worker credit.

Employee Retirement Income Security Act (ERISA) with respect to reporting, disclosure, fiduciary, and claims procedures.

Private foundation grants must be used for charitable purposes. To ensure that foundation grants are used for the intended charitable purpose, so-called "expenditure responsibility" requirements apply whenever such grants are made to non-charitable organizations for exclusively charitable purposes. These requirements involve certain record-keeping and reporting requirements. Among other things, there must be a written agreement between the foundation and the grantee that specifies clearly how the grant funds will be expended. The grantee's books and records must account separately for the grant funds, and the grantee must report annually to the foundation on the use of the grant funds and the progress made in accomplishing the purposes of the grant.

### **Reasons for Change**

Over a quarter of private-sector workers in firms with 50 or fewer employees lack health insurance -- significantly more than the national average. This deficiency in insurance coverage occurs, in part, because the costs of setting up and operating health plans in the current small business insurance market are higher than those for larger employers. Consequently, small employers tend to pay more for similar employee health insurance benefits than do larger employers. In addition, insurance companies may need a minimum number of covered employees in order to be able to provide insurance to a group. This makes it difficult for small employers to offer multiple health plans to their employees. Only a fraction of the small businesses that offer health insurance benefits provide their workers with a choice of health plans.

Health benefit purchasing coalitions pool employer workforces, negotiate with insurers over health plan benefits and premiums, provide comparative information about available health plans to participating employees, and may administer premium payments made by employers and their participating employees. Such coalitions provide an opportunity for small employers to purchase health insurance for their workers at reduced cost, offer a greater choice of health plans than is currently available to their employees, and provide better information concerning plan benefits.

The formation of health benefit purchasing coalitions has been hindered by their limited access to capital. Although some private foundations have indicated a willingness to fund coalition start-up expenditures, foundations are prohibited under the Code from making grants for other than charitable purposes. Current law provides no assurance that the funding of start-up expenditures of health benefit purchasing coalitions would qualify as a charitable purpose. Consequently, foundations are reluctant to make the requisite grants or loans.

### **Proposal**

The proposal has two parts. First, it would establish a special rule to facilitate private foundation grants and loans to qualified health benefit purchasing coalitions. Second, it would create a new income tax credit designed to encourage use of these purchasing coalitions by small businesses

that currently do not provide health insurance to their workforces. Both provisions would be temporary, expiring after a set period of time.

#### Foundation Grants to Qualified Health Benefit Purchasing Coalitions

Any grant or loan made by a private foundation to a qualified health benefit purchasing coalition to support the coalition's initial operating expenditures would be treated as a grant or loan made for charitable purposes. As with any other grant or loan to a non-charitable organization for exclusively charitable purposes, private foundations would be required to comply with the "expenditure responsibility" record-keeping and reporting requirements under current law.

Initial operating expenditures of a qualified coalition would include all ordinary and necessary expenses incurred in connection with the establishment of the qualified coalition and its initial operations, including the payment of reasonable compensation for services provided to the qualified coalition and rental payments. In addition, initial operating expenditures would include the cost of tangible personal property purchased by the qualified coalition for its own use. Initial operating expenditures would not include (1) the purchase of real property, (2) any payment made to, or for the benefit of, members (or employees or affiliates of members) of the qualified coalition, such as any payment of insurance premiums on policies insuring members (or their employees or affiliates), or (3) any expense incurred more than 24 months after the date of formation of the coalition.

#### Requirements Imposed on Qualified Health Benefit Purchasing Coalitions

A qualified health benefit purchasing coalition would be required to operate on a non-profit basis and be formed as a separate legal entity whose objective is to negotiate with health insurers for the purpose of providing health insurance benefits to the employees of its members. A qualified coalition would be authorized to collect and distribute health insurance premiums and provide related administrative services. It would need to be certified annually by an appropriate State or Federal agency as being in compliance with the following requirements. Its board would be required to have both employer and employee representatives of its small business members, but could not include service providers, health insurers, insurance agents or brokers, and others who might have a conflict of interest with the coalition's objectives. The qualified coalition could not bear insurance or financial risk, or perform any activity relating to the licensing of health plan issuers. Where feasible, the coalition would have to enter into agreements with three or more unaffiliated, licensed health plans, and would be required to offer at least one open enrollment period per calendar year. The qualified coalition would have to service a significant geographic area, but would not be required to cross State boundaries. It would be required to accept as members all eligible employers on a first-come, first-served basis, and would need to market its services to all eligible employers within its designated area. An eligible employer would be defined as any small employer, as defined under HIPAA (generally, businesses that employ an average of at least two, but not more than 50, employees).

