Subject: President's Budget Highlights
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Highlights

In his 1998 budget, President Clinton has proposed a balanced approach to lead this Nation into the 21st century. The budget is balanced not only fiscally _ it will lead to a surplus in 5 years _ but also in terms of policy. Even as the President looks to the future with bold proposals to improve the Nation's educational system, he seeks to ensure that those Americans whose hard work and sacrifice have brought us to this juncture are not forgotten.

The President's proposals represent a carefully measured approach to eliminating the deficit. Savings are split almost equally between discretionary reductions and entitlement changes. Even in areas like Medicare, where any proposed change may be considered controversial, the President has suggested workable reforms that are designed to protect the benefits for which so many Americans have worked so hard. Within the extremely tight limits on discretionary spending, the budget reflects the priorities of a Nation preparing itself for the new economy of the next millennium.

The 1998 budget delivers on the President's promise to put our fiscal house in order by ensuring, for the first time in two decades, that the Federal Government will take in more money than it spends. At the same time, the budget looks to a promising future of even greater economic growth and prosperity _ a future that can be achieved only by ensuring that the next generation of Americans is ready to meet the challenges it faces.

The President's 1998 Budget

(In billions of dollars)	1997	1998	1999	2000	2001	2002
Current services deficits	128	120	140	128	109	101
Proposals	-2	+1	-23	-41	-72	-118
Policy deficits/surplus(-)	126	121	117	87	36	-17
% of GDP	1.6%	1.5%	1.4%	1.0%	0.4%	-0.2%

Fiscal Balance in 2002

Completing the job. The deficit has declined for 4 straight years, from $290 billion in 1992 to $107 billion in 1996. As a percentage of the economy, the budget deficit is now at 1.4 percent, the lowest level since 1979, and the lowest of any major industrialized nation. The 1998 budget completes the job with credible savings proposals that close the gap between spending and revenues in 2002.

Sustained economic growth. The budget builds on President Clinton's strong economic record. Since 1993, more than 11 million new jobs have been created, and the current unemployment rate stands at 5.3 percent. OMB, CBO, and private-sector economists all foresee a slowdown in growth to a more sustainable pace after real GDP rose a strong 3.4 percent in 1996. On the whole, CBO's economic projections are somewhat more pessimistic than OMB's economic projections are somewhat more pessimistic than OMB's, leading them to predict worse future budget deficits. In the past 4 years, however, OMB's forecasting record for both the economy and the deficit have been superior to CBO's, even while actual growth and deficits have been better than either agency's projections.

Economic assumptions. If OMB assumptions prove overly optimistic, expedited congressional procedures call for additional cuts to keep the deficit on a path to balance. As a fall back, a set of automatic triggers cut spending across-the-board and sunset most tax cuts. Savings are split evenly among taxes, entitlements, and discretionary spending.Balanced Priorities

The budget limits discretionary spending, reforms entitlement programs, and eliminates unwarranted corporate benefits _ reducing the deficit by $351 billion over 5 years. These savings are offset by targeted tax cuts of $98 billion over the same period. Gross savings are lower than previous plans for at least two reasons. The time frame for balance has been compressed from 6 years to 5. In addition, recent improvement in the economic and budget outlook reduced the cumulative savings required to achieve balance from previous levels.

Discretionary. Discretionary proposals save $137 billion in outlays by reducing the projected growth below the inflated baseline. The budget does provide small increases over a hard freeze for both defense ($68 billion) and non-defense ($122 billion). Greatest investments in the non-defense category are for education, training and law enforcement. Force readiness is the top defense priority.

Education and Training. Education is the number one priority in the President's budget. To pay for his national crusade to improve education and provide for lifelong learning, the President's budget includes $46.4 billion in discretionary budget authority for education and training. His proposal is $8.9 billion over that allocated in last year's budget resolution and an increase of $4 billion over the 1997 appropriated level. Head Start, Goals 2000, Education Technology, Pell Grants, and Job Corps are but a few of the programs included in this function category that receive significant budget increases in the President's plan.

Protecting the Environment. The President's budget places a priority on protecting the environment by increasing funds for several Environmental Protection Agency (EPA) programs and natural resources initiatives. The President follows through on his pledge to offer a balanced budget plan that protects the environment by recommending an increase of $3.1 billion, up 12 percent relative to last year, for various programs, highlighted by an increase of $846 million for the EPA. The President's budget increases funding for the EPA's operating program _ the backbone of EPA's efforts to ensure the enforcement of current environmental laws _ and the Superfund program that will serve to speed up the pace of cleanup of toxic waste sites. Also included in the request is $87 million for the brownfields program, an increase of $51 million.

Crime. The President's budget extends the commitment to cut crime, curb illegal drugs, and secure the Nation's borders, providing $1.1 billion more resources than last year. With overall crime rates dropping for the last 5 years, the Administration proposes to target resources to combat juvenile crime and illegal immigration. To this end, the budget continues funding to put 100,000 police officers on the street, increases State grants for prison construction and the Violence against Women initiative prison construction and the violence against women initiative, presents new anti-drug abuse programs, and deploys more resources along the Nation's southern border to disrupt the drug trade and illegal immigration.

Military Spending. The President proposes $266 billion for defense-related programs, an increase of $2.9 billion from last year's level, and assumes enactment of requested rescissions and

Major Proposals in the President's Budget

(In billions of dollars)	1998	1999	2000	2001	2002	5-yr
CURRENT SERVICES DEFICITS		120	140	128	109	101 ---
Discretionary changes 1/		-6	-18	-23	-41	-50 -137
Defense -5	-15	-14	-22	-23	-80	
Nondefense	-1	-3	-8	-19	-27	-58
Entitlement changes		+(*)	-6	-19	-33	-64 -121
Medicare	-4	-11	-22	-28	-35	-100
Medicaid (net)	1	+(*)	-1	-4	-6	-9
Health insurance initiatives			3	3	3	4 1 14
Welfare reform (excluding Medicaid)				3	3	4 3 3 16
Spectrum proposals		-2	-2	-4	-6	-22 -36
Student loans	-1	-(*)	-(*)	-(*)	-1	-3
School construction		1	1	1	1	--- 5
Improve third grade literacy			0	+(*)	+(*)	+(*) +(*) 1
Other mandatory	-1	-1	-(*)	-1	-4	-9
Revenue proposals	7	1	4	6	5	22
Tax relief	18	16	20	22	23	98
Unwarranted benefits		-4	-6	-7	-8	-9 -34
Other provisions		-7	-9	-9	-9	-9 -42
Total programmatic changes		1	-22	-38	-68	-109 -236
Debt service	-(*)	-1	-2	-5	-9	-16
Total, proposals	1	-23	-41	-72	-118	-252
RESULTING DEFICIT/SURPLUS		121	117	87	36	-17 ---

1/ Savings from uncapped baseline. Total discretionary cuts from capped baseline are $96 billion over 5 years.

supplementals. Over the next 5 years, the Administration proposes to increase defense spending by $68 billion from a discretionary freeze at 1997 enacted levels. The President's 1998 budget request provides defense with $6.5 billion more in 1998 and $19.2 billion more in 1998-2002 than was projected for these time periods in last year's budget submission. The Administration's defense request continues to emphasize readiness and quality of life for U.S. soldiers. The budget provides robust funding of $93.7 billion or operation and maintenance and gives military personnel a pay raise of 2.8 percent in 1998 and 3.0 percent thereafter. The President's defense procurement request is $42.6 billion, a $1.5 billion decline from last year's level. Over the next 5 years, procurement spending would rise by 47 percent in real terms, hitting the Joint Chief's $60 billion goal in 2001 and $68 billion in 2002. These increases would accommodate the purchase of new weapons systems coming on line at the turn of the century.

Foreign Policy and Diplomacy Spending. The President proposes $19.5 billion in support of the Nation's foreign policy and diplomatic efforts, which is $1.2 billion more than last year's enacted level. This increase allows the United States to clear arrearages and pays our assessed contributions to the United Nations, and provides stepped-up assistance of $900 million to the fragile democracies of the New Independent States. To avert future monetary or currency crises, the budget also includes a request for an additional $3.5 billion in budget authority only (no outlays) for the New Arrangements to Borrow. The budget continues to provide robust funding of $5.7 billion to support the Middle East peace process.

Medicare. The 1998 budget preserves and modernizes Medicare _ saving $100 billion over 5 years and extending the solvency of the Hospital Insurance Trust Fund into 2007. The package gives beneficiaries more choices among private health plans, makes Medicare more efficient and responsive to beneficiary needs, and reduces the growth rate of provider payments without adding new costs to enrollees.

The distribution of 5-year savings concentrates on areas of unsustainable growth. These include reductions in payments to managed care programs ($34 billion), hospitals ($33 billion), home health agencies ($14 billion), physician payments ($7 billion), skilled nursing facilities ($7 billion), and other providers ($2 billion). Measures to reduce fraud and abuse save an additional $9 billion and new preventative benefits cost $16 billion over 5 years. The Part-B premium is extended at 25 percent for savings of $10 billion over 5 years.

Medicaid. The President proposes a number of changes to Medicaid, resulting in $9 billion in net savings. His plan limits the amount of Federal dollars States can spend through a per-person cap, while continuing to guarantee health and long-term care for the 37 million low-income pregnant women, children, disabled Americans, and elderly who rely on it. In addition, the budget proposals include a restructuring of payments to hospitals that serve a disproportionate share of low-income patients States would be granted additional flexibility to simplify administration of the program. These changes result in $22 billion in gross savings.

The President also proposes to add back $13 billion to provide additional services under Medicaid _ including States options to increase coverage for children and the disabled. The plan would also restore certain benefits for legal immigrants and their children that were eliminated in last year's welfare reform legislation.

Other Health Initiatives. The budget includes three new policies to extend health coverage to the uninsured: a State grant program to provide health coverage to uninsured children; a demonstration project to provide premium assistance to individuals and families who lose their health insurance when they are between jobs; and grants to States to encourage the creation of voluntary purchasing cooperatives for small businesses. These proposals are projected to cost $13.7 billion over 5 years. The administration estimates that 5 million additional children _ half of those currently without health insurance _ could receive coverage by the year 2002.

Welfare. In keeping with the promise he made after signing last year's welfare reform legislation, the President includes several initiatives designed to help welfare recipients find work, and restores some of the benefit cuts in last year's welfare reform bill. The budget provides $3 billion in new grant money to help States and cities move one million welfare recipients into jobs. The President also proposes to add to the current Work Opportunity Tax Credit (WOTC) to create incentives for businesses to provide new job opportunities for long-term welfare recipients.

In addition to helping low-income people find work by expanding discretionary spending in the areas of transportation, job training, and adult education, the President restores $16 billion funding for several programs cut in last year's welfare reform bill. Among the proposed restorations: longer food stamp benefits for childless unemployed people, changes to the standard deduction and other allowances, and SSI benefits for the estimated 200,000 legal immigrants who have become disabled after entering the country.

Spectrum. The budget includes $36.1 billion over 5 years in spectrum auction proposals. Of that amount, $18.3 billion would be derived from the auction of the analog broadcast spectrum. Also proposed is an expansion of FCC's authority to auction spectrum for personal communication services that would generate $17.1 billion in revenue, and a new generation of toll-free "888" vanity telephone numbers estimated to yield $700 million over 5 years.

Student Loan Program Reforms. While affirming the right of schools to choose between the Federal Family Education Loan (FFEL) Program and the Direct Student Loan Program, the budget proposes net savings of $3.47 billion. To reduce student borrowing costs by $1.4 billion, the budget would cut origination fees for both programs. The plan would also extend the flexible repayment and consolidation options available to Direct Loans borrowers to FFEL borrowers, thus continuing efforts to provide similar terms. The President would derive $4.5 billion in savings by requiring the guarantee agency and lender system to be performance-based, thus maximizing incentives to reduce student defaults. About $2.5 billion of these savings come from the proposed recall of guarantee agency reserves.

School Construction. To stimulate State and local efforts to renovate and construct new school facilities, the President requests $5 billion in 1998. This new program will address the need to correct safety problems, modernize schools to use technology, create more space for growing enrollment, make schools accessible to the disabled, and install energy efficient climate control systems. The administration hopes to use this $5 billion to leverage more than $20 billion in actual repairs and construction by subsidizing school construction bonds and other local financing mechanisms.

America Reads. Recognizing literacy as the foundation for academic achievement, the President has issued a challenge to the Nation that all children read well by the end of third grade. Two parts of this $1.2 billion proposal are to be funded with new mandatory spending: America's Reading Corps designed to create reading specialists to train and supervise one million tutors who would provide youngsters help, and Parents as First Teachers a program that would provide training to parents through local community and national groups.

Middle Class tax relief. The centerpiece of the President's tax proposals is the $87 billion Middle Class Bill of Rights which, as it did last year, contains three key proposals: a $500 credit for children under 13, the HOPE Scholarship tax credit and other education and training tax incentives, and expanded access to Individual Retirement Accounts (IRAs). Other significant proposals in this category include: a welfare-to-work credit, a $500,000 capital gains exclusion on home sales, a package of tax incentives for investment in distressed communities, and targeted estate tax relief for small businesses.

Eliminating unwarranted benefits and tax loopholes. The budget plan includes a variety of proposals to modify or eliminate various tax breaks. Most of these items were included in last year's budget. Among the major items: various limits on the use of the dividends received deduction (DRD), requiring the use of average-cost basis for stocks and securities, modification of the loss carryback and carryforward rules, replacement of the sales source rules with activity-based rules, and changes in the allowable inventory accounting practices. Unlike his previous year's proposal, the President declined to specify effective dates for these measures. Instead, he suggested that the effective date be the date of first congressional action _ a move that has calmed jittery financial markets.

6. RESTORING THE AMERICAN COMMUNITY

We said in 1991 we would offer opportunity for all, demand responsibility from all, build a stronger American community. We said that this era requires a Government that neither attempts to solve problems for people, nor leaves them alone to fend for themselves. Instead, we envision a Government that gives people the tools to solve their own problems and make the most of their own lives ... I intend to spend the next four years doing everything I can to help communities to help themselves, to educate all Americans about what is working, and to create, in the process, a national community of purpose.

President Clinton
December 11, 1996

Some American communities have grown disconnected from the opportunity and prosperity of their States, their regions, their Nation, and the global economy. The polarization of communities—isolating the poor from the well-off, the unemployed from those who work, and people of one race or ethnicity from others—frays the fabric of our civic culture and depletes the strength of our economy.

The problem affects all Americans; we cannot and should not wall ourselves off from it. If we do not address the problem in our communities, connecting residents of distressed neighborhoods and rural areas to the jobs and opportunities of the regional marketplace, the Nation cannot compete and win in the global economy.

While poverty overall is down in America, the concentration of urban poverty has risen in recent decades (see Chart 6–1). From 1970 to 1990, the number of people living in areas of concentrated poverty (where over 40 percent of the residents are poor) grew from 3.8 million to 10.4 million.[1] The share of people living in our 100 largest cities who were concentrated in these extreme-poverty neighborhoods also rose—from five percent in 1970 to eight percent in 1980 to 11 percent in 1990. In such neighborhoods, social conditions are bleak.

- Over 60 percent of families with children are headed by single women, compared to under 20 percent in non-poverty neighborhoods.
- Over half of all adults have less than a high school education, compared to under 20 percent in non-poverty neighborhoods.
- Over 40 percent of working age men are not working, compared to just over 19 percent in non-poverty neighborhoods.

Poverty also remains a persistent problem in rural America. Of the 765 rural counties with poverty rates of at least 20 percent in 1990, 535 had such poverty rates in 1980, 1970, and 1960. Because they often live in remote areas, and do not live near one another, rural residents often have a hard time receiving critical services or connecting themselves to urban and suburban centers of economic activity.

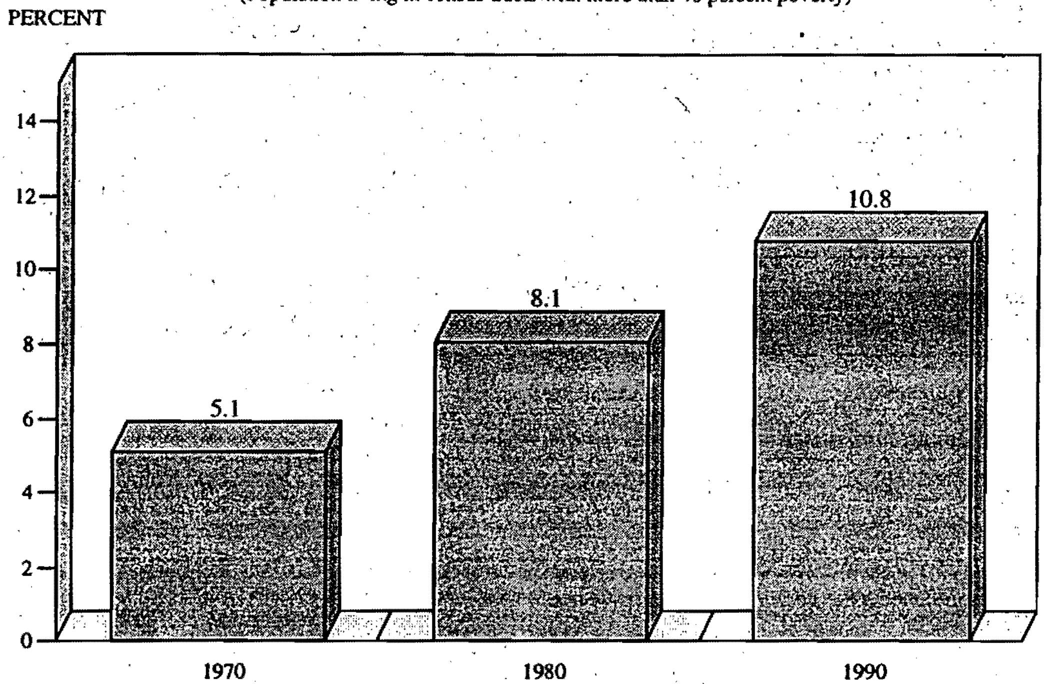
On the other hand, the 1990s have brought signs of progress—in alleviating poverty and creating opportunity both across the Nation as well as in the isolated areas in which the obstacles are so imposing. Across the Nation, poverty, welfare, and inequality are all down, while incomes and homeownership are up. In the last four years, the economy has created over 11 million jobs and record numbers of small businesses, bringing new hope and opportunity to millions of Americans.

The Administration recognizes, however, the barriers that still stand in the way of work and self-sufficiency for many poor Americans, and it proposes important steps to address them and to provide more opportunity.

[1] The President's Urban Policy Report, 1995.

Chart 6-1. CONCENTRATION OF POVERTY IN URBAN AREAS REACHED A 30-YEAR HIGH IN 1990

(Population living in census tracts with more than 40 percent poverty)



Source: U.S. Census data for 1970, 1980, and 1990, as compiled by John Kasarda, Urban Underclass Database Machine Readable Files, Social Science Research Council, New York, 1992 and 1993.

In particular, communities need help to attract the kind and amount of private investment that could spur their revitalization. Although Federal programs can provide support, solutions must come from the community. As a result, the budget proposes to create opportunities and offer incentives for individuals and businesses to participate directly in addressing local problems.

National Service

National service is rooted in the American tradition of neighbor helping neighbor to build communities, reward personal responsibility, and expand educational opportunity. The Corporation for National and Community Service, established in 1993, encourages Americans of all ages and backgrounds to engage in community-based service, addressing the Nation's educational, public safety, environmental, and other needs to achieve direct and demonstrable results. In doing so, the Corporation fosters civic responsibility, strengthens the ties that bind us together as a people, and provides educational opportunity for those who make a substantial commitment to service.

The budget proposes $809 million for the Corporation, a 31-percent increase over 1997, with the increase targeted to the President's America Reads initiative—an effort through which volunteer tutors will help children read well and independently by the third grade. Along with support from the Departments of Education and Health and Human Services, the Corporation's funding will finance 11,000 AmeriCorps tutor coordinators and logistical support to help recruit, organize, and manage an army of a million volunteers who will tutor over three million children—from kindergarten through third grade—after school, on weekends, and during the summer. Every Corporation program will participate in this effort. America Reads builds on the demonstrated success of national service in helping to solve real problems.

AmeriCorps, the Corporation's signature initiative that includes Volunteers in Service to America (VISTA) and the National Civilian

Community Corps, has proven cost-effective. Investment in AmeriCorps members returns $1.60 to $3.90 for each dollar invested, according to independent evaluations. AmeriCorps enables young Americans of all backgrounds to serve in local communities full- or part-time, generally for at least a year. In return, they earn a minimum living allowance set at about the poverty level of a single individual and, when they complete their service, they earn an education award to help pay for postsecondary education or repay student loans. About 70,000 individuals will have participated in AmeriCorps in its first three years, and the budget supports an AmeriCorps program of about 35,000 members.

Among other national service programs:

- Learn and Serve America grants help school districts and communities engage youth to serve their communities and learn citizenship. The budget proposes to fund opportunities for almost 900,000 school-age youth.
- The National Senior Service Corps engages senior citizens—an untapped resource with time, talent, and energy to meet community needs. The budget funds the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program, enabling nearly 600,000 older Americans to serve.

Corporation programs strengthen communities in several ways. AmeriCorps, for example, is run by national, State, and local organizations such as Habitat for Humanity, the Christian Children's Fund, the American Red Cross, the National Coalition of Homeless Veterans, the YMCA, and local United Ways across the country. These institutions select AmeriCorps members to work alongside the men and women already working to solve problems at the local level. AmeriCorps members provide a regular source of service that most volunteers, with their own time constraints, cannot offer. AmeriCorps members also recruit traditional, unpaid volunteers, then help organize and manage these volunteers as they perform direct service.

The Corporation operates in a decentralized fashion, working with bipartisan commissions that the Nation's governors appoint to carry out service programs. The commissions run competitions to determine what programs will participate, and States manage and oversee them. In the Learn and Serve program, State education agencies set priorities and resource allocations for service learning programs. In the National Senior Service Corps, communities define the activities that Senior Corps members will conduct.