Qualified coalitions would be subject to HIPAA and subsequent Federal health laws, including participant nondiscrimination rules and provisions applicable to MEWAs under ERISA and the

Code. Thus, coalition health plans could not discriminate against any individual participant as regards enrollment eligibility or premiums on the basis of his or her health status or claims experience. In addition, employers would have guaranteed renewability of health plan access. Health plans sold through qualified coalitions would also be required to meet State laws concerning health insurance premiums and minimum benefits. State "fictitious group" laws would be preempted, and States would be required to permit an insurer to reduce premiums negotiated with a qualified coalition in order to reflect administrative and other cost savings. Health plans sold through qualified coalitions would not be considered to be "10-or-more employer plans" for purposes of the Code's welfare benefit fund rules. Accordingly, participating employers would be subject to the welfare benefit fund contribution limits.

#### Small Business Health Plan Tax Credit

The second part of the proposal would create a temporary tax credit for small businesses to encourage the purchase of employee health insurance through qualified health benefit purchasing coalitions. The credit would be available to employers with at least two, but not more than 50, employees, counting only employees with annual compensation (including 401(k) and SIMPLE employer contributions) of at least \$10,000 in the prior calendar year. Eligible employers could not have had an employee health plan during any part of 1998 or 1999, and they would be required to purchase employee health insurance through a qualified coalition. The credit would equal 20 percent of employer contributions to the cost of such insurance. The maximum credit amount per policy would be \$400 per year for individual coverage and \$1,000 per year for family coverage (to be ratably reduced if coverage is provided for less than 12 months during the employer's taxable year). The credit would be allowed to a qualifying small employer only with respect to contributions made during the first 24 months that the employer purchases health insurance through a qualified coalition. This 24-month limit would not include months beginning before January 1, 2001. As a condition of qualifying for the credit, employers would need to cover at least 70 percent of those workers who have compensation (including 401(k) and SIMPLE employer contributions) of at least \$10,000 and who are not covered by another health plan. A self-employed individual who is eligible to take a business deduction for his or her family's health insurance premiums would not be allowed to include any of those insurance premiums in the calculation of the credit amount. The small business health plan credit would be treated as a component of the general business credit, and would be subject to the limitations of that credit.

#### Effective Dates

The proposal would be effective for taxable years beginning after December 31, 2000. The special foundation rule would apply to grants and loans made prior to January 1, 2009 for initial operating expenses incurred prior to January 1, 2011. The credit would be available only for health plans established before January 1, 2009. No carrybacks of the credit would be allowed to taxable years beginning before January 1, 2001.

**Table 16. EFFECT OF PROPOSALS ON RECEIPTS**

(In millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total 2001- 2010
<b>Provide tax relief:</b>												
Expand educational opportunities:												
Provide College Opportunity tax cut .....		-365	-1,851	-2,256	-3,480	-3,758	-4,255	-4,612	-5,077	-5,054	-5,260	-35,968
Provide incentives for public school construction and modernization .....		-36	-174	-419	-739	-1,020	-1,127	-1,127	-1,127	-1,127	-1,127	-8,023
Expand exclusion for employer-provided educational assistance to include graduate education .....	-66	-275	-90									-365
Eliminate 60-month limit on student loan interest deduction .....		-23	-80	-87	-89	-93	-103	-105	-109	-112	-113	-914
Eliminate tax when forgiving student loans subject to income contingent repayment .....												
Provide tax relief for participants in certain Federal education programs .....		-3	-7	-7	-7	-6	-6	-6	-6	-7	-7	-62
Subtotal, expand educational opportunities .....	-66	-702	-2,202	-2,769	-4,315	-4,877	-5,491	-5,850	-6,319	-6,300	-6,507	-45,332
Provide poverty relief and revitalize communities:												
Increase and simplify the Earned Income Tax Credit (EITC) <sup>1</sup> .....		-325	-317	-320	-338	-341	-344	-361	-384	-416	-431	-3,577
Increase and index low-income housing tax credit per-capita cap .....		-6	-55	-168	-306	-448	-591	-736	-906	-1,114	-1,336	-5,666
Provide New Markets Tax Credit .....		-30	-222	-515	-743	-940	-960	-768	-474	-247	-197	-5,096
Extend Empowerment Zone (EZ) tax incentives and authorize additional EZs .....		-36	-167	-333	-452	-568	-629	-618	-618	-610	-345	-4,376
Bridge the Digital Divide .....		-107	-272	-344	-289	-207	-169	-170	-171	-172	-173	-2,074
Provide Better America Bonds to improve the environment .....		-8	-41	-112	-214	-315	-410	-479	-511	-512	-513	-3,115
Permanently extend the expensing of brownfields remediation costs .....			-98	-152	-146	-140	-133	-125	-116	-104	-93	-1,107
Expand tax incentives for specialized small business investment companies (SSBICs) .....	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, provide poverty relief and revitalize communities <sup>1</sup> .....	-512	-1,172	-1,944	-2,488	-2,959	-3,236	-3,257	-3,180	-3,175	-3,088	-3,088	-25,011
Make health care more affordable:												
Assist taxpayers with long-term care needs <sup>1</sup> .....	-109	-1,150	-1,681	-2,427	-3,028	-3,344	-3,420	-3,420	-3,461	-3,448	-3,376	-25,444
Encourage COBRA continuation coverage .....		-41	-858	-1,149	-1,286	-1,323	-1,370	-1,393	-1,412	-1,412	-1,434	-10,266
Provide tax credit for Medicare buy-in program .....		-5	-105	-140	-164	-196	-224	-224	-246	-261	-270	-1,611
Provide tax relief for workers with disabilities <sup>1</sup> .....	-18	-128	-143	-158	-165	-168	-168	-168	-169	-169	-171	-1,457
Provide tax relief to encourage small business health plans .....	-1	-9	-22	-35	-38	-35	-35	-35	-40	-46	-52	-313
Encourage development of vaccines for targeted diseases .....							-25	-175	-176	-264	-360	-1,000
Subtotal, make health care more affordable <sup>1</sup> .....	-128	-1,333	-2,809	-3,909	-4,681	-5,091	-5,392	-5,485	-5,600	-5,600	-5,663	-40,091



## REPUBLICAN TAX DEDUCTION FOR LONG-TERM CARE EXPENSES

Speaker Hastert has proposed a \$10,000 tax deduction as an alternative to the Administration's \$3,000 tax credit in an attempt to obtain support from Chairman Archer for immediate tax assistance for chronically ill Americans and their caregivers. While potentially appealing at first glance, this approach is flawed on both policy and political grounds, including:

- **Skewed to wealthy:** This long-term care expense deduction would give a higher subsidy to a person with higher income, even if the lower income person had the same exact expenses. This is compounded by the fact that middle-income families are less likely to rely on formal long-term care, instead providing care themselves.
  - **Americans in the lowest tax bracket would get only half the assistance provided by a \$3,000 tax credit.** Those who are in the lowest tax bracket would get maximum help of only \$1,500 – half of what they would get under the President's bipartisan proposal.
  - **Wealthy get twice the subsidy.** For example a woman caring for her husband with Alzheimer's would get \$1,500 for her \$10,000 long-term care for adult day care, respite, and other services if her income is \$20,000. A similar woman whose family income is \$80,000 would get twice the subsidy – \$3,000 – for the exact same long-term care expenses.
  - **Alzheimer's Association opposes replacing a tax credit with a tax deduction.** This week, the Alzheimer's Association wrote Chairman Archer that they would oppose a tax deduction because it would "shift help away from those who are most in need." This is because "Alzheimer caregivers are not wealthy. A tax credit will help low and moderate income taxpayers who do not have the resources to pay for needed long-term care services."
- **Requires taxpayers to itemize receipts for long-term care expenses, and provides no assistance for informal long-term care.** This tax proposal requires taxpayers to collect and itemize receipts for formal long-term care services. It does nothing to offset the costs of informal family caregiving, including the lost wages of caregivers who leave work to care for chronically ill caregivers.
- **Democratic Congressional and aging advocate support for deducting long-term care insurance is contingent on including a tax credit for informal long-term care expenses.** Many advocates and experts oppose subsidizing private long-term care insurance because of problems in this market – but will support the deduction if that ensures passage of the \$3,000 tax credit because it provides immediate, real assistance to all people with long-term care needs and the families that care for them.
  - Senator Graham (D-FL) and Congresswoman Thurman (D-FL) have cosponsored legislation with Senator Grassley and Representative Johnson in support of a long-term care insurance deduction in return for Republican support for your \$3,000 tax credit.
  - Similarly, AARP joined with the Health Insurance Association of America to endorse both the tax credit and the tax deduction for private insurance as a package deal.