Most important of all, national service participants are getting things done.

- In one Ohio project, nine AmeriCorps members conducted home visits with 1,449 students. As a result, school attendance increased, more students applied to college than were originally planning to, and more parents were involved in their children's education.
- In California, 12 AmeriCorps members tutored 230 students, and drop-out rates fell from 50 to 20 percent. Teachers also noted improved attention and behavior among students.
- In Olympia, Washington, three teams of retired volunteers tutored 400 students who were reading below grade levels and almost all were reading at their appropriate grade level by the end of the year.

Empowerment Zones (EZs) and Enterprise Communities (ECs)

As part of his 1993 economic program, the President proposed, and Congress enacted, the Empowerment Zones and Enterprise Communities program. Under it, communities develop a strategic plan to help spur economic development and expand opportunities for their residents, and in return they receive Federal tax benefits, social service grants, and more flexibility in how they use Federal funds.

EZs and ECs are parts of urban or rural areas with high unemployment and high poverty rates. For EZs, the Federal Government provides tax benefits for businesses that set up shop, and grants to community groups for job training, day care, and other purposes. For ECs, the Government provides grants to community groups for the same array of purposes. Both EZs and ECs can apply for waivers from Federal regulations, enabling them to better address their local needs.

The 1994 competition for the first round of EZ and EC designations generated over 500 applications and created new local partnerships for community revitalization—even in communities that were not chosen. The 105 selected communities made well over $8 billion in private-public commitments (aside from the promised Federal resources). In the six urban EZs, the private sector has made or committed over $2 billion in new investment, bringing greater economic opportunity to those cities. One of the six, Detroit, has announced over 21 private developments in its zone, with one linen and supply manufacturer announcing a $5.5 million expansion over the next two years that will create over 100 jobs for zone residents.

But many communities that were not designated as EZs or ECs lack the seed capital to begin their revitalization efforts. Thus, in last year's budget, the President proposed a second round of EZs/ECs to stimulate further private investment and economic opportunity in distressed urban and rural communities and to connect residents to available local jobs. Because Congress did not act on the proposal, this budget again proposes a second round of EZs/ECs.

The second round would again challenge communities to develop their own comprehensive, strategic plans for revitalization, with input from residents and a wide array of community partners. The Administration would invest in communities that develop the most innovative plans and secure significant local commitments. The second round would build on the President's "brownfields" tax incentive, which would encourage businesses to clean up abandoned, contaminated industrial properties in distressed communities. This round would also offer a competitive application process that would stimulate the public-private partnerships needed for large-scale job creation, business opportunities, and job connections for families in distressed communities. (For more information on the brownfields program, see Chapter 3.)

The Administration proposes to seek 100 new designations, with communities receiving a combination of tax incentives, direct grants, and priority consideration for funds from Federal economic development programs and for waivers of Federal requirements from the President's Community Empowerment Board, chaired by Vice President Gore.

Community Development Financial Institutions (CDFIs)

Proposed by the President in 1993 and created a year later, the CDFI Fund is designed to expand the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. By stimulating the creation and expansion of a diverse set of CDFIs, the Fund will help develop new private markets, create healthy local economies, promote entrepreneurship, restore neighborhoods, generate tax revenues, and empower residents.

CDFIs provide a wide range of financial products and services, such as mortgage financing to first-time home buyers, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and basic financial services. CDFIs also include a broad range of institutions—e.g., community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. These institutions, not the CDFI Fund, decide which individual projects to finance.

The budget proposes $125 million for the CDFI Fund, $75 million more than in 1997, and gradual increases each year to bring the five-year total to $1 billion by 2002. Private sector interest in the program has dramatically exceeded expectations. In 1996, the CDFI Fund received requests for $300 million in assistance—about 10 times what was available for the first round—from 270 new and existing CDFIs. Of these applicants, the CDFI Fund selected 32 institutions, serving 46 states and the District of Columbia, to receive $37.2 million in financial and technical assistance. In addition, the Fund awarded $13 million to 38 traditional banks and thrifts for increasing their activities in economically distressed communities and investing in CDFIs.

Additional resources would enable the Fund to implement a new initiative to support private institutions that provide secondary markets for CDFIs, leveraging public resources with private capital. This initiative would increase the resources to provide incentives, through the Bank Enterprise Award program, for traditional banks to expand their community development lending and support local CDFIs. The funds also would substantially enhance the CDFIs' capacity to take advantage of coordinated, multi-faceted community development efforts, such as EZs and ECs.

A similar program at the Department of Housing and Urban Development (HUD), the Community Empowerment Banking Initiative, also helps economically distressed neighborhoods establish financial institutions. Through a competitive process, the cities of Washington and Baltimore, and a six-county area in rural Mississippi, received funding for empowerment banks in 1997. These recipients will use $20 million as seed money and try to leverage much larger investments from conventional banks, foundations, non-profit groups, investors, and residents. Area residents and businesses will have controlling interest in the banks by purchasing affordably priced stock.

Finally, the budget proposed $100 million in non-refundable tax credits that the CDFI Fund would allocate among equity investors in community development banks and venture capital funds. Investors could take the credit—up to 25 percent of their investments—in the year they invest. This initiative should help leverage over $1 billion of private investment in distressed urban and rural communities.

Federal Relationship With Communities

The Administration has worked to give communities the flexible tools they need to develop affordable housing and revitalize their economies.

Hoping to reverse a decline in the rate of homeownership, for instance, the Administration in 1994 entered into an unprecedented partnership with 58 key public and private sector organizations to form a National Homeownership Strategy.

The partners are reducing the barriers to homeownership by lowering mortgage closing costs and down payment requirements; by simplifying the process of financing home purchases and repairs; and by opening markets for women, minorities, central-city homebuyers, and others traditionally locked out of the conventional lending markets. Coupled with a stable economy and low interest rates, this initiative has helped the Nation reach an all-time high national homeownership rate. The rate is now 65.6 percent—its highest level in nearly 16 years—and 4.4 million Americans have become homeowners in the last four years, including record numbers of minorities.

For housing programs in general, HUD has focused on initiatives that "build from the ground up"—giving communities the power and responsibility to assess their housing and economic development needs, and to tailor their responses accordingly. HUD has paid particular attention to streamlining and simplifying Federal requirements in exchange for demanding a higher level of performance.

In addition, the Administration has worked closely with Congress to advance the most profound changes to public housing in over a generation. This effort reflects HUD's four-part transformation agenda:

- Replace the most dilapidated, distressed developments with smaller-scale, affordable housing and portable housing vouchers;
- Restore management excellence to housing agencies that are systematically troubled;
- Provide incentives for tenants to become self sufficient by rewarding work, and connecting them to educational and employment opportunities; and
- Place conditions on public housing residency through tougher occupancy and eviction rules.

The budget builds on the progress to date by supporting efforts to demolish 54,000 of the worst public housing units in the next three years and, rather than operate or modernize those units, provide portable subsidies to residents and construct a limited amount of mixed-income housing. Portable subsidies, now held by nearly 1.5 million households, give recipients a greater range of housing and neighborhood choices, reducing the isolation of poor families and the concentration of poverty (see Chart 6–2).

But, because their needs can be so different, no single approach will help both urban and rural communities. Nor, in fact, will any single approach help all rural areas. The Administration had proposed giving States, localities, and Tribes more flexibility in how they use the community and economic development assistance they receive from the Agriculture Department (USDA). In last year's Farm Bill, Congress adopted the proposal as part of the new Rural Community Advancement Program (RCAP), thus combining 12 separate USDA programs into Performance Partnerships in which the Federal Government provides more flexibility in exchange for requiring more accountability for how the money is spent. The budget proposes $689 million for the RCAP, which also would give States block grants for rural community and economic development.

Government-to-Government Commitment to Native Americans

The Administration continues to strengthen the Government-to-government relationship with Native Americans.

In the past year, the Administration proposed steps to advance and protect Tribal interests; negotiated an historic settlement to the century-old land dispute between Navajos and Hopis; and fought attempts to cut Tribal funding and undermine Tribal sovereignty. For 1998, the budget proposes $6.5 billion, six percent more than in 1997, for Government-wide programs that address basic Tribal needs and encourage self-determination (see Table 6–1).

Chart 6-2. HOUSING VOUCHER RECIPIENTS ARE LESS LIKELY TO LIVE IN HIGH POVERTY NEIGHBORHOODS THAN ARE RESIDENTS OF PUBLIC HOUSING

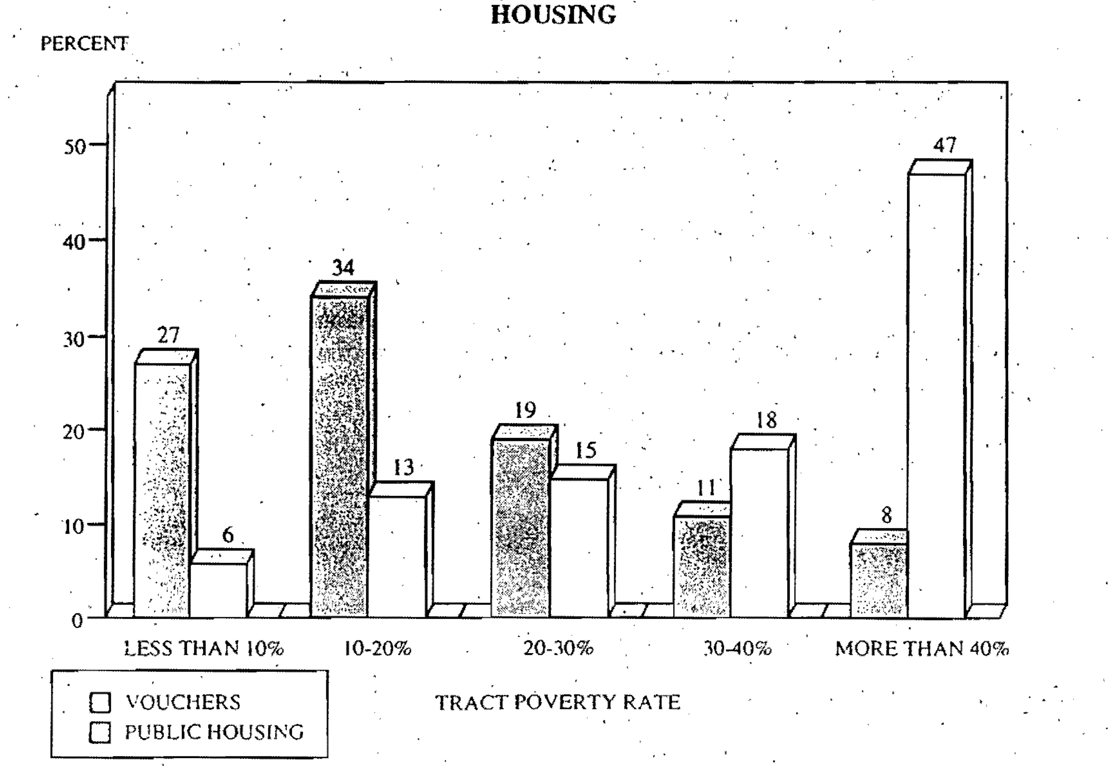


Table 6–1. GOVERNMENT-WIDE NATIVE AMERICAN PROGRAM FUNDING

(Budget authority, dollar amounts in millions)

	1993 Actual	1997 Estimate	1998 Proposed	Percent Change: 1993 to 1997	Percent Change: 1997 to 1998
BIA	1,647	1,607	1,732	–2%	+8%
IHS [1]	2,022	2,342	2,412	+16%	+3%
Subtotal, BIA/IHS	3,669	3,949	4,144	+8%	+5%
All other	1,833	2,138	2,309	+17%	+8%
Total	**5,502**	**6,087**	**6,453**	**+11%**	**+6%**

[1] IHS program level includes both budget authority and Medicaid, Medicare, and private insurance collections.

The Interior Department's (DOI) Bureau of Indian Affairs (BIA) and the Health and Human Services Department's Indian Health Service (IHS) comprise two-thirds of Federal funding for Native American programs. For the BIA, the budget proposes $1.7 billion, eight percent more than in 1997, to help improve the living conditions on reservations, promote Tribal self-sufficiency, and continue to meet the Federal trust responsibility to Native Americans. Over 90 percent of BIA operations funding goes for basic, high-priority reservation-level programs such as education, social services, law enforcement, housing improvement, and natural resource management.

The budget also would enable DOI's Office of Special Trustee to continue to improve the management of Indian trust funds. In December 1996, DOI sent a report to Congress that outlined legislative settlement options for resolving disputed balances in Tribal trust accounts. For any settlement, the Administration is determined to achieve fairness and justice with respect to these accounts. DOI will continue consulting with Tribes on settlement options and submit a follow-up report to Congress this Spring.

For the IHS—whose clinical services are often the only source of medical care available on remote reservation lands—the budget proposes $2.4 billion, three percent more than in 1997. Along with higher funding, IHS and the Health Care Financing Administration have worked together to enhance IHS' ability to receive Medicare and Medicaid reimbursements, thus helping to ensure that IHS facilities provide quality medical care. The budget also allows Tribes to continue taking greater responsibility for managing their own hospitals. And the budget invests in construction to replace two antiquated IHS facilities—Ft. Defiance on the Navajo reservation and Keams Canyon on the Hopi reservation—thereby helping IHS provide high-quality medical services to Native Americans.

BIA and IHS will continue to promote Tribal self-determination through local decision-making. Tribal contracting and self-governance compacting now represent half of the BIA operations budget, and over a third of the IHS budget. Self-governance compact agreements, which give Tribes greater flexibility to administer Federal programs on reservations, will likely grow in number to over 70 in BIA in 1998, a 40-percent increase from 1997, and to over 35 in IHS.

Finally, the Administration continues to stress the spirit of consultation and recognition of the unique status of Native Americans. In August 1996, Tribal leaders attended the second annual White House meeting—marking the anniversary of President Clinton's historic April 1994 meeting with over 300 Tribal leaders. At last year's meeting, the First Lady and three Cabinet officials highlighted progress on improving Government-to-government relations with Tribes and assisting the Native American community. In addition, the Administration unveiled a number of initiatives to improve Federal programs for Tribes.

The District of Columbia

The Nation's capital, which should serve as a symbol of pride to all Americans, has fallen on hard times. It faces not only serious budget problems, but even serious obstacles to providing the most basic services to its residents.

But no simple solution will do. For as the President said recently, the District of Columbia suffers from the "not quite" syndrome—"not quite a State, not quite a city, not quite independent, not quite dependent." In managing its resources and performing public functions, the District is not like other cities, which receive assistance from their States. In fact, the District has broad responsibilities for what are, elsewhere in the Nation, separate State, county, and local functions. And while Congress has voted to give the city a lump sum annual payment in recent years, it has kept the payment basically flat while imposing strict limits on the District's budget and taxing powers.

Clearly, the current structure does not work. The Administration proposes to significantly re-order the relationship between the Federal and city governments in order to revitalize the Nation's capital and to improve self-government within the District. Specifically, the Administration proposes a three-part strategy to improve the city's financial, managerial, and economic resources.

First, the Federal Government would directly assume certain public functions in which it has a clear interest:

- *Pensions:* The Federal Government would take over the District's pension plans for law enforcement officers and firefighters, teachers, and judges, thus resuming responsibility for the unfunded pension liability that it transferred to the District in 1979. The District would transfer to the Federal Government (or its designee) $3.3 billion in associated pension assets, leaving the Federal Government to assume the $4.3 billion unfunded liability. The District would establish new plans for its current and future employees.
- *Criminal justice:* The Federal Government would provide full funding for the District's Court System (which would remain self-managed), take over the District's Lorton prison facility and its currently sentenced felons, and assume responsibility for incarcerating District felons in the future who are sentenced in accordance with Federal standards.
- *Medicaid:* The Federal Government would assume the roles normally played by the Federal and State governments under this Federal-State program, paying 70 percent of Medicaid spending in the District (compared to the current 50 percent share).

In exchange, the Federal Government would end the Federal payment to the District, which most recently was $712 million. The Federal Government, however, would agree to this exchange of responsibilities only if the District took specific steps to improve its management and performance. The Administration, the Mayor, the City Council, and the District of Columbia Financial Assistance Authority would enter a Memorandum of Understanding, setting forth the District's obligations to meet specific criteria.

Second, the Federal Government would establish the National Capital Infrastructure Fund (NCIF), and would provide seed money from the Federal Highway Trust Fund to fund it. The NCIF would fund transportation infrastructure projects in the District to benefit residents and commuters alike—including the construction of local roads, bridges, and transit facilities.

Third, the Federal Government would create an economic development corporation (EDC) to provide grants and tax incentives for economic development. The EDC would craft a strategic economic development plan for the District, and recommend how to use various financial incentives that the Federal Government would provide. It would build local economic markets, develop strategies to link District residents to newly-created jobs; and help the District foster regional economic strategies.

And fourth, Federal departments and agencies would give the District more intensive technical assistance in education and training, housing, transportation, health care, and procurement, in order to contribute more to the District's success. For instance, the Internal Revenue Service would assume responsibility to collect the District's individual income and payroll taxes. This fourth step would build on the Administration's activities through the President's inter-agency Task Force on the District of Columbia.

The President's plan for the District of Columbia reflects his overall goals for the Nation. It would increase *opportunity* for District residents, demand *responsibility* from the District government, and build a strong *community* in the Nation's capital that all Americans can look to with pride.

1. STRENGTHENING HEALTH CARE

> *We can, and we must, work together to reform Medicare and Medicaid so they continue to meet the promise to our parents and our children and continue to expand health care step by step to children in working families who don't have it. We can do that and balance the budget, and take advantage of the fact that new models are clearly making it possible to lower the rate of medical inflation in a way that advances the quality of health care as well as the quality of our long-term objectives in balancing the budget and investing in the future of America. I know it can be done, and I am determined to get it done.*
>
> President Clinton
> December 11, 1996

Americans have good reason to be optimistic about the Nation's health care as we approach the new millennium.

Medicare ensures that older Americans receive high quality health care and can look forward to a longer life expectancy. Medicaid provides vital health services to low-income pregnant women and children, people with disabilities, and elderly Americans. Together, Medicare and Medicaid serve over 71 million Americans. Meanwhile, the Federal Government is investing more in biomedical research and technology, furthering our knowledge about the prevention and treatment of diseases and providing new insights into the genetic basis of diseases such as breast cancer as well as threats from food-borne illnesses newly emerging infectious diseases.

And just in the past year, we have witnessed the rapid development of new prescription drugs to help people with AIDS and other debilitating diseases. These new developments hold the potential for a vastly increased life expectancy for these Americans.

Our private health system, already the world's most dynamic, is undergoing a dramatic transformation—much of it positive. The best private sector innovations have helped make our delivery system more efficient, and have improved quality by increasing consumer choice, stressing accountability, and focusing on medical outcomes.

In his first term, the President and Congress took important steps to improve our Nation's health care system. One of the most significant was last year's passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), also known as the Kassebaum-Kennedy bill. Now, as many as 25 million Americans have health benefit portability they did not have before; no longer will people who have been sick have to fear that they will lose their access to health insurance if they lose their job or change jobs. Nor can they be denied coverage because they have a preexisting medical condition. Moreover, the law requires insurance companies to sell coverage to small employer groups and to individuals who lose group coverage without regard to their health status. It also made it easier and cheaper for self-employed people to get health insurance, simplified health care paperwork, strengthened Medicare's fraud and abuse efforts, and helped make long-term care insurance more affordable.

Other significant health care initiatives enacted in the last four years include laws requiring health plans to allow new mothers and their babies to remain in the hospital at least 48 hours following most deliveries, and prohibiting health plans from establishing separate lifetime and annual limits for mental health coverage.

With this budget, the President takes the next critical steps toward a better health care future:

- Preserving Medicare and Medicaid, while reforming and strengthening both programs in important ways.
- Helping the growing numbers of American children and families who lack health insurance coverage.
- Strengthening the health care infrastructure by investing more in biomedical research, in programs to combat infectious diseases, in the Ryan White AIDS program that provides life-extending drug therapies to many people with AIDS, and in programs such as community health centers and Indian Health Service facilities that serve critically underserved populations.

Preserving Medicare

The budget preserves and improves Medicare, extending the life of the Part A Hospital Insurance Trust Fund into 2007. Like the President's previous two budgets, it gives beneficiaries more choices among private health plans, makes Medicare more efficient and responsive to beneficiary needs, slows the growth rate of provider payments, and maintains the Part B Supplementary Medical Insurance premium at 25 percent of program costs. The plan saves $100 billion over five years (and $138 billion over six years), according to the Health Care Financing Administration's Office of the Actuary.

The President also wants to work with Congress on a bipartisan basis to address the longer-term problem of financing Medicare to support the health care needs of the "baby boom" generation.

Provider Payment Reforms and Program Savings

- *Hospitals:* The budget reduces the annual inflation increase, or "update," for hospitals; reduces payments for hospital capital; reforms payments for graduate medical education; and begins to reform the payment methodology for outpatient departments while protecting beneficiaries from increasing charges for those services.
- *Managed Care:* Along with the Administration's previous proposals to reduce the current geographic variation in payments, the budget proposes a new managed care payment methodology in light of substantial evidence that Medicare pays too much for managed care plans and, in fact, loses money for every beneficiary who opts for managed care. The budget would reduce Medicare reimbursement to managed care plans from its current rate of 95 percent of fee-for-service rates to 90 percent. To enable the industry to prepare for this change, the Administration would not implement it until the year 2000. The Administration views this reform as a first step and will continue to work with the industry to create a better reimbursement mechanism for Medicare managed care plans.
- *Physicians:* The budget reforms physician payments by paying a single update for all physician services—based on a single "conversion factor," or base payment amount, and replacing the current three conversion factors, effective January 1, 1998. The budget replaces current "volume performance standards" with a sustainable growth rate.
- *Home Health Agencies/Skilled Nursing Facilities:* The budget implements payment reforms, leading to separate prospective payment systems for home health care and skilled nursing facilities. Prospective payments would begin to bring the current double-digit rise in spending on these services under control. The budget also proposes to reform the home health benefit by paying for services following a hospital stay from the Part A Trust Fund and paying for other services from Medicare's Part B Trust Fund. Beneficiaries would not be affected by the change. In addition, the change will not count towards the budget's proposed $100 billion in Medicare savings through 2002, but will help to extend the solvency of the Part A Trust Fund.
- *Other Providers:* The budget makes payments for durable medical equipment and laboratory services more consistent with private market rates and reduces payment updates to ambulatory surgical centers. The budget also proposes to address Medicare's overpayment for prescription drugs that are provided in a physician's office

by making payments more competitive with what private purchasers pay.

- *Beneficiaries:* The budget continues, but does not increase, the requirement that beneficiaries pay 25 percent of Part B costs through the monthly Part B premium. The budget imposes no new cost increases on beneficiaries. The budget also would maintain current law to prevent "balance billing," ensuring that doctors in the new managed care plan options may not charge above Medicare's approved amount and leave the elderly vulnerable to higher costs.
- *Private Plan Choices:* The budget increases the numbers of plans—including Preferred Provider Organizations and Provider Sponsored Networks—available to seniors and people with disabilities. These new options will meet strong quality standards and include consumer protections. The plans would be required to compete on cost and quality, not on the health status of enrollees.

Beneficiary Improvements

The budget proposes reforms to improve and increase services to beneficiaries, to protect them from the burden of additional costs, and to offer them a wider choice of private plans.

- *Preventive Health Care:* The budget covers new preventive health benefits including: colorectal screening; diabetes management; preventive injections like pneumonia, influenza, and hepatitis B; and annual mammograms without coppayments.
- *Alzheimer's Respite Benefit:* The budget establishes a new respite benefit for the families of Medicare beneficiaries with Alzheimer's disease. Medicare beneficiaries would be eligible to receive non-medical care, giving family members a much-needed break from the constant demands of caring for them.
- *Outpatient Department Payments:* Payments to hospitals for outpatient services are one of Medicare's fastest growing components. Due to flaws in the current reimbursement methodology, hospital outpatient departments get a reimbursement higher than their actual costs. In effect, beneficiaries pay about a 50-percent copayment for hospital outpatient services, as opposed to the 20-percent copayment made for other Part B services. Medicare's payments are not always reduced to account fully for these high copayments. The budget corrects these flaws by establishing a prospective payment system for outpatient services and ensuring that, by 2007, beneficiaries pay the same 20-percent copayment as they do for other Part B services.
- *Medigap Protections:* The budget adds protections, such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions, to help Medicare beneficiaries who wish to opt for managed care but fear they will be "locked in" and unable to access their old Medigap protections if they switch back to a fee-for-service plan.
- *The Working Disabled:* The budget proposes a Medicare demonstration project to encourage Social Security Disability Insurance (SSDI) beneficiaries to return to work. Under the four-year, Nation-wide demonstration project, SSDI beneficiaries who return to work beginning in 1998 would receive Part A coverage through 2001 without paying the premiums.

Additional High-Priority Initiatives

The budget contains other reforms to improve the Medicare program as well as adjustments to Medicare payments to ensure that rural beneficiaries have access to health care services.

- *Rural Health Care:* The budget would expand access to, and improve the quality of, health care in rural areas. It would extend the Rural Referral Center program; allow direct Medicare reimbursement for nurse practitioners, clinical nurse specialists, and physician assistants; improve the Sole Community Hospital program; expand the Rural Primary Care Hospital program; and provide grants to promote telemedicine and rural health outreach. The proposed changes in managed care payment methodology also would promote access to managed care plans in rural areas.

- *Fraud and Abuse:* The budget proposes strong fraud and abuse provisions, including measures to eliminate fraud in home health care—such as by ensuring that home health agencies are reimbursed based on the location of the service, not the billing office, and by enabling the Secretary of Health and Human Services to deny payments for excessive home health use. The budget also would repeal several provisions in last year's HIPAA law that weakened anti-fraud enforcement. Together, these initiatives would save about $9 billion.

Strengthening Medicaid

The budget would reform Medicaid to give States much more flexibility to manage their programs, while preserving the guarantee of high-quality health care and long-term services for the most vulnerable Americans—millions of children, pregnant women, people with disabilities, and older Americans. The budget would ensure that as we control the costs of Medicaid, we do not compromise what is right with the program.

The growth in Medicaid spending has slowed significantly over the past two years. The budget, however, ensures that our success in bringing Medicaid spending under control will not be lost in future years, when the actuaries project that Medicaid spending will again begin to rise. The budget would save $22 billion from a combination of policies to impose a per capita limit on spending and reduce Disproportionate Share Hospital (DSH) payments and retarget them to hospitals that serve large numbers of Medicaid and low-income patients. The budget also makes a number of improvements to the Medicaid program, including changes to last year's welfare reform law, costing $13 billion over the same period.

Program Savings

- *Per Capita Cap:* Even though the growth in Medicaid spending has fallen in recent years, aggregate Medicaid spending still will grow at an average annual rate of 7.2 percent from 1997 to 2002. To ensure that Medicaid's explosive growth of the 1980s and early 1990s does not resume, the budget would set a per capita cap on Medicaid spending, based on spending per beneficiary in a base year, increased by an annual growth limit. The cap protects States facing population growth or economic downturns because it ensures that dollars follow people, allowing Medicaid spending to respond to changes in caseload and the economy.

- *Disproportionate Share Hospital Payments:* Medicaid DSH spending doubled each year from 1988 to 1993. Although this rapid growth has slowed, due to 1993 legislation that modified the program, the DSH program is still large, and the payments could be targeted better. The budget proposes reforms to reach this goal without undermining the important role these funds play for providers who serve a disproportionate number of low-income and Medicaid beneficiaries.

Provisions to Increase State Flexibility

The budget continues the President's strong commitment to giving States the flexibility to design their own Medicaid program. The budget would ensure accountability for high-quality health care while enabling States to develop programs that meet the special needs of their populations.

- *Coverage for Children:* The budget would let States provide continuous coverage for one year after eligibility is determined, guaranteeing more stable coverage for children and more continuity of health care services. In addition, it will reduce the administrative burden on Medicaid officials, health care providers, and families required to refile paperwork to determine their children's eligibility.

- *Coverage Without Waivers:* The budget would let States, without a waiver, expand coverage to any person whose income is under 150 percent of the poverty line, within their per-capita spending limits.

- *Managed Care:* The budget would allow States to enroll people in managed care without Federal waivers.

- *Home- and Community-based Care:* The budget would allow States to serve people needing long-term care in home- and community-based settings without Federal waivers.

- *Boren Amendment:* The budget would repeal the "Boren amendment" for hospitals and nursing homes, giving States more flexibility to negotiate provider payment rates.
- *The Working Disabled:* The budget would let States establish an income-related premium buy-in program under Medicaid for people with disabilities who work. It would let eligible Supplemental Security Income beneficiaries who earn more than certain amounts purchase Medicaid coverage by paying a premium that States would set on an income-related sliding scale.

Maintaining and Expanding Coverage for Working Families

The President's budget plan would help an estimated 3.2 million families, including 700,000 children, keep their health care coverage for to six months up until their breadwinners find new jobs. The budget also would help provide health coverage for millions of children who do not now have it. Finally, the budget proposes to help States to create voluntary health insurance purchasing cooperatives.

Health Insurance for the Families of Workers Who are In-Between Jobs

While unemployment remains low and job creation remains high, the fast-moving economy creates rapid job turnover and job elimination. An estimated one in four workers will make an unemployment claim at least once in four years.

With health care coverage in this country usually linked to employment, many workers lose their health care coverage during these brief periods of unemployment. Nearly half of workers with one or more job interruptions experienced at least a month without health insurance between 1992 and 1995. Nearly half of children who lose their health insurance do so because of a change in their parent's employment status. A family experiencing a catastrophic illness during this transition loses the benefit of years' worth of premiums. Worse, for families with an ill child or a worker with a chronic condition, the loss of health insurance while their breadwinner is between jobs can make it financially impossible for them to regain coverage.

The budget proposes a national demonstration program to help States finance up to six months of coverage for the unemployed and their families. The program would be available to recipients, based on need, who had employer-based coverage in their prior jobs. Eligible individuals and their families would have access to a policy generally equivalent to the Blue Cross/Blue Shield Standard Option plan available through the Federal Employees Health Benefits program. The plan gives States flexibility to administer their own programs (e.g., through Medicaid, COBRA, or an independent program). It would cost \$1.7 billion in 1998, \$9.8 billion from 1998 to 2002.

Health Coverage for Children

The budget proposes several measures to expand health care coverage to more children. Combined with the proposal to help the families of unemployed workers (discussed above), and the ongoing phase-in of Medicaid coverage for a million older children, these additional proposals could add coverage for as many as five million children. The President is pleased with the widespread congressional interest in expanding health care coverage for children, and he looks forward to working with both Democrats and Republicans to develop and implement proposals to reach that goal.

- *State Grants to Develop Innovative Programs:* The budget provides \$750 million a year in grants to States (\$3.8 billion from 1998 to 2002) to build on recent State successes in working with insurers, providers, employers, schools, and others to develop innovative ways to provide coverage to children. This proposal would cover an estimated one million children.
- *Continuous Medicaid Coverage to Children:* The budget provides funds to let States extend one year of continuous Medicaid coverage to children, potentially helping one million children who would otherwise have lost coverage to keep it. The proposal would reduce administrative bur-

dens on States, families, and health care plans who now must determine eligibility at least every six months.

- *Medicaid Outreach:* About three million children are now eligible for Medicaid, but not enrolled. The Administration will ask the Nation's Governors to work with us to find ways to reach and sign up such children.
- *School Health Centers and Consolidated Health Centers (CHCs):* The budget provides more funds for CHCs to expand and enhance services to working families and their children through school-based health clinics.

Voluntary Purchasing Cooperatives

Employees in small businesses and their families are far likelier to be uninsured than other Americans. Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and extraordinarily high administrative costs.

The budget would make it easier for small businesses to provide health care coverage for their employees, by helping them to band together to reduce their risks, lower their administrative costs, and improve their purchasing power with insurance companies. The budget proposes to empower small businesses to access and purchase more affordable health insurance through voluntary health purchasing cooperatives—providing $25 million a year in grants that States can use for technical assistance, and setting up voluntary purchasing cooperatives and allowing them to access Federal Employees Health Benefit Plans.

Promoting Public Health

The budget invests in preventive steps that show the greatest promise of ameliorating pain and suffering while controlling future costs. In particular, the budget focuses on preventing teen smoking; substance abuse; teen pregnancy; the spread of AIDS and HIV infections; food-borne diseases; the spread of infectious diseases; and infant mortality. The budget also invests in health care services for low-income and other vulnerable populations, such as American Indians and Alaska Natives.

Expanding Biomedical and Behavioral Research

The budget continues the Administration's longstanding commitment to biomedical and behavioral research, which advances the health and well-being of all Americans. For the National Institutes of Health (NIH), it proposes $13.1 billion for biomedical research that would lay the foundation for future innovations that improve health and prevent disease. The budget includes funding for high-priority research areas such as HIV/AIDS (including efforts to develop an AIDS vaccine), breast cancer, spinal cord injury, high performance computing, prevention and genetic medicine.

The Office of AIDS Research will continue to coordinate all of NIH's AIDS research. The budget also includes the second year of funding for a new NIH Clinical Research Center, which would give NIH a state-of-the-art research facility in which researchers would bring the latest discoveries directly to patients' bedsides. NIH's top priority continues to be financing investigator-initiated research project grants.

Providing Direct Services and Preventive Care to Special Populations

While basic biomedical research lays the foundation for medical advances, direct health services and prevention activities reduce the cost of medical care, and directly benefit Americans by preventing disease outbreaks and promoting the population's health. The budget proposes funding increases for the following health service and prevention activities:

- *Preventing and Treating AIDS through Ryan White HIV/AIDS Treatment Grants/HIV Prevention:* The budget proposes just over $1 billion for activities authorized by the Ryan White CARE Act, $40 million more than in 1997, to help our most hard-hit cities, States, and local clinics provide medical and support services to individuals with HIV/AIDS. Under this Administration, funding for Ryan White grants has risen by 158 percent. The proposed level would fund grants to cities and States to help finance medical and support services for individuals infected with the HIV virus; to community-based clinics to provide HIV early intervention services; to pediatric AIDS and HIV dental activities; and to HIV education and training programs for health care providers. The budget also includes $167 million dedicated to State AIDS drug assistance programs funded under Title II of the Ryan White Care act, to improve access to protease inhibitors and other life-extending AIDS medications. The budget also proposes $637 million for the Centers for Disease Control's (CDC) HIV prevention activities, $20 million more than in 1997. The increased funding will help prevent HIV among drug users, who face the greatest risk of HIV infection.

- *Reducing Tobacco Use Among Young People:* Tobacco is linked to over 400,000 deaths a year from cancer, respiratory illness, heart disease, and other health problems. Each year, another million young people become regular smokers, and over 300,000 of them will die earlier as a result. Consequently, in August 1996, the Administration approved an FDA regulation that aims to cut tobacco use among young people by half over seven years; the budget includes $34 million to implement the regulation. The budget also provides $36 million for the CDC and $50 million for NIH for State grants and technical support for tobacco control and cancer prevention activities.

- *Enhancing Food Safety:* Too many Americans get sick from preventable food-borne diseases. The Nation faces new challenges in this area as we enter the 21st Century. New pathogens are emerging and familiar pathogens have grown resistant to treatment. We consume record levels of imported foods, some of which moves across the globe overnight. The budget proposes $42 million for a new interagency food safety initiative to establish a national early warning system for food-borne illnesses Nation-wide, and to improve Federal-State coordination when food-borne disease outbreaks occur. The budget also proposes to continue implementing a new food safety system in the meat, poultry, and seafood industries.

- *Promoting Full Participation in Women, Infants, and Children (WIC):* WIC reaches over seven million women, infants, and children a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. WIC provides prenatal care to those who would not otherwise get it, while reducing the incidence of premature birth and infant death. As a result, Medicaid saves significant sums that it would otherwise spend in the first 60 days after childbirth. Because of funding increases in the last four years, WIC participation has grown by over 25 percent. The budget proposes $4.1 billion to serve 7.5 million people by the end of 1998, fulfilling the President's goal of full participation in WIC.

- *Promoting Childhood Immunizations:* The budget proposes $794 million for the Childhood Immunization Initiative, including the Vaccines for Children program and CDC's discretionary immunization program. The Nation is ahead of schedule to meet the Administration's goal of raising immunization rates to 90 percent for two-year old children for each basic childhood vaccine. The incidence of vaccine-preventable diseases among children, such as diphtheria, tetanus, measles, and polio, are at all-time lows. The budget also includes $47 million to eradicate polio—preventable through immunizations—throughout the world.

- *Improving Substance Abuse Treatment and Prevention:* The budget proposes to increase support for the Substance Abuse and Mental Health Services Administration's substance abuse treatment and prevention activities by $33 million, to $1.7 billion, enabling hundreds of thousands of pregnant women, high-risk youth, and other under-served Americans to get drug treatment and prevention services. The budget proposes a coordinated approach to combating substance abuse among youth with a comprehensive prevention initiative, focusing on State-level data documenting trends in drug use. The Administration again calls on Congress to enact

Performance Partnerships, which would give States more flexibility to better target Federal resources to priorities.

- *Enhancing Abstinence Education and Family Planning:* For each of the next five years, the budget includes $50 million in mandatory funding for States to conduct abstinence education projects to help reduce out-of-wedlock pregnancies. The budget also includes a $5 million increase, to $203 million, to support voluntary family planning services.

- *Preventing and Containing Infectious Diseases:* The budget includes $103 million, $15 million more than in 1997, for CDC's cooperative efforts with States to address infectious disease. It would support training and applied research, and the States' disease surveillance capability. All Americans face threats from infectious disease problems, such as drug resistant bacteria, and from emerging viruses, such as the hantavirus. CDC works with State health departments to monitor and prevent such problems and to contain outbreaks.

- *Promoting Better Health Care for Native Americans through Indian Health Service (IHS):* The budget proposes $2.4 billion for the IHS, $70 million over 1997. IHS clinical services are often the only source of medical care on remote reservation lands, and this increase maintains our commitment to American Indians and Alaska Natives.

- *Caring for Veteran's Health Needs through Veterans Medical Care:* Continuing its longstanding commitment to veterans programs, the Administration proposes $17.5 billion for the Department of Veterans Affairs' (VA) health system, $0.5 billion more than in 1997. The budget would enable the VA health system to retain, and spend for itself, all first- and third-party medical collections. In the past, these collections have gone to the Treasury; in 1998, they would support health services for veterans. The budget would enable the VA to implement eligibility reform legislation that the President signed in October 1996, and pursue ambitious plans to restructure the health system to better deliver care.

2. INVESTING IN EDUCATION AND TRAINING

> *I want to build a bridge to the 21st Century in which we expand opportunity through education, where computers are as much a part of the classroom as blackboards, where highly-trained teachers demand peak performance from our students, where every eight-year-old can point to a book and say, I can read it myself.*
>
> President Clinton
> August 29, 1996

Today's most successful workers are those with skills and a firm educational footing who continue to learn throughout their careers in order to compete successfully in this fast-changing economy.

In recent years, education and wages have become increasingly intertwined. Generally, those with the best skills and education have made steady progress, enjoying higher living standards. Those without the requisite skills and education have fallen behind. Tomorrow's workers face an even greater challenge. As the very nature of work changes with technological innovation, employers will demand even more highly-skilled and flexible workers. The best-paying jobs increasingly will go only to those with education and training beyond high school.

For the most part, our Nation places responsibility for education and training on State and local governments, families and individuals, and the private sector. Nevertheless, the Federal Government plays a crucial, if limited, role in providing education for a lifetime—from pre-school to adult career training.

The President's goals are to help families, communities and States ensure that every child is prepared to make the best use of education; that the education system enables every child to learn to his or her potential; that those who need resources to pay for postsecondary education and training can get them; that those who need a second chance at training and education or a chance to improve or learn new skills throughout their working lives can get those opportunities; and that States and communities that receive Federal funds can use them more flexibly, with fewer regulations and less paperwork.

Federal resources help States improve the quality of education and training for the disadvantaged and for people with disabilities; support State- and locally-designed elementary and secondary school reform; and help low- and middle-income families gain financial access to postsecondary education and skill training through loans and grants. To help States raise student achievement, the President has worked hard to make schools safer, improve teacher quality, move technology into the classroom as quickly as possible, raise academic standards, and better prepare students for college and the new workplace.

The budget reaffirms the President's commitment to America's children by increasing the investment in Head Start and in Federal elementary and secondary education programs—focusing on innovation and technology—and launching a new effort to jump-start needed school renovation and construction. In addition, the President has begun a national, volunteer-based challenge called America Reads, to ensure that all children can read well and independently by the end of third grade.

To ensure that all Americans have access to the high-skill training needed for today's workplace, the President proposes to make two years of postsecondary education universally available, through HOPE scholarship tax credits of up to $1,500 for two years. And to encourage lifelong learning, the budget proposes: tax deductions of up to $10,000 for tuition and fees for college, graduate school, or job training; a $300 increase in the maximum Pell Grant college scholarship (to $3,000), marking the largest increase in two decades and providing grants for at least 348,000 more students; lower student loan fees and interest rates for parents and students; the G.I. Bill for America's Workers so they can choose where to get the best job training available; and new resources to help move welfare recipients from welfare to work (see Table 2–1 and Chart 2–1).

America Reads

Many of our children are falling short of meeting standard educational levels—a failure that they often have trouble overcoming later. In 1994, for instance, two-fifths of fourth-graders failed to reach the "basic" reading level on the National Assessment of Educational Progress and only 30 percent attained the "proficient" level. In response, the President has launched the America Reads Challenge, a multi-part effort to help States and communities ensure that all children are reading well and independently by the end of the third grade. Business and academic leaders already have pledged their support, and the budget proposes the Federal funding component. The Administration will measure the success of this effort on a national basis through the biennial administration of the National Assessment of Educational Progress fourth grade reading assessment.

America's Reading Corps: One-on-one tutoring is one key to better reading. America's Reading Corps will provide individualized after-school and summer help for over three million children in grades K-3 who want and need it. A five-year, $2.45 billion investment, through the Education Department and the Corporation for National and Community Service, would help communities mobilize 30,000 reading specialists and volunteer coordinators to recruit and train over a million tutors, including 100,000 college work-study students.

Parents as First Teachers: Nothing is more important to children's reading skills than the time parents spend reading to, and with, them. Research shows that the first three years of a child's life are crucial to his or her development. An early exposure to books, even for infants, is important to prepare children for pre-reading activities as toddlers. Reading to them for 20 minutes a day can make a big difference in their readiness for school. To give parents help and information in teaching their children, the Administration proposes a Parents as First Teachers Challenge Grant Fund of $300 million over five years, building on the current Even Start Family Literacy program to support effective, proven efforts that help parents help their children become successful readers.

Head Start

A healthy, caring family environment is the best preparation for school. For over 30 years, Head Start has helped low-income families create this environment by taking a comprehensive approach to child development—improving children's learning skills, health, nutrition, and social competency. Head Start involves parents in their children's learning, and links children and their families to a wide array of services in their communities. Over the last four years, the President has secured a 43-percent increase in funds for Head Start, enabling the program to serve 800,000 children in 1997.

The budget proposes $4.3 billion for Head Start, $324 million more than in 1997, to enable 86,000 more children to participate than in 1996 and raising program quality (see Chart 2–2). With this funding, the Administration would be well on its way toward meeting the President's commitment of a million children in Head Start by 2002.