**Validates Bush long-term care approach over Clinton-Gore policy.** Should a tax deduction policy pass the Congress, it would represent an initiative that is actually more conservative and regressive than even the long-term care policy advocated by Governor Bush.

## REPUBLICAN DEDUCTION FOR INDIVIDUAL HEALTH INSURANCE

Congressional Republicans are proposing a tax deduction for individual health insurance that the New York Times concludes is “a senseless health deduction” because it “would be ineffective, expensive and stacked in favor of high income families.” [NYT Editorial 10/14/00].

- **Would do virtually nothing to expand coverage of the uninsured.**
  - Costs nearly \$48 billion/10 years and \$9.9 billion/year when fully phased in
  - Covers only 600,000, less than 1.4 percent of the uninsured population, at a cost of \$18,000 per additional insured person.
  - Extending CHIP to uninsured parents costs \$56 billion /10 years according to CBO and coverage about 4 million parents at about one-fourth the cost per uninsured person.
- **Disproportionately benefits higher income individuals – who are less likely to be uninsured.** A deduction is regressive, providing greater benefits to higher income taxpayers.
  - A “tax deduction provides no financial relief to families that do not pay taxes, and it saves other low-income families a mere 15 cents for every dollar spent on premiums.” Nearly 95 percent of the uninsured are in these two tax categories.
  - A study of a similar policy that 90 percent of the benefit would go to the already insured.
- **Employer-based coverage at risk.** The availability of a deduction would encourage firms to drop coverage for their workers. Healthy workers would now have an incentive to purchase individual insurance, leaving employers with sicker and more expensive workers, making them more likely to drop coverage. Other firms may drop coverage because they believe that employees would have access to health insurance through the deduction.
- **Individual insurance is the most expensive, unreliable and unstable kind.** The Republican proposal includes no insurance reforms and would continue the frequently used practices of insurers in the non-group market to deny coverage to persons with preexisting conditions, charge higher premiums based on a person’s health status, and limit benefits.
- **If policymakers want to ensure equity, a better alternative would be to provide a 25 percent refundable tax credit combined with needed reforms in the individual market.**
  - Tax credits would benefit working families equally, not just the higher income. More likely to help the uninsured who are middle-income workers.
  - Tax credits could also be tied to buy-ins to Medicare for early retirees, COBRA for displaced workers, and Medicaid and S-CHIP. These initiatives would help to level the playing field between individual non-group and employer-based coverage.

## THE PRESIDENT'S HISTORIC LONG-TERM CARE INITIATIVE

February 18, 1999

The President has proposed an historic, seven-part initiative designed to address the broad-based and varied long-term care needs of Americans of all ages. It would not only improve nursing home quality, options for community-based services, and the purchase of long-term care insurance, but would, for the first time, support families who care for their ill relatives. These millions of spouses, children, other relatives and friends are the major providers of long-term care in the U.S. This initiative recognizes this by providing a \$1,000 tax credit for people with long-term care needs or their families to offset the costs of care and a new Family Caregivers Program that offers respite services, information, and other assistance as needed. Altogether, this \$6 billion initiative lays the groundwork for long-term care policy for the twenty-first century.