In addition, the Early Start component of Head Start extends comprehensive early development services to infants aged 0 to 3 in a way that supports families, builds parenting skills, and extends a safe, nurturing, and stimulating environment to very young children.

Elementary and Secondary Education

The Administration has energized State and local efforts to raise student achievement by boosting funds for various programs that

Table 2–1. THE BUDGET INCREASES RESOURCES FOR MAJOR EDUCATION AND TRAINING PROGRAMS BY $15 BILLION, OR 56 PERCENT OVER 1993

(Dollar amounts in millions)

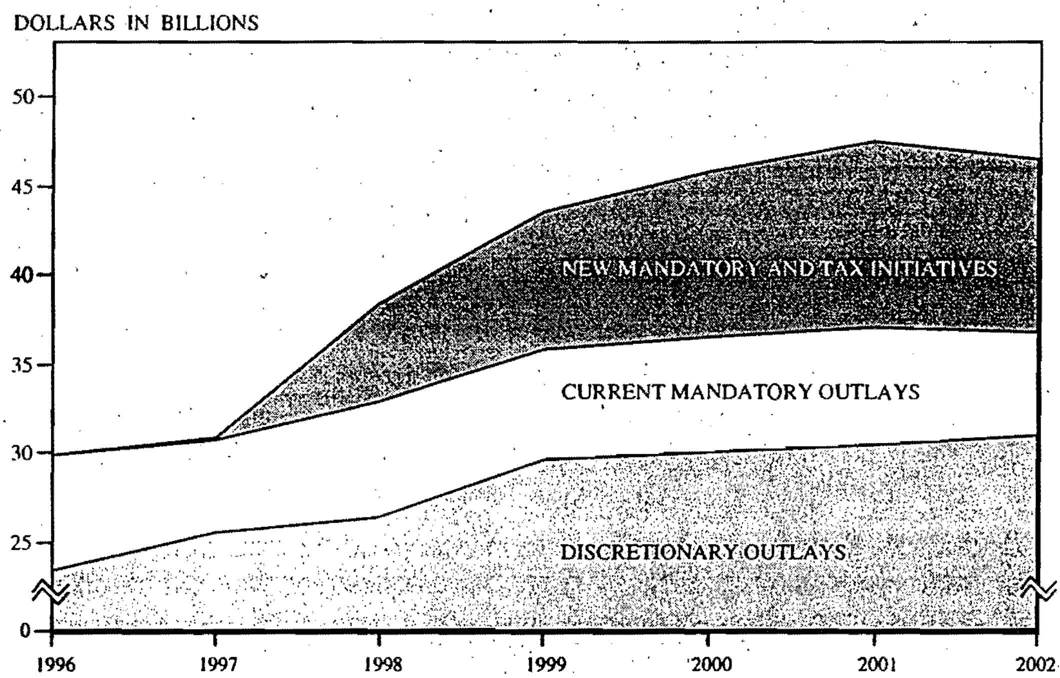
	1993 Actual	1997 Estimate	1998 Proposed	Percent Change: 1993 to 1998
MANDATORY OUTLAYS/TAX EXPENDITURES:				
HOPE scholarships tax credit/deduction	....	100	4,100	NA
America Reads (Education Department)	....	....	31	NA
School construction	....	....	1,250	NA
Work Opportunity Tax Credit	....	120	160	NA
Welfare-to-Work Jobs Challenge	....	....	600	NA
Total, mandatory outlays and tax expenditures	....	**220**	**6,141**	**NA**
DISCRETIONARY BUDGET AUTHORITY:				
Head Start	2,776	3,981	4,305	+55%
Elementary and secondary education:				
America Reads (Corp. for National and Community Service)	....	....	200	NA
Goals 2000	....	491	620	NA
Education technology	23	305	545	+2,270%
Title I Education for Disadvantaged	6,709	7,698	8,077	+20%
Eisenhower Teacher Training	289	310	360	+25%
Special education	2,966	4,036	4,210	+42%
Safe and drug free schools	582	540	620	+7%
Charter schools	....	51	100	NA
After-school learning centers	....	....	50	NA
Postsecondary student aid:				
Pell Grants	6,458	5,919	7,635	+18%
College Work Study	616	830	857	+39%
Other campus-based aid	845	811	771	–9%
Presidential Honors Scholarships	....	....	132	NA
Training and employment:				
Vocational education	1,176	1,131	1,172	–*%
Adult education	304	354	394	+30%
School-To-Work (Education and Labor Departments)	....	400	400	NA
Summer Jobs for Youth	849	871	871	+3%
Job Corps	966	1,154	1,246	+29%
Youth Opportunity Areas	....	....	250	NA
JTPA adult/dislocated worker training	1,666	2,181	2,415	+45%
Employment service and One-Stops	975	974	993	+2%
Total, budget authority	**27,200**	**32,037**	**36,223**	**+33%**
Total, mandatory outlays, tax expenditures, and budget authority	**27,200**	**32,257**	**42,364**	**+56%**
STUDENT LOAN VOLUME (loan amount):				
Direct loans	....	9,938	12,037	NA
Guaranteed loans	16,029	16,965	16,774	+5%
Consolidation loans	1,527	6,803	7,729	+406%
Total, loan volume	**17,556**	**33,706**	**36,540**	**+108%**

NA = Not applicable.
* Less than 0.5 percent.

States and localities then combine with their own funds to help all students achieve at high levels in a safe, modern learning environment. The budget builds on this momentum by proposing additional funds for all major programs, and for the new America Reads initiative (discussed earlier in this chapter) and the new school construction initiative (discussed later).

The Administration's goal for elementary and secondary education is to help States and communities raise the quality of education

Chart 2-1. INVESTMENT IN EDUCATION DEPARTMENT PROGRAMS, HOPE SCHOLARSHIPS AND TAX DEDUCTIONS WILL INCREASE 56 PERCENT BETWEEN 1996 AND 2002



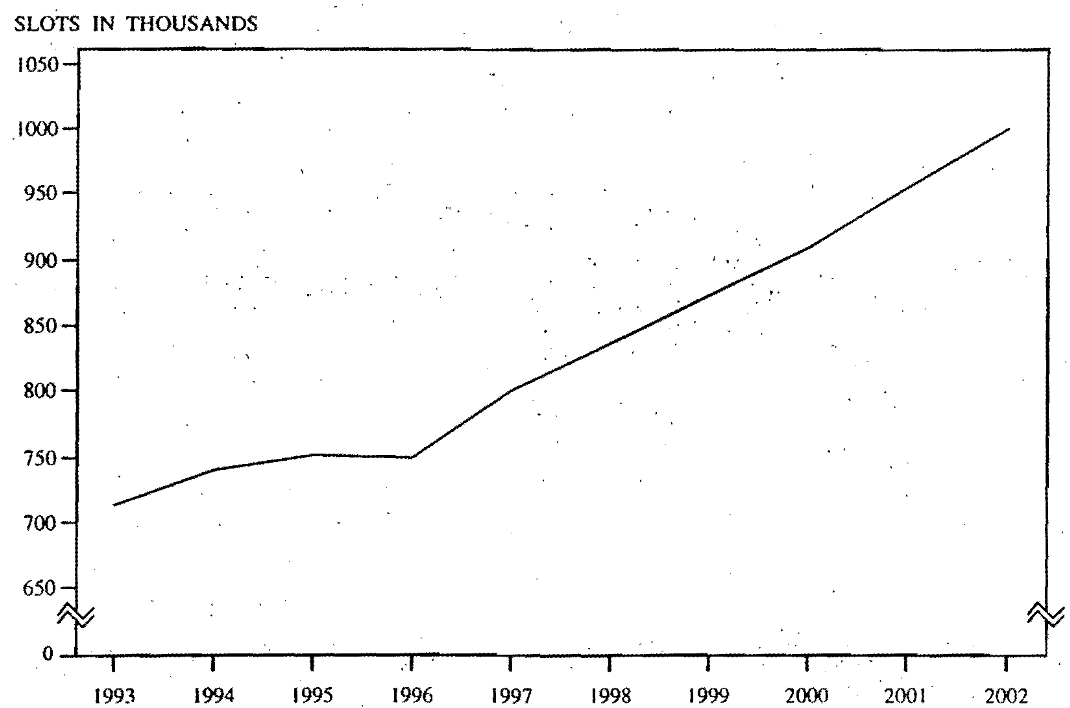
for all children. Administration initiatives launched in 1994 are designed to establish a framework for comprehensive reform and to help States finance their role in it. The goals include: high State standards for all children; new curriculum and teaching methods to help all children achieve those standards; teacher and administrator training to support the standards; assessments of each child's progress; and a safe, technologically up-to-date learning environment. The budget proposes to increase funds for programs that support these goals, and proposes more flexibility to enhance the success of State and community efforts.

School Construction: The General Accounting Office found that a third of all schools across the country, with 14 million students, have one or more buildings needing extensive repair. School districts also face the cost of upgrading schools to accommodate computers and modern technology, and of constructing new classrooms and schools to meet expected record enrollment levels over the next decade. The President proposes to leverage new construction or renovation projects through a $5 billion fund for school districts with substantial need. The fund would support interest subsidies or similar assistance to cut borrowing costs for States and localities in order to reach higher levels of infrastructure investment.

Goals 2000: Enacted in 1994, this Administration initiative helps participating States establish high standards for all children and plan and implement steps to raise educational achievement. It builds on the National Education Goals, first articulated by the Nation's governors (led by then-Governor Clinton) and President Bush in 1989, which provide clear national targets but encourage States to develop their own means to achieve them. All States have now chosen to receive Goals 2000 funding.

The program is working. In Maryland, 40 percent of all students met challenging State academic standards in 1995, a 25 percent gain over 1993. Over the next two years, the Education Department seeks to

Chart 2-2. 36 THOUSAND NEW HEAD START OPPORTUNITIES FOR CHILDREN IN 1998 OVER 1997; ONE MILLION BY 2002



nsure that at least half of all school districts re implementing reforms based on State-eveloped standards, and that the number f students meeting or exceeding their State's tandards continues to rise. Goals 2000 also ıpports individual school reforms. The budget 'ould finance aid for 4,000 more schools ıan in 1997—for a total of 16,000 schools. 'he budget provides $620 million for Goals 000, 26 percent more than in 1997. It ıcludes $15 million for parental information ıd resource centers in 42 States to help ırents become more involved in their chil-ren's education and gain skills in child :aring through parent-to-parent training, hot-ıes, and other activities. Each center also :ovides information and training to parents ' pre-school aged children, either through ıe Home Instruction Program for Preschool)ungsters or the Parents as Teachers pro-'am.

Charter Schools: One way to improve the ıality of public schools is to introduce variety ıd competition into the system. Charter schools are public schools that parents, teachers, and communities create—and that States free from most rules and regulations and, instead, hold accountable for raising student achievement. Begun as a grassroots movement in 1991, and supported by Federal start-up funds since 1995, charter schools now number over 400, and some are now showing results in higher student test scores and lower dropout rates. For example, in the Vaughn Next Century Learning Center, a Los Angeles public charter school, median scores on a 4th-grade standardized reading test rose from the 19th to 37th percentile in one year. The budget proposes $100 million for public charter schools, nearly double the 1997 level, in order to fund start-up costs for as many as 1,100 schools and to make further progress towards the President's goal of 3,000 schools by 2001.

Title I—Education for the Disadvantaged: Title I provides funds to raise the educational achievement of disadvantaged children. In 1994, the President proposed, and Congress adopted, changes to focus Title I re-

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sources more on low-income children, to set the same high standards for those children as for all others, to hold schools accountable for progress toward achieving those standards, and to give States and schools great flexibility in using Title I funds. The budget includes $8.1 billion for Title I, five percent more than in 1997.

Education Technology: Education technology can expand learning opportunities for all students, helping to raise student achievement, but many districts lack the resources to integrate technology fully into their school curricula. In February 1996, the President challenged the public and private sectors to work together to ensure that all children are technologically literate by the dawn of the 21st Century, with the communication, math, science, and critical thinking skills essential to succeed in the Information Age. The budget proposes substantial increases in two technology programs, for a total 1998 investment of $500 million.

First, the President has committed $2 billion over five years for the Technology Literacy Challenge Fund. For 1998, the budget proposes $425 million, more than doubling the $200 million that Congress provided in 1997. Second, the budget proposes $75 million, 32 percent more than in 1997, for the Technology Innovation Challenge Grant program, which gives matching Federal funds to school-centered, public-private partnerships to develop and implement innovative applications of technology in the curriculum.

Teacher Training: The Eisenhower Professional Development program helps States invest in training teachers and other educators so that they can help all children reach the State's challenging academic standards. The President proposed, and Congress enacted, major improvements in 1994 to ensure that the training is of high enough quality and sufficient duration to pay off in the classroom. The budget increases funding to $360 million, 16 percent more than in 1997.

Safe and Drug-Free Schools and Communities: Students can reach their full potential only in safe, disciplined learning environments. The Safe and Drug-Free Schools and Communities program helps 97 percent of school districts implement anti-drug and anti-violence programs in our schools. It helps students resolve conflicts before they escalate into tragedy, teaches them the dangers of drug use, and helps schools increase security. The budget proposes to spend $620 million for the program, 12 percent over the 1997 level, and to encourage States to adopt models of proven excellence.

Special Education: States have made real progress in giving children with disabilities a "free appropriate public education," as the Individuals with Disabilities Education Act (IDEA) calls for. The Administration will propose amendments that will help improve educational results for children with disabilities by promoting accountability for performance and focusing resources on teaching and learning. The budget provides $4.2 billion for special education, four percent more than in 1997.

Bilingual and Immigrant Education: The Bilingual Education program helps schools improve the quality of instructional services for limited English proficient (LEP) students, teaching them English and preparing them to meet the same challenging academic standards as all other students. The Immigrant Education program helps States with large concentrations of immigrant students who have recently arrived, helping to offset their financial impact on school systems. The budget proposes $199 million for Bilingual Education and $150 million for Immigrant Education, 27 percent and 50 percent more than in 1997, respectively.

Postsecondary Education and Training

Education beyond high school is increasingly a prerequisite for success in the rapidly changing job market. The rising rate of college attendance over the last half-century was fueled by State efforts to expand the public college system, and Federal efforts to help families pay for college. The post-World War II GI Bill was a watershed event in Federal investment in higher education, greatly increasing benefits for returning servicemen. Since then, through the Higher Education Act of 1965 and subsequent amendments, the Federal Government has vastly expanded grant and work-study aid to all low- and middle-income students, and made it possible for every American to borrow enough money to attend college. The President wants to ensure that financial barriers to higher education continue to fall for all Americans. The budget provides substantial new support to low- and middle-income families through a new tax credit and tax deduction for education costs (see Chart 2–3).

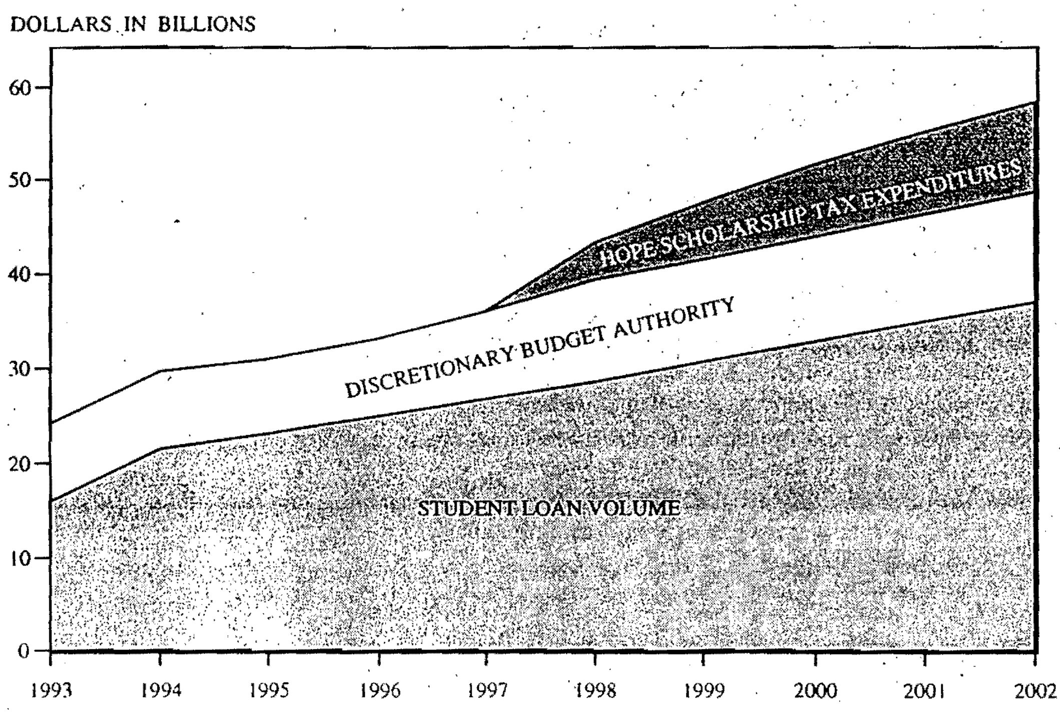
HOPE Scholarships: More than ever, today's employers look for job applicants with more than a high school diploma. HOPE scholarships would make the 13th and 14th years of education the norm for students by offering, to most working families, up to a $1,500 per student tuition tax credit for postsecondary education or training. Students would have to maintain at least a B average to receive the credit in the second year.

Tuition Deduction: To encourage Americans to pursue higher education and to promote lifelong learning, the budget proposes to give families a tax deduction for postsecondary tuition and fees of up to $5,000 in 1997 and 1998, and $10,000 starting in 1999. Together, the tuition deduction and HOPE scholarship would put over $36 billion back in the hands of Americans for education and training between 1997 and 2002.

Pell Grants: The President proposes to raise the maximum Pell Grant award by $300, to $3,000, marking the largest increase in two decades. The Administration's changes also would bring at least 348,000 more students into the program, reaching a total of over four million low- and middle-income undergraduates. Such help is particularly important to raise participation and graduation rates of low-income students. With Pell Grants, they are as likely to stay in school and earn a degree as middle-income students without grants.

Student Loans: An estimated 5.5 million individuals will borrow $37 billion through the Federal student loan programs in 1998. Families at any income level can receive loans, but students who show greater financial need receive greater interest subsidies. The loans finance study toward undergraduate or graduate degrees, or short-term vocational training programs. The annual maximum loan amount

Chart 2-3. THE FEDERAL GOVERNMENT WILL PROVIDE NEARLY $60 BILLION IN STUDENT AID IN 2002, MORE THAN DOUBLE THE 1993 LEVEL



varies from $2,625 for a first-year student financially dependent on his or her parents, to $18,500 for a graduate or professional program student. Under this Administration, the rate of student loan defaults within the first two years after borrowers leave college has reached an all-time low.

Before 1993, students and parents paid fees of up to eight percent of their loan proceeds. The Student Loan Reform Act of 1993, which the President initiated, cut the fees to four percent and has already saved families nearly $2 billion. The 1993 reforms also created the simpler, less costly, and more accountable Federal Direct Loan Program (FDLP), and gave borrowers a way to afford payments on their student loans based on their actual post-college income—which the existing guaranteed loan program could not do.

The budget proposes to cut the loan fees again—by half for needy students, and by a quarter for other students and parents. The budget also would continue to allow schools to choose to participate in either the FDLP or the guaranteed loan program—the Federal Family Education Loan Program (FFELP). In addition, it would reform FFELP to improve Federal management and give lenders and intermediaries financial incentives to prevent defaults. It also would ensure that all borrowers receive a variety of repayment options.

Presidential Honors Scholarships: The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Government's commitment to excellence. The budget requests $132 million for this program.

College Work-Study: Work-study gives students additional aid through subsidized jobs, including an increasing number of community service positions. The budget proposes $85[illegible] million for Work-study, three percent more than in 1997, and continues the President's commitment to raise the number of Work-study recipients to a million by the year 2000, including 100,000 reading tutors to support America Reads.

G.I. Bill for America's Workers

For the past two years, the President has sought to dramatically overhaul the complex, inefficient structure of Federal job training programs through his proposed G.I. Bill for America's Workers. It would consolidate multiple programs into a single, integrated work force development system and provide Skill Grants (i.e., vouchers) to adults who need training so that they, not bureaucracies, choose where to get it. It also would streamline program administration, while improving accountability by freeing States and localities to focus on results, not process.

Although Congress did not enact these essential reforms, the Administration has pressed ahead to reform the job training system under current law. The Administration is making grants to establish One-Stop Career Center systems and School-to-Work systems; developing America's Labor Market Information System; expanding America's Job Bank to help match workers to jobs across the

The President's Principles for Work Force Policy Reform:

1. Give resources for training directly to adults so they can make informed choices, without bureaucratic interference.
2. Consolidate and streamline Federal programs for adults, organize them within the One-Stop Career Center delivery system, and ensure that the private sector is a full partner.
3. Ensure strong accountability to taxpayers by establishing high standards for program quality and giving States and localities responsibility for results.
4. Organize Federal programs for youth within the School-to-Work Opportunities Act systems being established in States and local communities.
5. Increase funding for work force development each year, commensurate with the needs of workers and the economy.

country; and implementing new authority to waive certain Federal legal and regulatory requirements in order to help States and local communities make changes to the job training system.

Comprehensive reform still requires legislation. The President will again seek legislation that reflects the principles of his G.I. Bill. Because enactment would not occur before the fiscal 1998 appropriations process begins in Congress, the budget presents funding proposals under the current program structure.

outh Programs

The President is deeply committed to helpıg States and communities help young people ıake a successful transition to the world work and family responsibility. As discussed ırlier in this chapter, the budget includes ajor new proposals to eliminate financial ırriers to postsecondary education and traing for all youth. In addition, the budget ntinues to support the goal by helping ates develop and implement their school--work systems. And it proposes additional sources to aid disadvantaged youth who ıve left school, or are on the verge of ing so, and have entered the labor force.

School-to-Work: This initiative, which the ucation and Labor Departments fund and minister jointly, gives States and communies competitive grants to build comprehene systems to help young people move from h school to careers or postsecondary train- and education. School-to-Work supports rems to the education system and its links employers, so that young people can better pare for high-skill, high-wage careers; reve top-quality academic and occupational ining; and pursue more postsecondary eduion or training. Businesses get the trained kers they need to stay globally competitive. 1996, 37 States and 133 local partnerships already received grants to implement ool-to-Work systems. The budget proposes 0 million, maintaining the 1997 level, in ırd with the strategy of phasing in School-Vork in all States by early in the next ıde.

fter-School Program: Young people need ss to after-school activities that keep them off the streets and out of trouble. The Presidential initiative will provide $50 million to keep public schools open during non-school hours, giving students access to after-school tutoring and other educational and recreational activities in a crime-free environment within their own communities.

Youth Opportunity Areas Program: Recognizing the special problems of out-of-school youth, especially those in inner-city neighborhoods where jobless rates can exceed 50 percent, the budget proposes $250 million for new competitive grants to selected high-poverty urban and rural areas with major youth unemployment problems. The Labor Department would award funds to high-poverty areas, including designated Empowerment Zones or Enterprise Communities, based on the quality of the local applications—that is, those that show the best chance of substantially increasing employment among youth. These "seed" funds would leverage State, local, and private resources to sustain public-private efforts to train and employ youth in private sector jobs. (For more information on Empowerment Zones and Enterprise Communities, see Chapter 6.)

Summer Youth Employment and Training Program: The summer jobs program gives many urban and rural disadvantaged students their first work experiences, and localities may include an academic component that re-enforces the skills they have learned during the school year. The budget provides $871 million to finance 530,000 job opportunities for the summer of 1998, assuming that localities spend this flexible funding entirely on summer jobs.

Disadvantaged Youth Year-Round Program: The year-round program helps low-income youth who have dropped out of school, are at risk of dropping out, or are in families on public assistance. The Administration will expand upon ongoing efforts to refocus this program to stress local programs of proven effectiveness. Local service delivery areas that receive these funds under the Job Training Partnership Act can shift resources between the summer and year-round programs, as local needs dictate. The budget proposes $130 million for the year-round program.

Job Corps: The Job Corps provides intensive, work-related vocational skills training, academic and social education, and support services to severely disadvantaged young people in a structured residential setting. The budget proposes $1.2 billion to fund opportunities for 70,000 young people.

Adult Programs

Most adults change jobs and get new skills by themselves or through their employers. But, many others—particularly welfare recipients and those permanently laid off from jobs—need help to get the services and information they need to successfully manage their careers. The budget proposes sizable new support for grants to States and localities to finance a training and employment system that adequately serves these adults, and helps build the job skills of American workers and job seekers into the 21st Century. These activities are the core of the adult portion of the G.I. Bill for America's Workers.

Dislocated Workers and Low-Income Adult Training: The budget proposes $2.4 billion for Job Training Partnership Act programs that provide training, job search assistance, and related services to laid-off workers and economically disadvantaged adults, a $233 million increase over 1997. The dislocated worker program provides readjustment services, job search assistance, training, and other services to help dislocated workers find new jobs as quickly as possible. The program for disadvantaged adults helps welfare recipients and other low-income adults, giving them the skills and support to become employed. States and localities likely will continue to use a sizable portion of these resources to supplement training for welfare recipients under the new Transitional Assistance to Needy Families block grant. (For more information on this new block grant, and on the related Welfare-to-Work Challenge Fund and tax credit, see Chapter 7.)

Adult Education: The Adult Education program helps educationally disadvantaged adults develop basic skills (including literacy), achieve certification of high school equivalency, and learn English. In 1993–94, the program served over 3.75 million adult learners—over 1.4 million enrollments in adult basic education programs, about 1.1 million in adult secondary education programs, and over 1.2 million in English-as-a-second-language programs. The budget proposes $394 million, nine percent more than in 1997 (and over 50 percent more than in 1996), to meet the demand for literacy training that the new welfare and immigration laws have stimulated.

One-Stop Employment Service: The budget proposes $843 million for grants to the Employment Service—the Nation's public labor exchange—and $150 million to continue building One-Stop Career Center systems to streamline re-employment and career development service delivery. To date, 24 States have received grants to implement One-Stop systems and nine more States will receive grants in July 1997. The budget would permit One-Stops to expand to all States in 1998. While the One-Stop grants provide seed money for systems-building and increased automation, Employment Service grants provide the core operating funds for the new system. They help States to match employers and job seekers, and to provide counseling and re-employment assistance to unemployment insurance claimants and others who need more help finding jobs.

3. PROTECTING THE ENVIRONMENT

None of our children should have to live near a toxic waste dump or eat food poisoned by pesticides. Our grandchildren should not have to live in a world stripped of its natural beauty. We can and we must protect the environment while advancing the prosperity of the American people and people throughout the world.

President Clinton
April 22, 1996

The President believes that the Nation does not have to choose between a strong economy and a clean environment. In fact, while the President's policies have contributed greatly to four years of strong economic growth with low inflation, they also have produced a cleaner, healthier environment.

The Administration has helped ensure that the air is cleaner for tens of millions of people. It has protected Yellowstone, one of our national treasures and our first national park, from the ravages of nearby mining. It also has cleaned up more toxic waste sites in its first three years than the previous two administrations did in 12 years. Meanwhile, American industry has continued reducing toxic emissions, which have fallen 43 percent in the last decade.

While Americans want a Government that helps protect the environment and our natural resources, they do not want to burden business unduly, choke innovation, or waste taxpayer dollars. The Administration has reinvented the regulatory process, cutting excessive regulation and targeting investments in programs that will have the biggest impact on improving the environment, protecting public health, providing more opportunities for outdoor recreation, and enhancing natural resources. The President's strategy for environmental protection is reflected in not just the creative approaches the Administration is pursuing, but in the priorities that the budget proposes to fund.

New Approaches for Environmental Success

Working with Congress on a bipartisan basis whenever possible, the Administration has pioneered ways to protect the environment that are cleaner, cheaper, and smarter, while preserving natural resources for current and future generations.

Reinventing Drinking Water Legislation: In August 1996, the President signed the Safe Drinking Water Act Amendments, fulfilling the goals he outlined in 1993—to reinvent the Nation's safe drinking water legislation to better protect public health, and to authorize the creation of new Drinking Water State Revolving Funds (SRFs) to help hundreds of communities protect their citizens from harmful contaminants.

In several respects, the new law is a model for regulatory reform. It gives the Environmental Protection Agency (EPA) more flexibility to act on contaminants of greatest risk, and to analyze costs and benefits while maintaining public health as the paramount concern. It institutes a cost-effective, community-based approach for ensuring safe drinking water. Further, it affirms the right of all Americans to know the quality of their drinking water and the potential threats to its safety, and it authorizes resources to address Federal mandates under the law.

Reforming Food Quality Protection: Also in August, based on his proposal of 1993, the President signed legislation to revolutionize

21. EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Table 21–1. FEDERAL RESOURCES IN SUPPORT OF EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(In millions of dollars)

Function 500	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	36,147	42,387	46,425	47,420	48,455	49,459	50,335
Mandatory Outlays:							
Existing law	13,881	10,487	10,785	10,475	10,625	10,796	11,299
Proposed legislation		–340	2,791	4,589	4,986	4,524	1,938
Credit Activity:							
Direct loan disbursements	9,120	11,984	14,536	17,636	20,162	21,736	23,076
Guaranteed loans	19,816	20,958	21,256	20,548	20,540	21,538	22,872
Tax Expenditures:							
Existing law	25,200	27,020	27,865	29,165	30,480	31,880	33,340
Proposed legislation		166	4,919	7,201	8,862	9,038	9,506

The Federal Government helps States and localities educate young people, helps the low- skilled and jobless train for and find jobs, helps youth and adults of all ages overcome financial barriers to postsecondary education and training, helps employers and employees maintain safe and stable workplaces, and helps provide social services for the needy. The Government spends about $60 billion a year on grants to States and localities; on grants, loans, and scholarships to individuals; on direct Federal program administration; and on subsidies leveraging over $30 billion in loans to individuals. It also allocates nearly $33 billion a year in tax incentives for individuals.

Education

Education has long been a national priority, and for good reason. Education has served as the steppingstone for Americans who wanted better lives for themselves and their families. At the same time, Americans view education as mainly the province of State and local governments, and of families and individuals. Education spending reflects these views—of the more than $500 billion a year that the Nation spends on elementary, secondary, and postsecondary education, 91 percent comes from State, local, and private sources. The Federal Government contributes just nine percent.

But, though a small share of the overall investment, Federal spending targets important national needs, such as equal opportunity and high academic standards. For postsecondary education, three-fourths of all student financial aid comes in federally-backed student loans, Pell Grants, and other Federal help—and Federal aid helps half of all students pay for college. To expand access to college, the Administration is proposing a new HOPE scholarship tax credit and a tax deduction, to make two years of postsecondary education universally available and to open the doors to lifelong learning.

At elementary and secondary schools, most disadvantaged students get extra help to succeed through the Federal Title I program, launched as part of the War on Poverty and providing supplementary services, such as special tutoring in math, to low-income children. The return on this Federal investment has been dramatic. Citing Title I, as well as Head Start and child nutrition programs, a 1994 RAND study found that "the most plausible" way to explain big education gains of low-income and minority children in the past 30 years is "some combination of increased public investment in education and social programs and changed social policies aimed at equalizing educational opportunities." Minority students have made substantial gains in science, math, and reading since the 1970s, narrowing the gap between minority and Caucasian student achievement.

But progress has slowed in recent years, prompting the Federal Government to redirect its strategies. The Goals 2000 program is designed to elevate academic expectations for all students, by encouraging every State to set challenging standards in core subject areas. Recent changes to the Elementary and Secondary Education Act give schools more flexibility in return for greater accountability, creating an environment in which the schools use resources more efficiently. Similarly, Federal support for "charter schools" enables parents, teachers, and communities to create new, innovative public schools, which the States free from most rules and regulations and, at the same time, hold accountable for raising student achievement. Federal progress in helping students with disabilities also has proved significant. High school graduation rates have risen significantly, and 57 percent of youth with disabilities are competitively employed within five years of graduating from high school.

But in the last 30 years, perhaps the Federal Government's most important role in education has been to help Americans afford to attend college. Federal grants, loans, and work study, which went to 7.2 million students in 1996, particularly help low- and middle-income families. From 1964 to 1993, college enrollment nearly tripled, the share of high school graduates that attended college rose by a third, and college enrollment rates for minority high school graduates rose by nearly two-thirds.

While enrollment rates rose for all groups, gaps by race and family income have widened since 1980. One reason seems to be rising tuition, caused mainly by cuts in State support; 76 percent of all students attend State public higher education institutions. Low-income families are particularly sensitive to tuition increases, and minority families have been reluctant to take out loans, which have been the fastest-growing component of Federal aid. The availability of income-contingent loan repayments since 1993, and other flexible repayment options, are designed to help address the appropriate fears of low-income families about assuming loans. In addition, the proposed 21 percent increase in the maximum Pell grant scholarship between 1996 and 1998 is designed to help these families.

The economic returns to a college education are large. In 1993, full-time male workers over 25 years old with at least a bachelor's degree earned 89 percent more than comparable workers with only a high school degree. But not only do the college graduates themselves benefit. The higher socioeconomic status of parents also leads to greater educational achievement by their children.

Skill Training

The elementary, secondary, and postsecondary avenues cited above lay the groundwork for Americans to get the skills they need to acquire good jobs in an increasingly competitive global economy. Most workers also acquire additional skills on the job or through the billions of dollars that employers spend to improve worker skills and productivity. These efforts help the vast majority of working-age Americans.

Nevertheless, others need additional kinds of assistance. Consequently, the Federal Government spends nearly $7 billion a year through Labor Department programs to help dislocated workers train for, and find, new jobs, and to help economically-disadvantaged Americans learn skills with which they can move into the labor force. This aid includes a labor exchange—the State Employment Service—for anyone who wants to learn about job openings.

The Federal Government helps dislocated workers move from one job to the next. Nearly 70 percent of participants in the

Job Training Partnership Act's (JTPA) Dislocated Worker program have jobs when they leave, with average earnings of 92 percent of their previous wages. In addition, JTPA's Title II help disadvantaged adults, including welfare recipients, to get jobs. Over half of the welfare recipients who received help under Title II started jobs, with wages that averaged nearly $7 an hour.

Other programs help youth move from high school to more schooling or work by helping States and localities build School-to-Work systems, support vocational training in secondary and postsecondary institutions, and provide a "second chance" to low-income youth who have not fared well in school or the labor market. States began to implement School-to-Work systems in 1994.

For youth who need it, the Job Corps provides intensive skill training, academic and social education, and support services in a structured, residential setting. Other programs provide summer work experience or more job training.

Workplace Safety and Law Enforcement

The Federal Government spends about $500 million a year to promote safe and healthy workplaces for 100 million workers in six million workplaces, mainly through the Labor Department's Occupational Safety and Health Administration (OSHA) and Mine Safety and Health Administration. Regulations that help business create and maintain safe and healthy workplaces have significantly reduced illness, injury, and death from exposure to hazardous substances and dangerous equipment. The regulations clearly produce results that far exceed what Federal funds could achieve. OSHA also helps employers institute effective safety and health programs, while maintaining its strong enforcement capability.

The Government also regulates compliance with various laws that grant workers other protections—a minimum wage for virtually all workers, prevailing wages for workers on government contracts, overtime pay, restrictions on child labor, and time off for family illness or childbirth. In these cases, as with worker health and safety, the Federal Government works with the private sector to achieve important social goals that the Government could never achieve through Federal financing alone.

National Service

The Corporation for National and Community Service, which the Government established in 1993 at the President's urging, encourages Americans of all ages to engage in community-based service. The budget proposes about $800 million to support these programs in 1998.

AmeriCorps, the Corporation's signature initiative, each year enables thousands of young Americans of all backgrounds to serve their local communities full- or part-time. In return, they receive a minimum living allowance and an education award to help pay for post-secondary education. About 70,000 individuals have participated in AmeriCorps in its first three years, with another 35,000 expected to serve under the budget proposals. About a third of new participants in 1998 would participate in America Reads—an effort through which volunteers will help children read by themselves, and well, by the third grade.

Along with AmeriCorps, the Corporation supports the National Senior Volunteer Corps through which older Americans volunteer their time and energy to help their communities, children with disabilities, and the infirm elderly. Nearly 600,000 older Americans would participate in 1998.

Public Broadcasting

The budget proposes $325 million for the Corporation for Public Broadcasting (CPB) to help the 352 public television stations and the 692 radio stations provide quality educational programming through such avenues as National Public Radio and the Public Broadcasting Service. Stations use CPB funds to produce original children's and educational programs, and to acquire historical and cultural programs. CPB also helps finance several system-wide activities, including national satellite interconnection services and payments of music royalty fees.

Social Services

Along with helping youth and adults gain basic and higher education and advanced workplace skills, the Federal Government provides about $xx billion a year in grants to States and local public and private institutions to help defray the cost of social services. Those who receive these services include low-income individuals, the elderly, people with disabilities, children, and youth.

Tax Incentives

The Federal Government helps individuals, families, and employers (on behalf of their employees) plan for and buy education and training through numerous tax preferences, totaling $32.8 billion in 1998. The budget proposes new HOPE scholarship tax credits of up to $1,500 a year for two years of postsecondary education, and again proposes tax deductions of up to $10,000 for tuition and fees for college, graduate school, or job training.

The tax code already provides other avenues for saving, and paying, for education and training. State and local governments can issue tax-exempt debt to finance student loans or the construction of facilities used by non-profit educational institutions. Interest from certain U.S. Savings Bonds also is tax-free if the bonds are used solely to finance educational costs. Also under the tax code, many employers can, and do, provide employee benefits that are not counted as income.

The law offers employers a Work Opportunity Tax Credit, enabling them to claim a tax credit for a portion of wages they pay to certain hard-to-employ individuals who work for the employer for a minimum period. The budget proposes: (1) to enhance the credit with regard to long-term welfare recipients, and (2) to extend the existing credit to able-bodied childless adults aged 18 to 50 who, under the Administration's Food Stamp proposal, would face a more rigorous work requirement in order to continue receiving Food Stamps.

22. HEALTH

Table 22–1. FEDERAL RESOURCES IN SUPPORT OF HEALTH
(In millions of dollars)

Function 550	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	23,303	25,045	25,070	25,123	25,139	25,154	25,170
Mandatory Outlays:							
Existing law	96,806	103,541	109,601	116,321	124,764	134,621	145,107
Proposed legislation		39	3,940	3,669	2,059	–175	–4,998
Credit Activity:							
Direct loan disbursements	25	20					
Guaranteed loans	210	274	105	6			
Tax Expenditures:							
Existing law	72,745	79,245	85,095	91,185	97,255	103,675	110,445
Proposed legislation		8	19	12	3	3	1

The Federal Government helps meet America's health care needs by directly providing health care services, by promoting disease prevention and consumer and occupational safety, by conducting and supporting research, and by training and helping to train the Nation's health care work force. All together, the Federal Government will spend about $138 billion in 1998, and allocate $85 billion in tax incentives.

President Johnson and Congress created Medicaid in 1965 to provide health insurance for the low-income elderly and the poor. Since then, the Nation's leaders have expanded the program from time to time to meet emerging needs. In 1986, for instance, they answered public concerns about high infant mortality rates and the decline in private insurance coverage by expanding Medicaid coverage for prenatal and child health services.

In addition, the Federal Government helps to expand health care coverage to those with which it has a special obligation (including veterans, uniformed military personnel, and American Indians and Alaska Natives), and conducts and sponsors vital biomedical research that would not otherwise take place. Together, all of these Federal activities have helped to extend life expectancy, cut the infant mortality rate to historic lows, level the death rate among those with HIV/AIDS, and make other progress.

Health Care Services

Of the estimated $138 billion in Federal health care outlays in 1998[1], 89 percent finances or supports direct heath care services to individuals.

Medicaid: This Federal-State health care program served about 37 million low-income Americans in 1996—with the Federal Government spending $92 billion (57 percent of the total), while States spent $70 billion (43 percent). States that participate in Medicaid must cover several categories of eligible people, including certain low-income elderly, people with disabilities, low-income women and children, and several mandated services, including hospital care, nursing home care, and physician services. States also may cover optional populations and services. Under current law, Federal experts expect total Medicaid spending to

[1] Excluding Medicare and the military and veterans medical programs.

grow an average of 7.2 percent a year from 1997 to 2002.

Medicaid covers a fourth of the Nation's children and is the largest single purchaser of maternity care as well as of nursing home services and other long-term care services; the program covers almost two-thirds of nursing home residents. The elderly and disabled made up only 30 percent of Medicaid beneficiaries in 1995, but accounted for 61 percent of spending on benefits. Adults and children made up 70 percent of recipients, but accounted for only 25 percent of spending on benefits. Medicaid serves at least half of all adults living with AIDS (and up to 90 percent of children with AIDS), and is the largest single payor of direct medical services to adults living with AIDS.

States increasingly rely on managed care arrangements to provide health care through Medicaid, with enrollment in such arrangements rising from 7.8 million in 1994 to 11.6 million (about a third of all recipients) in 1995.

Other Health Care Services: The Department of Health and Human Services (HHS) supplements Medicare (discussed in Chapter 23) and Medicaid with a number of "gap-filling" grant activities to support health services for low-income or specific populations, including Consolidated Health Center grants; Ryan White AIDS treatment grants; the Maternal and Child Health block grant; Family Planning; and the Substance Abuse block grant. In addition, the Indian Health Service (IHS) provides direct care to 1.4 million American Indians and Alaskan Natives as part of the Federal Government's trust obligations. The IHS system, located primarily on or near reservations, includes 49 hospitals, 190 health centers, and almost 300 other clinics.

Prevention Services: Prevention can go a long way to improve American's health. Measures to protect public health can be as basic as providing good sanitation and as sophisticated as preventing bacteria from developing resistance to antibiotics. State and local health departments traditionally lead such efforts, but the Federal Government—through HHS' Centers for Disease Control and Prevention—also provides financial and technical support. For a half-century, CDC has worked with State and local governments to prevent syphilis and eliminate smallpox and other communicable diseases. More recently, CDC has focused its efforts on preventing a host of diseases, including breast cancer, prostate cancer, lead poisoning among children, and HIV/AIDS.

National Institutes of Health (NIH): NIH is among the world's foremost biomedical research centers and the Federal focal point for biomedical research in the United States. NIH research is designed to gain knowledge to help prevent, detect, diagnose, and treat disease and disability. NIH conducts research in its own laboratories and clinical facilities; supports research by non-Federal scientists in universities, medical schools, hospitals, and research institutions across the Nation and around the world; helps train research investigators; and fosters communication of biomedical information.

At any one time, NIH supports 35,000 grants to universities, medical schools, and other research and research training institutions. It also conducts over 2,000 projects in its own laboratories and clinical facilities. NIH research has helped to achieve many of the Nation's most important public health advances, such as reducing mortality from heart disease, the Nation's number one killer, by four percent from 1971 to 1991; reducing death rates from stroke by 59 percent over the same period; and increasing the five-year survival rate for people with cancer to 52 percent. Recent NIH-sponsored research has generated significant advances in treatments for individuals infected with HIV, medications for Alzheimer's disease, and revolutionary innovations in molecular genetics and genomics research.

Food and Drug Administration: The Food and Drug Administration (FDA) spends about $1 billion a year to promote public health by helping to ensure—through pre-market review and post-market surveillance—that foods are safe, wholesome, and sanitary; human and veterinary drugs, biological products, and medical devices are safe and effective; and cosmetics and electronic products that emit radiation are safe. FDA also helps the public gain access to important new life-saving drugs, biological products, and medical devices. It leads Federal efforts to ensure the timely review of products and ensure that regulations enhance public health, not serve as an unnecessary regulatory burden. In addition, the FDA supports research, consumer education, and the development of both voluntary and regulatory measures to ensure the safety and efficacy of drugs, medical devices, and foods.