### MILLIONS OF AMERICANS HAVE LONG-TERM CARE NEEDS

- **More and more Americans have a range of long-term care needs.** Over five million Americans have significant limitations due to illness or disability and thus require long-term care. Approximately, two-thirds are older Americans. Also, millions of adults and a growing number of children have long-term care needs because of health condition from birth or a chronic illness developed later in life.
- **The aging of Americans will only increase the need for quality long-term care options.** The number of Americans age 65 years or older will double by 2030 (from 34.3 to 69.4 million), so that one in five Americans will be elderly. The number of people 85 years or older, nearly half of whom need assistance with everyday activities, will grow even faster (from 4.0 to 8.4 million).

**MULTI-FACETED INITIATIVE TO SUPPORT FAMILY CAREGIVERS AND ADDRESS GROWING LONG TERM CARE NEEDS.** The Clinton Administration's historic long-term care initiative includes:

- **Supporting families with long-term care needs through a \$1,000 tax credit.** This initiative, for the first time, acknowledges and supports millions of Americans with long-term care needs or the family members who care for and house their ill or disabled relatives through a \$1,000 tax credit. This new tax credit supports the diverse needs of families by compensating a wide range of formal or informal long-term care for people of all ages with three or more limitations in activities of daily living (ADLs) or a comparable cognitive impairment. This proposal, which supports rather than supplants family caregiving, would provide needed financial support to about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children. It costs \$5.5 billion over five years and phases out beginning at \$110,000 for couples and \$75,000 for unmarried taxpayers.
- **Creating a new National Family Caregiver Support Program.** Recent studies have found that services like respite care can relieve caregiver stress and delay nursing home entry, and that support for families of Alzheimer's patients can delay institutionalization for up to a year. This new nationwide program would support families who care for elderly relatives with chronic illnesses or disabilities by enabling states to create "one-stop-shops" that provide: quality respite care and other support services; critical information about community-based long-term services that best meet a families' needs; and counseling and support, such as teaching model

approaches for caregivers that are coping with new responsibilities and offering training for complex care needs, such as feeding tubes. This program, which costs \$625 million over five years, would assist approximately 250,000 families nationwide.

- **Expanding Medicaid eligibility for people in home- and community-based care settings.** Historically, Medicaid policy and practice has inadvertently discriminated against people with long-term care needs who want to live in the community by making it much easier to expand coverage to nursing homes than community-based services. To eliminate this “institutional bias,” this proposal would enable states to expand their programs to cover community-based care as well as nursing home residents with income up to 300 percent of the Social Security Income (SSI) limits, without requiring a complicated and frequently time-consuming Federal waiver. This proposal contributes towards this initiative’s goal of giving people with long-term care needs the choice of remaining in their homes and communities. It costs \$110 million over five years.
- **Encouraging partnerships between public housing for the elderly and Medicaid.** This proposal would provide \$100 million in competitive grant funds to qualified elderly housing facilities (Section 202 facilities) to convert to assisted living facilities, so long as those facilities provide Medicaid home and community-based services. As people living these housing facilities age, their need for long-term care services rises, often leaving them with no choice but to move to a nursing home. This proposal would allow such people to “age in place” by funding the conversion of their homes into assisted living facilities. Only sites that agree to bring Medicaid home and community-based services into their converted assisted living facilities would qualify for grants, to ensure that low-income elderly have access to this option.
- **Nursing home quality initiative.** This proposal will provide \$110 million to strengthen Federal oversight of nursing home quality and safety standards by working with States to improve their nursing home inspection systems, crack down on nursing homes that repeatedly violate safety rules, establish a national registry of abusive nursing home workers, and publish nursing home quality ratings on the internet.
- **Having the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees.** A new proposal would allow the Office of Personnel Management (OPM) to use its market leverage and set a national example by offering non-subsidized, quality private long-term care insurance to all federal employees, retirees, and their families at group rates. This proposal, which costs \$15 million over five years, will provide employers a nationwide model for offering quality long-term care insurance. OPM anticipates that approximately 300,000 Federal employees would participate in this program.
- **Launching a national long-term care education campaign.** Nearly 60 percent of Medicare beneficiaries are unaware that Medicare does not cover most long-term care, and many do not know what long-term care services would best meet their needs. This \$10 million nationwide campaign would provide all 39 million Medicare beneficiaries with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home-and community-based care services that best fit beneficiaries’ needs.