Food Safety and Inspection Service (FSIS): FSIS inspects the Nation's meat, poultry, and egg products, ensuring that they are safe, wholesome, and not adulterated. With annual funding of almost $600 million, agency staff inspect all domestic livestock and poultry in slaughter plants, and conduct at least daily inspections of meat, poultry, and egg product processing plants. In 1996, FSIS issued a major regulation that will begin to shift responsibility for ensuring meat and poultry safety from FSIS to the industry. The regulation should allow FSIS to better target its inspection resources to the higher-risk elements of the meat and poultry production, slaughter, and marketing processes.

Federal Employees Health Benefits Program (FEHBP): Established in 1960, the FEHBP is America's largest employer-sponsored multiple-choice health program, providing $17 billion in comprehensive hospital and major medical benefits a year to about 9.6 million Federal workers, annuitants, and their dependents. About 86 percent of all eligible Federal employees participate in the FEHBP, and they select from nearly 400 health insurance carriers that offer a broad choice of delivery systems. The FEHBP offers full coverage upon enrollment—without medical examinations or restrictions based on age, current health, or pre-existing condition.

Veterans' Health Care

With a proposed 1998 health budget of $17.5 billion (including receipts), the Department of Veterans Affairs (VA) provides health care services to 2.9 million veterans through its national system of 22 integrated health networks, consisting of 173 hospitals, 491 outpatient clinics, 135 nursing homes, and 40 domiciliaries[2]. VA is an important part of the Nation's social safety net because almost half of its patients are low-income veterans who might not otherwise receive care. It also is a leading health care provider for veterans with substance abuse problems, mental illness, HIV/AIDS, and spinal cord injuries because private insurance usually does not fully cover these illnesses.

VA's core mission is to meet the health care needs of veterans who have compensable service-connected injuries or very low incomes. The law makes these "core" veterans the highest priority for available Federal dollars for health care. But, VA may provide care to lower-priority veterans if resources allow and if the needs of higher-priority veterans have been met.

In recent years, VA has reorganized its field facilities from 173 largely independent medical centers into 22 Veterans Integrated Service Networks charged with giving veterans the full continuum of care. VA also has won legislation easing restrictions on its ability to contract for care and share resources with Defense Department hospitals, state facilities, and local health care providers.

Health Research: VA's research program, for which the budget proposes $234 million in 1998, conducts basic, clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines. The program seeks to improve the medical care and health of veterans, and enhance the Nation's knowledge of disease and disability.

Health Care Education and Training: The Veterans Health Administration is the Nation's largest trainer of health care professionals. About 108,000 students a year get some or all of their training in VA facilities through affiliations with over 1,000 educational institutions. The program provides training to medical, dental, nursing, and associated health professions students to support VA and national work force needs.

Defense Department Health Care

The Defense Department (DOD) has two basic, related medical missions: (a) provide, and be ready to provide, medical services and support to the armed forces during military operations, and (b) provide peacetime medical services to members of the armed

[2] Domiciliaries serve homeless veterans and veterans who require short-term rehabilitation.

forces, their dependents, and other beneficiaries entitled to DOD health care.

The Defense Health Program (DHP) utilizes over 100,000 military members and 43,000 civilians in 115 hospitals and 471 clinics world-wide to provide medical and dental services. DOD beneficiaries also receive medical care from private health professionals under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) medical insurance program, and its managed care component, TRICARE.

About 8.2 million people across the world are eligible for benefits from DOD's health system. DHP's annual direct costs, including operations and procurement, are about $10.2 billion; personnel costs add another $5.2 billion.

DOD's medical research and development (R&D) program funds activities ranging from basic and applied research through development on health issues unique to deployed military forces. The program works to develop vaccines against diseases endemic to countries outside of the U.S.; field-deployable blood products, blood substitutes, and resuscitation fluids; technologies for assessing and treating massive hemorrhage and severe trauma; and methods to prevent injury during military operations. The budget also proposes $25 million in 1998 for HIV R&D.

Regulatory and Administrative Issues

The sheer size and market share of Medicare and Medicaid significantly affects the private health care market. Medicare and Medicaid's coverage, reimbursement, quality of care, and information policies frequently become the accepted standards for the private sector over time. In addition, the Federal Government monitors Medicare and Medicaid's regulation of quality of care and reporting and record-keeping requirements for health facilities in order to evaluate possible additional costs on privately-insured individuals, private health care providers, and State and local governments.

Tax Incentives

Federal tax laws help finance health insurance. First, employer contributions for workers' health insurance premiums are excluded from workers' taxable income. Second, self-employed people may deduct a certain percent (30 percent in 1996, rising to 80 percent in 2006 and beyond) of what they pay for health insurance for themselves, their spouses, and their dependents. Third, individuals who itemize may deduct certain expenses for health care—such as insurance premiums that employers do not pay; expenses to diagnosis, treat, or prevent disease; and expenses for certain long-term care services and insurance policies—to the extent that these expenses exceed 7.5 percent of the individuals' adjusted gross income. Total health-related tax incentives (including other minor provisions) will reach an estimated $85 billion in 1998, and $487.7 billion from 1998 to 2002.

23. MEDICARE

Table 23–1. FEDERAL RESOURCES IN SUPPORT OF MEDICARE
(In millions of dollars)

Function 570	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	2,939	2,598	2,755	2,751	2,728	2,727	2,728
Mandatory Outlays:							
Existing law	171,272	191,556	208,641	228,211	248,760	271,089	295,065
Proposed legislation	....	....	–4,310	–11,390	–22,150	–27,820	–34,550

Created by the Social Security Amendments of 1965 (and expanded in 1972), Medicare is a Nation-wide health insurance program for the elderly and certain people with disabilities. The program, which will spend an estimated $211 billion in 1998 on benefits and administrative costs, consists of two complementary but distinct parts, each tied to a trust fund: (1) Hospital Insurance (Part A) and (2) Supplementary Medical Insurance (Part B).

Over 30 years ago, Medicare was designed to address a serious, national problem in health care—the elderly often could not afford to buy health insurance, which was more expensive for them than for other Americans because they had higher health care costs. Through Medicare, the Federal Government created one insurance pool for all of the elderly while subsidizing some of the costs, thus making insurance much more affordable for almost all elderly Americans.

Medicare has very successfully expanded access to quality care for the elderly. Its trust funds, however, face financing challenges as the Nation approaches the 21st Century. Along with legislative proposals discussed elsewhere in the budget, the Health Care Financing Administration (HCFA) is working to improve Medicare through its regulatory authority and demonstration programs.

Part A

Part A covers almost all Americans age 65 or older, and most persons who are disabled for 24 months or more and who are entitled to Social Security or Railroad Retirement benefits. People with end-stage renal disease (ESRD) also are eligible for Part A coverage. About 99 percent of Americans aged 65 or older are enrolled in Part A, along with an estimated 93 percent of ESRD patients. Part A reimburses providers for the inpatient hospital, skilled nursing facility, home health, and hospice services provided to beneficiaries. Part A's Hospital Insurance (HI) Trust Fund receives most of its income from the HI payroll tax—2.9 percent of payroll, split evenly between employers and employees.

Part B

Part B coverage is optional, and it is available to almost all resident citizens 65 years of age or older and to people with disabilities who are entitled to Part A. About 96 percent of those enrolled in Part A have chosen to enroll in Part B. Enrollees pay monthly premiums that cover about 25 percent of Part B costs, while general taxpayer dollars subsidize the remaining costs. For most beneficiaries, the Government simply deducts the Part B premium from their monthly Social Security checks.

Part B pays for medically necessary physician services; outpatient hospital services; diagnostic clinical laboratory tests; certain durable medical equipment (e.g., wheelchairs) and medical supplies (e.g., oxygen); and physical and occupational therapy, speech pathology services, and outpatient mental health services. Part B also covers kidney dialysis and transplants for ESRD patients.

Fee-for-Service vs. Managed Care

Beneficiaries can choose the coverage they prefer.

Under the "traditional," fee-for-service option, beneficiaries can go to virtually any provider in the country. Medicare pays providers primarily based on either an established fee schedule or reasonable costs. About 90 percent of Medicare beneficiaries now opt for fee-for-service coverage.

Alternatively, beneficiaries can enroll in a Medicare managed care plan, and the 10 percent who do are concentrated in a few geographic areas. Generally, enrollees receive care from a network of providers, although Medicare managed care plans are starting to offer a point-of-service benefit, allowing beneficiaries to receive certain services from non-network providers. Most managed care plans receive a monthly, per enrollee "capitated" payment that covers the cost of Part A and B services.

Successes

Medicare dramatically increased access to health care for the elderly—from slightly over half when the program began in 1966 to almost 100 percent today.

Ninety-six percent of Medicare beneficiaries reported no trouble obtaining care in 1994.[1] Further, less than one percent of beneficiaries reported trouble getting care because a physician would not accept Medicare patients. Medicare beneficiaries have access to the most up-to-date medical technology and procedures.

Medicare also gives beneficiaries a choice of managed care plans. Today, managed care is a major, and growing, part of Medicare. As of December 1, 1996, over 4.7 million beneficiaries have enrolled in 336 Medicare managed care plans. In 1995, enrollment in the capitated managed care plans called "risk contracts" grew by 36 percent, and by an annualized rate of 30 percent in the first six months of 1996. Managed care plans can potentially provide coordinated care that is focused on prevention and wellness.

In addition, Medicare is working to protect the integrity of its payment systems. Building on the success of Operation Restore Trust, a five-State demonstration aimed at cutting fraud and abuse in home health agencies and nursing homes, Medicare is increasing its efforts to root out fraud and abuse. Recent legislation provided more Federal funds and authority to prevent inappropriate payments to fraudulent providers, and to seek out and prosecute providers who continue to defraud Medicare and other health care programs.

Spending and Enrollment

With no changes in law, net Medicare outlays will rise by an estimated 54 percent from 1997 to 2002—from $191.6 billion to $295.1 billion.[2] Net Medicare outlays will grow by an average of nine percent a year over this period. Part A outlays are larger than Part B outlays, and grow more slowly. Nevertheless, Part A outlays will grow by an estimated 46 percent over the period—from $135.1 billion to $197.7 billion—or an average of 7.9 percent a year. Part B outlays will grow by an estimated 72 percent—from $55.9 billion to $96.4 billion—or an average of 11.5 percent a year.

Medicare has consumed a growing share of the budget, and it will continue to under current law. In 1980, Federal spending on Medicare benefits was $31 billion, comprising 5.2 percent of all Federal outlays. In 1995, Federal spending on Medicare benefits was $156.6 billion, or just over 10 percent of all Federal outlays. By 2002, assuming no changes in current law, Federal spending on Medicare benefits will total an estimated

[1] Physician Payment Review Commission, 1996 Annual Report to Congress.

[2] These figures cover Federal spending on Medicare benefits, but do not include spending financed by beneficiaries' premium payments or administrative costs.

$295.1 billion, or almost 16 percent of all Federal outlays.

Medicare enrollment will grow slowly until 2010, then take off as the baby boom generation begins to reach age 65. From 1995 to 2010, enrollment will grow at an estimated average annual rate of 1.4 percent, from 37.6 million enrollees in 1995 to 46.4 million in 2010. But after 2010, average annual growth will almost double, with enrollment reaching an estimated 78 million in 2030—one in five Americans.

The Two Trust Funds

HI Trust Fund: As discussed above, the HI Trust Fund is financed by a 2.9 percent payroll tax, split evenly between employers and employees. In 1995, HI expenditures began to exceed the annual income to the Trust Fund and, as a result, Medicare is drawing down the Trust Fund's accounts to partially finance Part A spending. The Government's career actuaries predict that the HI Trust Fund would become insolvent in 2001 in current law, but the President's proposals to strengthen the Trust Fund would push back the date into 2007. (For a detailed discussion of the proposals, see Chapter 1.)

Beyond the impending insolvency, Medicare also faces a longer-term financing challenge. The baby boomers' retirement, starting in 2010, will cause Medicare spending to grow significantly. From 2010 to 2030, enrollment is expected to double while the workforce shrinks. As a result, only 2.2 workers will be available to support each beneficiary in 2030—compared to the current four workers per beneficiary. The President proposes to work with Congress on a bipartisan basis to develop a long-term solution to this financing challenge.

SMI Trust Fund: The SMI Trust Fund receives 75 percent of its income from general Federal revenues, 25 percent from beneficiary premiums. Unlike HI, the SMI Trust Fund is really a trust fund in name only—the law lets the SMI Trust Fund tap directly into general revenues to ensure its annual solvency. Nonetheless, the trustees of the SMI Trust Fund noted in 1996 "that program costs have been growing faster than the GDP and that this trend is expected to continue under present law."

Demonstrations

HCFA also conducts demonstration programs to determine the efficacy of new service delivery or payment approaches. For instance, it is launching a Choices demonstration project to allow provider-sponsored organizations in certain areas to enroll Medicare beneficiaries. The plans will offer new benefit structures to beneficiaries. Another demonstration project, Centers of Excellence, has experimented with bundled payments for hospital and physician costs, for selected procedures performed at certain high-quality facilities.

Regulations

Through its regulatory authority, HCFA continually improves Medicare. In the last year, HCFA issued regulations to address concerns about the payment incentives that managed care plans offer to physicians that, in turn, may encourage physicians to deny services. Specifically, it barred health plans that contract with Medicare from limiting physicians' ability to discuss all appropriate treatment options with Medicare enrollees. In addition, the Administration is focusing more on patient health outcomes and giving information to consumers that should boost competition among health plans, generating higher-quality care and a more cost-effective Medicare program.

24. INCOME SECURITY

Table 24–1. FEDERAL RESOURCES IN SUPPORT OF INCOME SECURITY
(In millions of dollars)

Function 600	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	27,752	26,015	32,592	36,113	38,892	40,402	41,811
Mandatory Outlays:							
Existing law	187,994	197,391	203,649	212,394	222,232	225,644	235,394
Proposed legislation	....	586	2,282	2,246	2,258	1,869	2,569
Credit Activity:							
Direct loan disbursements	93	95	73	8	....	....	....
Guaranteed loans	5	5	17	34	40	40	37
Tax Expenditures:							
Existing law	83,027	84,768	86,279	87,922	89,509	91,266	93,019
Proposed legislation	....	718	11,343	7,283	9,305	11,544	12,043

The Federal Government provides about $220 billion a year in cash or in-kind benefits to individuals through "income security" programs, including about $120 billion for programs that are part of the "social safety net." Since the 1930s, these "safety net" programs, plus Social Security, Medicare, and Medicaid, have grown enough in size and coverage so that even in the worst economic times, most Americans can count on some form of minimum support to prevent complete destitution. The combined effects of these programs represent one of the most significant changes in national social policy in this century, improving the lives of millions of lower-income families.

The remaining $100 billion for income security supports general retirement and disability insurance programs (excluding Social Security), Federal employee retirement and disability programs, and housing assistance.

Major Programs

The largest means-tested income security programs are Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and various kinds of low-income housing assistance (discussed in other chapters)—and the Earned Income Tax Credit (EITC). These programs, along with unemployment compensation (which is not means-tested), form the backbone of cash and in-kind "safety net" assistance in the Income Security function.

Food Stamps: Food Stamps helps most low-income people get a more nutritious diet. The program reaches more people than any other means-tested income security program—in an average month in 1996, 25.5 million people, or 10.6 million households, received benefits and that year, the program provided total benefits of $23 billion. Food Stamps is the only Nation-wide, low-income assistance program available to essentially all financially-needy households that does not impose non-financial criteria, such as whether households include children or elderly persons. (The new welfare law limits the number of months that childless, able-bodied individuals can receive benefits while unemployed.) The average monthly, per-person Food Stamp benefit was about $73 in 1996.

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Supplemental Security Income: SSI provides benefits to the needy aged, blind, and disabled adults and children. In 1996, 6.5 million individuals received $24 billion in benefits. Eligibility rules and payment standards are uniform across the Nation. Average monthly benefit payments range from $256 for aged adults to $448 for blind and disabled children. Most States supplement the SSI benefit.

Temporary Assistance for Needy Families: In last year's welfare reform law, the President and Congress enacted TANF as the successor to the 60–year-old Aid to Families with Dependent Children (AFDC) program. TANF, on which the Federal Government will spend about $16 billion in 1998, is designed to meet the President's goal of dramatically changing the focus of welfare—from a system focused on benefits to one that moves recipients from welfare to work. TANF grants give States broad flexibility to determine eligibility for assistance and the kind of cash, in-kind, and work-related assistance they provide.

Earned Income Tax Credit: The EITC, a refundable tax credit for low-income working families, has two broad goals: (1) to encourage families to move from welfare to work by making work pay; and (2) to reward work so parents who work full-time do not have to raise their children in poverty. In 1996, the EITC provided $24.3 billion of credits, including spending on tax refunds and lower tax receipts for non-refunded portions of the credit. For every dollar that low-income workers earn—up to certain limits—they receive between seven and 40 cents as a tax credit. In 1996, the EITC provided an average credit of nearly $1,400 to over 20 million workers and their families. A two-parent family of four with one full-time worker who works at minimum wage levels and receives Food Stamps would rise above the poverty level in 1998 because of the EITC.

Unemployment Compensation: Unemployment compensation provides benefits, which are taxable, to individuals who are temporarily out of work and whose employer has previously paid payroll taxes to the program. The State payroll taxes finance the basic benefits out of a dedicated trust fund. States set benefit levels and eligibility criteria, which are not means-tested. Regular benefits are typically available for up to 26 weeks of unemployment. In 1996, about 8.5 million persons claimed unemployment benefits that totaled $23 billion.

By design, benefits are available to experienced workers who lose their jobs through no fault of their own. Thus, unemployment compensation does not cover all of the unemployed in any given month. In 1996, on average, the "insured unemployed" represented about 35 percent of the estimated total number of unemployed. Those who are not covered include new labor force entrants, re-entrants with no recent job experience, and those who quit their jobs voluntarily and, thus, are not eligible for benefits.

Other important income security programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (known as WIC); school lunch, school breakfast, and other child nutrition programs; child care assistance; refugee assistance; and low-income home energy assistance.

Effects of Income Security Programs

Last year's welfare reform debate focused on means-tested income security programs. The resulting law not only replaced the program at the heart of the debate, AFDC, but also made big cuts and changes in other programs, including Food Stamps and SSI. But the basic question remains—what effect do these safety net programs have on poverty, and to what extent do they target assistance to the poor? Chapter 25, Social Security, explores the impact of Social Security alone on the income and poverty of the elderly. This chapter looks at the cumulative impact across the major programs.

For purposes below, "means-tested benefits" include AFDC, SSI, certain veterans pensions, Food Stamps, child nutrition meals subsidies, rental assistance, and State-funded general assistance. Medicare and Medicaid greatly help eligible families who need medical services during the year, but experts do not agree about how much additional income Medicare or Medicaid coverage represents to those covered. Consequently, we did not include these benefits in the analysis that follows. "Social insurance programs" include Social Security, railroad retirement, veterans compensation, unemployment compensation, Pell grants, and workers' compensation. The definition of income for this discussion (cash and in-kind benefits), and the notion of pre- and post-Government transfers, do not match the Census Bureau's definitions for developing official poverty statistics. Census counts income from cash alone, including Government transfers.

Effectiveness in Reducing Poverty: Based on special tabulations from the March 1996 Current Population Survey, 57.6 million people were poor in 1995 before accounting for the effect of Government programs. Of the 57.6 million, 27 percent were elderly (age 65 and above), 30 percent were children below age 18, and 43 percent were non-elderly adults (age 18–64). Census data show that after accounting for the effects of Government programs:

- The number of people in poverty fell to 30.3 million, a drop of 47 percent.
- The programs lifted 82 percent of the elderly poor out of poverty.
- The programs lifted about a third of poor children and poor non-elderly adults out of poverty.
- Social insurance programs accounted for two-thirds of individuals who were removed from poverty, including 93 percent of the elderly, 55 percent of the non-elderly adults, and 25 percent of the children.
- Means-tested benefits were responsible for 28 percent of the individuals who were removed from poverty, including close to 60 percent of poor children and over 40 percent of non-elderly adults.
- Federal tax policies, including the EITC, accounted for five percent of those removed from poverty, including close to 20 percent of the children.
- The number of people removed from poverty in 1995 reached an all-time high.

Efficiency in Reducing Poverty: The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. "Efficiency" in reducing poverty is defined as the percentage of Government benefits of a particular type (e.g., social insurance programs) that help cut the poverty gap. So, for example, if $1 out of every $2 in Category A helps cut the poverty gap, the "efficiency" of Category A would be 50 percent.

Before counting government benefits, the poverty gap was $194.5 billion in 1995. Benefits from government programs cut it by $135 billion, or 69 percent. Of the $135 billion cut, social insurance programs accounted for $90 billion, means-tested benefits for $43 billion, and Federal tax provisions for $2 billion.

All told, according to Census Bureau data, social insurance benefits totaled $338 billion in 1995. Thus, 26 percent of their funding (the $90 billion, above) helped cut the poverty gap. Means-tested benefits totaled $78 billion, according to Census data. Thus, 56 percent of their funding (the $43 billion, above) helped cut the poverty gap. [1]

The evidence is clear—whether measured by their impact on poverty gaps, or on moving families out of poverty, income security programs largely succeed. Social insurance programs play the largest role in cutting poverty, but means-tested programs—targeted more narrowly on the poor—are more efficient.

Employee Retirement Benefits

Federal Employee Retirement Benefits: The Civil Service Retirement and Disability Program covers 1.9 million Federal employees and 750,000 United States Postal Service employees, and provides retirement benefits to 1.7 million retirees and 600,000 survivors. The Civil Service Retirement System (CSRS) covers employees hired before 1984. The Federal Employees Retirement System (FERS) covers employees hired since January 1, 1984. Along with the FERS defined benefit, FERS employees also participate in Social Security and the Thrift Savings Plan—a defined contribution plan to which the Government makes contributions on their behalf. The average Federal retiree receives an annual benefit of about $20,000. (Military retirement programs are discussed in Chapter 26, Veterans Benefits and Services.)

The budget proposes several changes to CSRS and FERS. First, it would delay the cost-of-living adjustment (COLA) for three months each year for 1998–2002. Second,

[1] Budget data may differ from Census data.

it would increase employee contributions by 0.25 percent of base pay on January 1, 1999, another 0.15 percent in 2000, and a final 0.10 percent in 2001, with the higher rates remaining in effect through December 31, 2002. Third, it would increase agency contributions on behalf of CSRS employees by 1.51 percent of base pay beginning on October 1, 1997, and continuing through September 30, 2002.

Private Pensions: The Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3 trillion in pension assets. The Pension Benefit Guaranty Corporation (PBGC) protects the pension benefits of nearly 42 million workers and retirees who earn traditional (i.e., "defined benefit") pensions. Through its early warning program, PBGC also works with solvent companies to more fully fund their pension promises, protecting the benefits of 1.2 million people in 1996 alone. To encourage retirement savings, the President signed legislation in 1996 that establishes a new, simplified pension plan for small businesses.

Tax Treatment of Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits. Generally, earnings devoted to workplace pension plans and to many individual retirement accounts (IRAs) are exempt from taxes when earned and ordinarily are taxed only in retirement, when lower tax rates usually prevail. Moreover, taxpayers can defer taxes on the interest and other gains that add value of these retirement accounts, including all forms of IRAs. These tax incentives amount to $69 billion a year—one of the three largest sets of preferences in the income-tax system.

25. SOCIAL SECURITY

Table 25–1. FEDERAL RESOURCES IN SUPPORT OF SOCIAL SECURITY

(In millions of dollars)

Function 650	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Mandatory Outlays:							
Existing law	347,051	364,232	380,935	398,622	417,735	437,963	459,686
Proposed legislation	....	....	....	–5	1	7	13
Tax Expenditures:							
Existing law	22,890	24,170	25,285	26,465	27,765	28,875	29,935

The Old-Age, Survivors, and Disability Insurance (OASDI) program, popularly known as Social Security, will spend about $380 billion in 1998 to provide a comprehensive package of protection against the loss of earnings due to retirement, disability, or death.

OASDI provides monthly benefits as a matter of earned right to retired and disabled workers who gain insured status, and to their eligible spouses, children, and survivors (see Chart 25–1). The Social Security Act of 1935 provided retirement benefits, and the 1939 amendments provided benefits for survivors and dependents. These benefits now comprise the Old Age and Survivors Insurance Program (OASI). Congress provided disability benefits by enacting the Disability Insurance (DI) program in 1956, and benefits for the dependents of disabled workers by enacting the 1958 amendments.

Social Security was founded on two important principles, social adequacy and individual equity. Social adequacy means that benefits will provide a certain standard of living for all contributors. Individual equity means that contributors receive benefits directly related to the amount of their contributions. These principles still guide Social Security today.

What Social Security Does

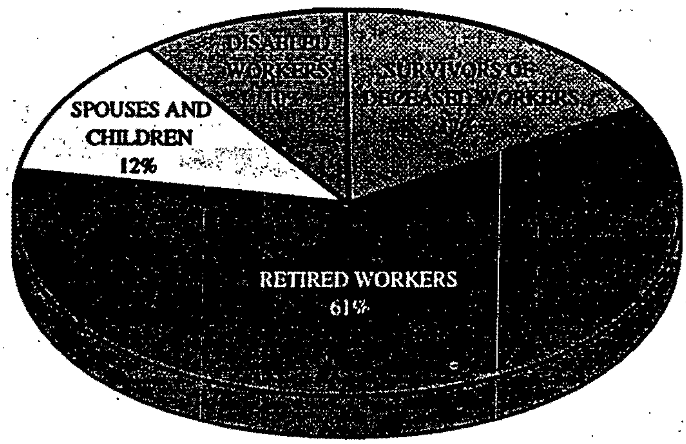
Social Security helps alleviate poverty, provide income security, and maintain the lifestyles of beneficiaries.

Alleviating Poverty: Before the 1960s, when an economist at the Social Security Administration developed a measure to assess poverty, experts believed that a large share of the elderly were poor, although it was not clear exactly how many. In 1970, an estimated 25 percent of the elderly were living in poverty. Now, only about 11 percent of them do.[1]

Social Security is largely responsible for the progress (see Chart 25–2). In 1995, 17 percent of elderly, unmarried beneficiaries had family incomes below the poverty line. Without Social Security retirement benefits, 60 percent of them would have fallen into poverty. For elderly couples, Social Security had a similar effect. In 1995, three percent of the elderly who were married had incomes below the poverty line. Without Social Security retirement benefits, 42 percent of them would have.

[1] These estimates as well as those that follow are based on a definition of poverty that uses pre-tax cash income—the Census Bureau's definition of income for official income and poverty statistics. In the Income Security function discussion of how cash and non-cash means-tested benefits affect poverty, a more comprehensive definition of income is used. The estimated impacts on poverty are not directly comparable across chapters.

Chart 25-1. COMPOSITION OF SOCIAL SECURITY RECIPIENTS



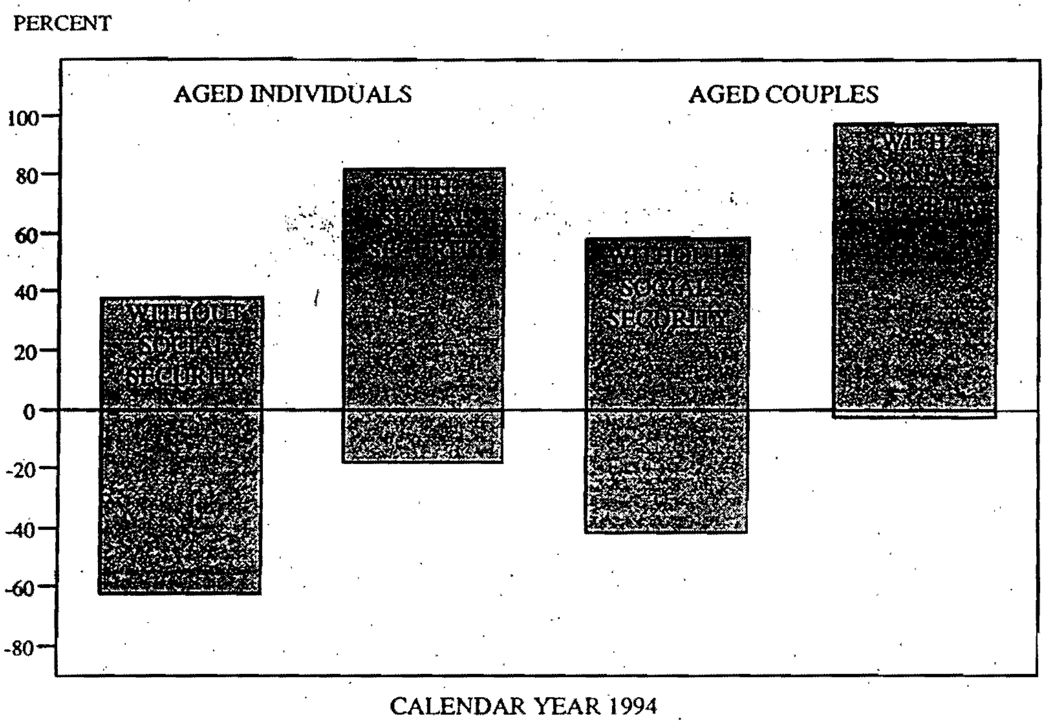
Income Security: Social Security was originally designed to provide a continuing income base for eligible workers so they could maintain a reasonable income when they retired. In 1935, personal savings, family support, and Federal welfare programs were the main sources of income for those 65 and older who did not work. Today, two-thirds of those over 65 get the major portion of their income from Social Security (see Chart 25–3). The average retiree receives a Social Security benefit equal to 43.1 percent of pre-retirement income. In 1996, Social Security paid about $300 billion in retirement, survivor, and family benefits to about 38 million beneficiaries.

Along with retirement benefits, Social Security also provides income security for survivors and dependents. In 1996, Social Security paid about $69 billion in benefits to over seven million survivors and deceased workers.

The Disability Insurance (DI) program also provides income security for workers and their families who lose earned income when the family provider becomes disabled. Before DI, workers often had no protection against income loss due to disability. To be sure, employees disabled on the job may have benefited from State workmen's compensation laws. But in 1956, only about five percent of all permanent and total disability cases were work-related. Congress enacted DI to protect the resources, self-reliance, dignity, and self-respect of disabled workers, according to congressional committee reports. DI protection can be extremely valuable, especially for young families that have not been able to sufficiently protect themselves against the risk of the worker's disability.

Maintaining Lifestyles: Before Social Security, about half of those over 65 depended on others, primarily relatives and friends, for all of their income. The same was often true for people with disabilities. Now, with Social Security, the vast majority of those over age 65 and those with disabilities can live relatively

Chart 25-2. BENEFICIARY POPULATION WITH FAMILY INCOME ABOVE AND BELOW THE POVERTY LINE



independent lives. Moreover, their families no longer carry the sole responsibility of providing their financial support.

Growth in Retirement Benefits

The retirement part of Social Security is facing financial stress, due to changing demographics and the program's financing. The retirement program is largely a "pay as you go" program—current retirement benefits are financed by current payroll contributions. Such financing has worked well in the past, when five workers were paying for every retiree. But, when the baby boom generation retires, eventually only two workers will be paying for every retiree.

Adding to the financial stress, baby boomers are having fewer babies and living longer. In 1957, women had an average of 3.7 babies, compared to 2.03 today. Males born in 1935 had an average life expectancy of 60 years, and females of 63 years. By contrast, baby boom males have an average life expectancy of about 67 years, and females of about 73. The longer people live, the longer they will collect Social Security. The more time that people spend retired, the more people there are to support at any one time and the fewer there are working and contributing to provide that support.

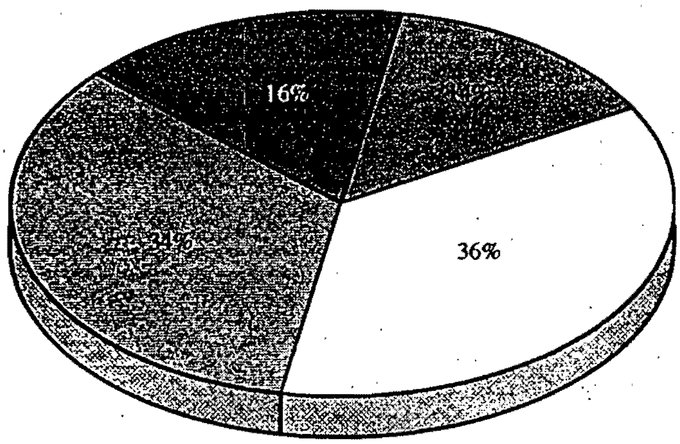
Growth in Disability Benefits

DI has grown rapidly. The program provided about $43 billion to about six million disabled beneficiaries and their families in 1996, compared to $57 million for 150,000 disabled workers in 1957. Growth has been especially rapid in the last 10 years, with the number of beneficiaries rising by 75 percent and benefits rising by 125 percent.

Why? Because growing numbers of baby boomers are reaching the age at which they are increasingly prone to disabilities; more women are insured; and laws, regulations, and court decisions have expanded eligibility for benefits. In addition, the annual share

Chart 25-3. PORTION OF BENEFICIARIES THAT RELY HEAVILY ON SOCIAL SECURITY

(Calendar year 1994)



of beneficiaries leaving the rolls has fallen steadily, raising questions about whether those remaining on the rolls are all, in fact, eligible for benefits. To maintain DI's integrity, the Administration proposes to maintain support for continuing disability reviews (CDRs)—a periodic review of individual cases that ensures that only those eligible continue to receive benefits.

The budget proposes a pilot program to encourage DI beneficiaries (and recipients of Supplemental Security Income, or SSI) to re-enter the workforce. Currently, the Social Security Administration refers DI or SSI beneficiaries to State Vocational Rehabilitation agencies. Under the Administration's proposal, beneficiaries could choose their own public or private vocational rehabilitation provider—and the provider could keep a share of the DI and SSI benefits that the Federal Government no longer pays to these individuals after they leave the rolls.

A Long-range Problem, but No Crisis

The OASDI trust funds are not in balance over the next 75 years—the period over which the Social Security Trustees measure Social Security's well-being. The President wants to work with Congress on a bipartisan basis to develop a long-term solution to the financing challenge, but it does not constitute an imminent crisis.

In their 1996 report, the Trustees estimated that the combined OASDI trust funds would have a cash imbalance in 2012 and be insolvent in 2029. The OASI Trust Fund would have a cash imbalance in 2014 and be insolvent in 2031. The DI Trust Fund would face a cash imbalance in 2003 and be insolvent in 2015.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits when their combined income (including Social Security) exceeds certain income thresholds. These exclusions reduce Social Security beneficiary taxes by $25 billion in 1998 and $138 billion from 1998 to 2002.

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Area and regional development:							
Indian programs	490	544	457	461	468	474	476
Proposed Legislation (non-PAYGO)			–7				
Subtotal, Indian programs	**490**	**544**	**450**	**461**	**468**	**474**	**476**
Rural development programs	**137**	**451**	**5**	**55**	**55**	**5**	**5**
Proposed Legislation (PAYGO)			50		–50		
Subtotal, Rural development programs	137	451	55	55	5	5	5
Credit liquidating accounts	103	128	188	270	204	219	64
Offsetting receipts	–359	–258	–254	–254	–258	–264	–268
Total, Area and regional development	371	865	439	532	419	434	277
Disaster relief and insurance:							
National flood insurance fund	527	114	–31	–52	–71	–93	–113
Credit liquidating accounts		–1	–1				
Total, Disaster relief and insurance	527	113	–32	–52	–71	–93	–113
Total, Mandatory	898	1,135	407	480	348	341	164
Total, Community and regional development	12,543	10,448	11,327	8,813	8,029	8,092	8,034
500 Education, training, employment, and social services:							
Discretionary:							
Elementary, secondary, and vocational education:							
Education reform	530	691	1,245	1,261	1,208	1,045	687
School improvement programs	1,218	1,426	1,299	1,333	1,368	1,403	1,440
Education for the disadvantaged	5,896	7,690	8,077	8,287	8,502	8,723	8,950
Special education	3,245	4,036	4,210	4,319	4,432	4,547	4,665
Impact aid	693	730	658	680	697	710	718
Vocational and adult education	1,340	1,487	1,566	1,607	1,649	1,692	1,736
Indian education programs	583	610	625	626	628	630	631
Bilingual and immigrant education	178	262	354	363	373	382	392
Other	7	7	7	7	7	7	7
Total, Elementary, secondary, and vocational education	13,690	16,939	18,041	18,483	18,864	19,139	19,226

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Higher education:							
Student financial assistance	6,258	7,560	9,263	8,752	8,972	9,193	9,422
Proposed Legislation (non-PAYGO)				752	780	812	842
Subtotal, Student financial assistance	**6,258**	**7,560**	**9,263**	9,504	**9,752**	10,005	**10,264**
Higher education account	837	879	903	926	949	972	995
Proposed Legislation (non-PAYGO)			132	141	145	148	150
Subtotal, Higher education account	837	879	1,035	1,067	1,094	1,120	1,145
Federal family education loan program	30	46	48	49	50	52	53
Other higher education programs	309	325	327	335	343	353	362
Total, Higher education	7,434	8,810	10,673	10,955	11,239	11,530	11,824
Research and general education aids:							
Library of Congress	254	258	277	278	281	284	290
Public broadcasting	313	296	286	286	364	364	366
Smithsonian institution	459	461	515	457	457	457	457
Education research, statistics, and improvement	351	598	511	519	528	541	527
Other	704	701	784	805	824	848	872
Total, Research and general education aids	2,081	2,314	2,373	2,345	2,454	2,494	2,512
Training and employment:							
Training and employment services	4,140	4,716	5,295	5,349	5,411	5,492	5,631
Older Americans employment	373	463					
Federal-State employment service	1,192	1,249	1,252	1,208	1,180	1,196	1,219
Proposed Legislation (non-PAYGO)					–50	–50	–50
Proposed Legislation (PAYGO)			19	38	38	38	38
Subtotal, Federal-State employment service	1,192	1,249	1,271	1,246	1,168	1,184	1,207
Welfare to work jobs			6	6	7	3	

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Other employment and training	83	81	86	86	86	86	86
Proposed Legislation (PAYGO)			6	12	12	12	12
Subtotal, Other employment and training	83	81	92	98	98	98	98
Total, Training and employment	5,788	6,509	6,664	6,699	6,684	6,777	6,936
Other labor services:							
Labor law, statistics, and other administration	957	1,003	1,063	1,063	1,063	1,063	1,063
Social services:							
National service initiative	600	616	809	834	858	883	910
Children and families services programs	4,766	5,364	5,499	5,751	6,013	6,301	6,599
Aging services program	829	830	1,278	1,278	1,278	1,278	1,278
Other	2	2	25	12	2	–6	–13
Total, Social services	6,197	6,812	7,611	7,875	8,151	8,456	8,774
Total, Discretionary	36,147	42,387	46,425	47,420	48,455	49,459	50,335
Mandatory:							
Elementary, secondary, and vocational education:							
Vocational and adult education	7	7	7	7	7	7	7
Proposed Legislation (PAYGO)			–7	–7	–7	–7	–7
Subtotal, Vocational and adult education	7	7					
School construction (Proposed PAYGO legislation)			5,000				
America Reads Challenge (Proposed PAYGO legislation)			260	290	335	380	460
Total, Elementary, secondary, and vocational education	7	7	5,260	290	335	380	460
Higher education:							
Federal family education loan program	3,546	471	2,539	2,343	2,348	2,463	2,605
Proposed Legislation (PAYGO)		–340	–1,192	–354	–418	–437	–1,548
Subtotal, Federal family education loan program	3,546	131	1,347	1,989	1,930	2,026	1,057

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Federal direct loan program	680	600	1,395	1,523	1,388	1,285	1,357
Proposed Legislation (PAYGO)	....	....	–112	199	227	244	261
Subtotal, Federal direct loan program	680	600	1,283	1,722	1,615	1,529	1,618
Other higher education programs	–88	–79	–82	–78	–76	–76	–73
Credit liquidating account (Family education loan program)	1,153	....	....	....	....	....	....
Total, Higher education	5,291	652	2,548	3,633	3,469	3,479	2,602
Research and general education aids:							
Mandatory programs	21	17	18	21	22	21	22
Training and employment:							
Trade adjustment assistance	123	114	119	97	97	97	97
Proposed Legislation (PAYGO)	....	....	....	23	23	24	24
Subtotal, Trade adjustment assistance	123	114	119	120	120	121	121
Welfare to work jobs (Proposed PAYGO legislation)	....	....	750	1,000	1,250	....	....
Payments to States for AFDC work programs	1,000	1,000	....	....	....	....	....
Total, Training and employment	1,123	1,114	869	1,120	1,370	121	121
Social services:							
Payments to States for foster care and adoption assistance	4,322	4,445	4,311	4,631	4,986	5,345	5,773
Proposed Legislation (PAYGO)	....	....	....	6	12	20	30
Subtotal, Payments to States for foster care and adoption assistance	4,322	4,445	4,311	4,637	4,998	5,365	5,803
Family support and preservation	225	240	255	255	255	255	255
Social services block grant	2,381	2,500	2,380	2,380	2,380	2,380	2,380
Rehabilitation services	2,456	2,509	2,583	2,653	2,722	2,794	2,870

Table 31-1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other social services	12	16	20	24	27	31	34
Total, Social services	9,396	9,710	9,549	9,949	10,382	10,825	11,342
Total, Mandatory	15,838	11,500	18,244	15,013	15,578	14,826	14,547
Total, Education, training, employment, and social services	51,985	53,887	64,669	62,433	64,033	64,285	64,882
550 Health:							
Discretionary:							
Health care services:							
Substance abuse and mental health services	1,885	2,134	2,156	2,141	2,126	2,111	2,096
Indian health	1,984	2,054	2,122	2,132	2,142	2,152	2,162
Other discretionary health care services programs	5,038	5,473	5,424	5,440	5,414	5,387	5,360
Total, Health care services	8,907	9,661	9,702	9,713	9,682	9,650	9,618
Health research and training:							
National Institutes of Health	11,928	12,741	13,078	13,132	13,186	13,240	13,294
Clinical training	261	295	133	126	123	120	118
Other health research and training	231	307	286	281	277	273	269
Total, Health research and training	12,420	13,343	13,497	13,539	13,586	13,633	13,681
Consumer and occupational health and safety:							
Food safety and inspection	545	574	591	591	591	591	591
Proposed Legislation (non-PAYGO)	....	....	–390	–390	–390	–390	–390
Subtotal, Food safety and inspection	545	574	201	201	201	201	201
Occupational safety and health	514	536	568	568	568	568	568
Other consumer health programs	917	931	865	850	835	820	805
Proposed Legislation (PAYGO)	....	....	237	252	267	282	297
Subtotal, Other consumer health programs	917	931	1,102	1,102	1,102	1,102	1,102
Total, Consumer and occupational health and safety	1,976	2,041	1,871	1,871	1,871	1,871	1,871
Total, Discretionary	23,303	25,045	25,070	25,123	25,139	25,154	25,170

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Health care services:							
Medicaid grants	82,142	101,212	99,591	111,203	119,580	129,105	139,171
Proposed Legislation (PAYGO)	....	....	1,456	412	–1,414	–3,884	–5,783
Subtotal, Medicaid grants	82,142	101,212	101,047	111,615	118,166	125,221	133,388
Federal employees' and retired employees' health benefits	3,727	3,067	4,318	4,432	4,649	5,015	5,414
Coal miners retirees health benefits	351	342	336	328	320	314	307
Health initiatives (Proposed PAYGO legislation)	....	....	2,610	3,294	3,484	3,721	785
Other mandatory health services activities	332	413	356	312	324	336	347
Total, Health care services	86,552	105,034	108,667	119,981	126,943	134,607	140,241
Health research and safety:							
Health research and training	14	38	32	29	28	26	22
Total, Mandatory	86,566	105,072	108,699	120,010	126,971	134,633	140,263
Total, Health	109,869	130,117	133,769	145,133	152,110	159,787	165,433
570 Medicare:							
Discretionary:							
Medicare:							
Hospital insurance (HI) administrative expenses	1,169	1,114	1,209	1,207	1,194	1,193	1,194
Supplementary medical insurance (SMI) administrative expenses	1,770	1,484	1,546	1,544	1,534	1,534	1,534
Total, Medicare	2,939	2,598	2,755	2,751	2,728	2,727	2,728
Total, Discretionary	2,939	2,598	2,755	2,751	2,728	2,727	2,728
Mandatory:							
Medicare:							
Hospital insurance (HI)	130,931	136,141	147,274	159,875	171,833	185,375	200,044
Proposed Legislation (PAYGO)	....	....	–19,410	–25,470	–33,770	–38,450	–44,320
Subtotal, Hospital insurance (HI)	130,931	136,141	127,864	134,405	138,063	146,925	155,724
Supplementary medical insurance (SMI)	67,139	74,931	82,463	91,166	100,039	109,691	120,643
Proposed Legislation (PAYGO)	....	....	14,889	14,578	13,059	13,288	14,047
Subtotal, Supplementary medical insurance (SMI)	67,139	74,931	97,352	105,744	113,098	122,979	134,690

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Medicare premiums and collections	–21,357	–19,600	–21,307	–22,416	–23,286	–24,192	–25,181
Proposed Legislation (PAYGO)			211	–498	–1,439	–2,658	–4,277
Subtotal, Medicare premiums and collections	**–21,357**	**–19,600**	**–21,096**	**–22,914**	**–24,725**	**–26,850**	**–29,458**
Total, Medicare	176,713	191,472	204,120	217,235	226,436	243,054	260,956
Total, Mandatory	176,713	191,472	204,120	217,235	226,436	243,054	260,956
Total, Medicare	179,652	194,070	206,875	219,986	229,164	245,781	263,684
600 Income security:							
Discretionary:							
General retirement and disability insurance:							
Railroad retirement	319	300	284	264	248	233	219
Pension Benefit Guaranty Corporation	**11**	**10**	**11**	**11**	**11**	**11**	**11**
Pension and Welfare Benefits Administration and other	68	78	86	86	86	86	86
Total, General retirement and disability insurance	398	388	381	361	345	330	316
Federal employee retirement and disability:							
Civilian retirement and disability program administrative expenses	82	86	82	82	82	82	82
Armed forces retirement home	56	56	80	73	56	56	56
Total, Federal employee retirement and disability	138	142	162	155	138	138	138
Unemployment compensation:							
Unemployment programs administrative expenses	2,272	2,361	2,650	2,451	2,453	2,456	2,458
Housing assistance:							
Public and Indian housing performance funds			2,500	2,520	2,555	2,590	2,626
Subsidized, public, homeless and other HUD housing	15,808	14,610	17,804	21,182	23,308	24,541	25,762
Proposed Legislation (non-PAYGO)			–855	–573	–152		
Subtotal, Subsidized, public, homeless and other HUD housing	15,808	14,610	16,949	20,609	23,156	24,541	25,762
Rural housing assistance	601	579	664	747	841	843	900

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Other housing assistance	1	....	....	....	....	....	....
Total, Housing assistance	16,410	15,189	20,113	23,876	26,552	27,974	29,288
Food and nutrition assistance:							
Special supplemental food program for women, infants, and children (WIC)	3,694	3,830	4,108	4,140	4,248	4,358	4,472
Other nutrition programs	525	513	510	496	486	476	476
Total, Food and nutrition assistance	4,219	4,343	4,618	4,636	4,734	4,834	4,948
Other income assistance:							
Refugee assistance	413	427	396	396	396	396	396
Low income home energy assistance	1,080	1,005	1,000	1,000	1,000	1,000	1,000
Child care and development block grant	935	19	1,000	1,000	1,000	1,000	1,000
Supplemental security income (SSI) administrative expenses	1,887	2,141	2,232	2,168	2,194	2,194	2,177
Proposed Legislation (non-PAYGO)	....	....	40	70	80	80	90
Subtotal, Supplemental security income (SSI) administrative expenses	1,887	2,141	2,272	2,238	2,274	2,274	2,267
Total, Other income assistance	4,315	3,592	4,668	4,634	4,670	4,670	4,663
Total, Discretionary	27,752	26,015	32,592	36,113	38,892	40,402	41,811
Mandatory:							
General retirement and disability insurance:							
Railroad retirement	4,459	4,240	4,250	4,247	4,294	4,459	4,400
Proposed Legislation (PAYGO)	....	....	31	46	46	47	47
Subtotal, Railroad retirement	4,459	4,240	4,281	4,293	4,340	4,506	4,447
Special benefits for disabled coal miners	1,210	1,177	1,103	1,068	1,023	976	931
Pension Benefit Guaranty Corporation	–11	–10	–11	–10	–11	–11	–12
Special workers' compensation expenses	129	150	151	158	168	175	183
Total, General retirement and disability insurance	5,787	5,557	5,524	5,509	5,520	5,646	5,549

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Federal employee retirement and disability:							
Federal civilian employee retirement and disability	40,387	42,081	44,117	46,288	48,307	50,369	52,646
Proposed Legislation (PAYGO)			–278	–285	–293	–301	–309
Subtotal, Federal civilian employee retirement and disability	40,387	42,081	43,839	46,003	48,014	50,068	52,337
Military retirement	28,991	30,195	31,345	32,485	33,577	34,616	35,644
Federal employees workers' compensation (FECA)	218	214	202	201	197	194	191
Federal employees life insurance fund	20	28	31	35	38	41	44
Total, Federal employee retirement and disability	69,616	72,518	75,417	78,724	81,826	84,919	88,216
Unemployment compensation:							
Unemployment insurance programs	22,469	22,567	24,327	25,734	26,999	28,096	29,145
Proposed Legislation (PAYGO)					–200	–200	–200
Subtotal, Unemployment insurance programs	22,469	22,567	24,327	25,734	26,799	27,896	28,945
Trade adjustment assistance	223	211	230	226	242	244	246
Proposed Legislation (PAYGO)				17	24	25	26
Subtotal, Trade adjustment assistance	223	211	230	243	266	269	272
Total, Unemployment compensation	22,692	22,778	24,557	25,977	27,065	28,165	29,217
Housing assistance:							
Mandatory housing assistance programs	20	46	46	46	44	44	43
Food and nutrition assistance:							
Food stamps (including Puerto Rico)	27,661	27,624	27,540	28,732	29,518	30,420	31,304
Proposed Legislation (PAYGO)		365	845	635	600	405	835
Subtotal, Food stamps (including Puerto Rico)	27,661	27,989	28,385	29,367	30,118	30,825	32,139
State child nutrition programs	7,966	8,659	7,770	8,912	9,367	9,836	10,347

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Funds for strengthening markets, income, and supply (Sec.32)	588	423	461	417	417	417	417
Total, Food and nutrition assistance	36,215	37,071	36,616	38,696	39,902	41,078	42,903
Other income support:							
Supplemental security income (SSI)	23,828	26,711	23,718	26,437	29,717	26,454	29,722
Proposed Legislation (PAYGO)	....	224	1,703	1,820	2,092	1,904	2,181
Subtotal, Supplemental security income (SSI)	23,828	26,935	25,421	28,257	31,809	28,358	31,903
Family support payments	18,014	6,958	607	1,641	2,839	2,901	3,112
Federal share of child support collections	....	–839	–1,032	–1,097	–1,106	–1,110	–1,208
Temporary assistance for needy families and related programs	111	13,703	16,836	17,145	17,191	17,212	16,960
Child care entitlement to states	....	1,967	2,175	2,270	2,463	2,653	2,791
Earned income tax credit (EITC)	19,159	21,163	21,983	22,864	23,818	24,634	25,518
Other assistance	37	32	66	65	68	69	69
SSI recoveries and receipts	–1,187	–1,324	–1,390	–1,452	–1,626	–1,474	–1,648
Total, Other income support	59,962	68,595	64,666	69,693	75,456	73,243	77,497
Total, Mandatory	194,292	206,565	206,826	218,645	229,813	233,095	243,425
Total, Income security	222,044	232,580	239,418	254,758	268,705	273,497	285,236
650 Social security:							
Discretionary:							
Social security:							
Old-age and survivors insurance (OASI)administrative expenses	1,828	2,069	2,131	2,082	2,031	2,031	2,034
Disability insurance (DI) administrative expenses	1,307	1,382	1,162	1,164	1,205	1,205	1,207
Office of the Inspector General—Social Security Adm.	5	6	10	10	10	10	10
Total, Social security	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Total, Discretionary	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Mandatory:							
Social security:							
Old-age and survivors insurance (OASI)(Off-budget)	305,791	317,816	331,803	345,960	360,951	377,392	393,956
Quinquennial OASI and DI adjustments	–332	....	....	....	....	–553	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Disability insurance (DI)(Off-budget)	43,522	45,997	50,715	54,433	58,625	63,048	67,731
Proposed Legislation (non-PAYGO)				–5	1	7	13
Subtotal, Disability insurance (DI)(Off-budget)	**43,522**	**45,997**	**50,715**	**54,428**	**58,626**	**63,055**	**67,744**
Intragovernmental transactions	15	10					
Total, Social security	348,996	363,823	382,518	400,388	419,577	439,894	461,700
Total, Mandatory	348,996	363,823	382,518	400,388	419,577	439,894	461,700
Total, Social security	352,136	367,280	385,821	403,644	422,823	443,140	464,951
700 Veterans benefits and services:							
Discretionary:							
Veterans education, training, and rehabilitation:							
Loan fund program account	1	1	1	1	1	1	1
Hospital and medical care for veterans:							
Medical care and hospital services	16,871	17,336	17,253	17,253	17,253	17,253	17,253
Proposed Legislation (non-PAYGO)			591	670	749	825	903
Subtotal, Medical care and hospital services	16,871	17,336	17,844	17,923	18,002	18,078	18,156
Transfer in of collections for medical care (Proposed PAYGO legislation)			–591	–670	–749	–825	–903
Construction of medical facilities	373	453	319	287	287	287	287
Total, Hospital and medical care for veterans	17,244	17,789	17,572	17,540	17,540	17,540	17,540
Veterans housing:							
Housing program loan subsidies	118	139	160	156	151	149	150
Other veterans benefits and services:							
Other general operating expenses	996	981	1,017	1,022	1,023	1,012	1,015
Total, Discretionary [2]	18,359	18,910	18,750	18,719	18,715	18,702	18,706

THE PRESIDENT'S FY 1998 BUDGET
INITIATIVE FOR FAMILIES OF WORKERS BETWEEN JOBS

Job changes put all families at risk of losing their health care coverage. Nearly 148 million Americans receive their health insurance from an employment-based plan. When these workers change or temporarily lose their jobs, it often means losing health care coverage, leaving workers and their families to pay their health care costs at a time when they no longer have a significant part of their income.

- Over 50 percent of Americans who lose their health care coverage lose it due to a job change. Many of these are the spouses and children of the worker.

- Over one-third of workers who left an insured job, became unemployed, and received unemployment insurance become uninsured.

- Workers with job changes are more than three times as likely to have gaps in health care coverage than continuous workers.

Providing Temporary Health Insurance Premium Assistance for Families With Workers Who Are Between Jobs

- **The President's proposal provides temporary premium assistance for up to six months for workers between jobs who previously had health insurance through their employer, are in between jobs, and may not be able to pay the full cost of coverage on their own.**

- **This initiative assures that Kassebaum-Kennedy protections against pre-existing conditions are not placed at risk because of breaks in insurance coverage.** It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose much of their income. To ensure cost effectiveness, it does not cover individuals who are eligible for Medicare, Medicaid, or who have a spouse with access to employer coverage.

- **To assure that limited federal dollars are targeted to those most in need, only families up to 240 percent of poverty are eligible for this program.** Families with incomes below poverty will receive full premium assistance, and families below 240 percent of poverty will receive partial assistance.

- **States have the flexibility to provide coverage in the way that best meets the needs of their populations:**

    - States will receive funding from a capped Federal pool to provide premium assistance. States will choose how this assistance will be used (e.g., to buy COBRA continuation coverage, Medicaid, or some alternative).

    - In the unlikely event that a State's allotment is not enough to provide coverage, it will have access to supplemental funding. States will also have the option to modify their program if these additional funds are not enough to operate within their budget.

- **This initiative is structured as a four-year national demonstration.** This demonstration includes an evaluation which provides the flexibility to restructure the program to better meet the needs of workers between jobs and their families if unanticipated problems develop.

- **In the context of his balanced budget plan, the President invests $9.8 billion to pay for his proposal.**

Helping All Working Americans and Their Families

- **The President's proposal will provide piece of mind for virtually every American worker who lives in fear of losing health insurance because of a short-term loss of employment.**

- **It will also directly help an estimated 3.3 million Americans in 1998, including about 700,000 children, in any given year.**

- **This initiative strengthens the safety net for middle-income, working Americans in an increasingly mobile workforce.** This assistance is accessible for most middle class families since income drops for the months between jobs. For example, over half of participants would come from families who previously had incomes above 200 percent of poverty, over $30,000 for a family of four.

THE PRESIDENT'S FY 1998 BUDGET: MEDICAID PROPOSAL

- OVERVIEW
- DISPROPORTIONATE SHARE HOSPITAL POLICY
- PER CAPITA CAP POLICY
- MEDICAID FLEXIBILITY PROVISIONS

THE PRESIDENT'S BUDGET'S MEDICAID PROPOSAL

The President's budget produces **$9 billion in net savings** between FY 1998 and 2002.

- **It saves $22 billion in gross savings from two policies:**
  - About two-thirds of the savings (**$15 billion**) come from reductions in payments to disproportionate share hospitals (DSH), and
  - About one-third of the savings (**$7 billion**) from a per capita cap.
- **It invests about $13 billion in policies such as:**
  - Allowing States to extend 12 months of continuous coverage to children, and
  - Restoring coverage for some groups who lost it as a result of last year's welfare reform law.

The President's budget also offers unprecedented flexibility so that States, not the Federal government, can determine how best to improve Medicaid's efficiency.

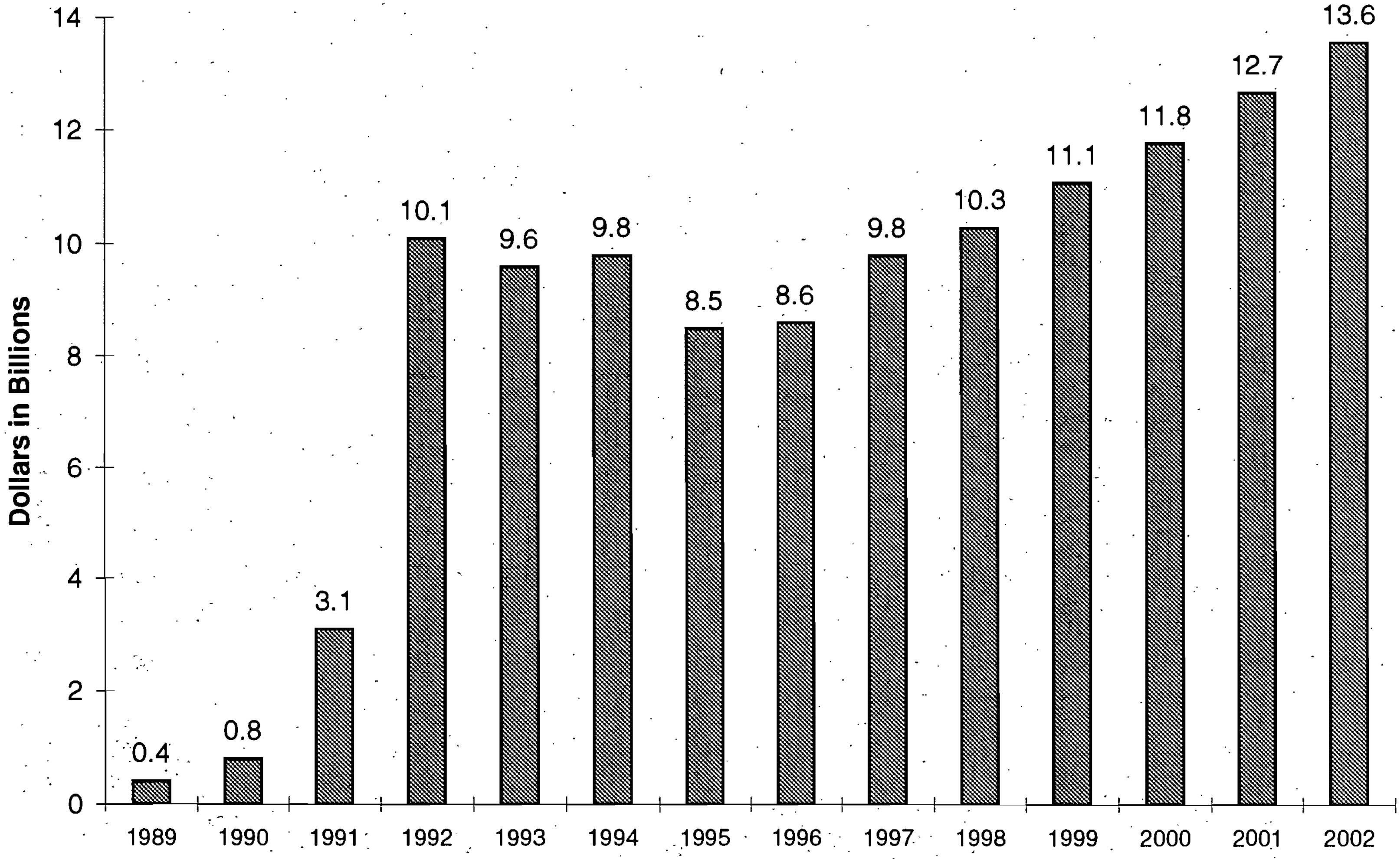
WHY REDUCE DSH SPENDING

- **DSH spending skyrocketed in the early 1990s.** Between 1989 and 1992, Federal payments for Medicaid DSH rose by over 250 percent.

- **Today, the Federal government spends nearly $10 billion on DSH.**
  - Its growth has moderated due to laws passed in 1991 and 1993.
  - However, about one-third of DSH funds still may not be received by the hospitals it is intended to help, according to an Urban Institute study.

- **Both CBO and OMB predict that DSH grow rates will rise.**
  - By 2002, the Federal government will spend an estimated $13 to 14 billion on DSH. Its growth rate in 2002 alone will be 7.4 percent according to CBO.

Federal Disproportionate Share Hospital Payments



Projections based on CBO January 1997 baseline

DSH REDUCTIONS IN THE PRESIDENT'S BUDGET

- **The President's budget reduces Federal Medicaid spending in DSH.** Specifically, it saves $15 billion, or about 25 percent, relative to the 1998 to 2002 CBO baseline. It:

  - Freezes Federal DSH spending at 1995 levels for 1998,
  - Reduces it to $9 billion in 1999, and
  - Funds DSH at $8 billion per year for 2000 and subsequent years.

- **Equal reductions, with an upper limit.** Savings are achieved by taking an equal reduction from each States' 1995 DSH spending, up to an "upper limit". These percentage reductions are:

  - 0 percent in 1998,
  - 15 percent in 1999, and
  - 25 percent in 2000 and equal subsequent year.

  If a State's DSH spending in 1995 is greater than 12 percent of its total Medicaid spending, the percentage reduction is applied to this 12 percent rather than the full DSH spending amount.

  - The upper limit recognizes, like the laws enacted in 1991 and 1993, that some States' Medicaid programs are particularly dependent on DSH funding. The upper limit also ensures that the few States with high DSH spending are not bearing the entire impact of the policy.

BETTER TARGETING OF DSH FUNDS

- **Currently, almost all hospitals qualify as "disproportionate share hospitals."** Under current law, any hospital with more than 1 percent of its patients covered by Medicaid is eligible for disproportionate share funding.

- **As DSH funding is tightened, directing the funds within States' allotments to safety net providers becomes more important.** Limited Federal funding should be better targeted to providers that need it most: hospitals that disproportionately serve a high volume of Medicaid patients, the uninsured, and low-income patients.

- **Collaboration on exact formula.** Because targeting funds is technically complex and could have potentially disruptive effects in some States and for some providers, we want to work with Congress, States, providers, policy experts and advocates to develop an appropriate targeting mechanism.

FUNDS FOR CERTAIN HEALTH CLINICS

- **Helping FQHCs and RHCs make the transition.**
  - Federally qualified health centers (FQHCs) and rural health clinics (RHCs), like disproportionate share hospitals, play an important role in the safety net.
  - They may be disproportionately affected by the proposal to repeal the requirement of cost-based reimbursement for these facilities.

- **Temporary FQHC / RHC fund.** The President's plan includes a temporary fund of $1.4 billion over five years (from the DSH savings). It would sunset at the end of 2003.
  - Funds from this pool would be paid directly to facilities.

WHY INTRODUCE A PER CAPITA CAP

- **Medicaid spending growth has been volatile.**
  - In the early 1990s, Medicaid spending per beneficiary rose rapidly.

- **While Medicaid growth is low today, it may well rise again in the future.**
  - In fact, CBO projects that Medicaid spending growth per beneficiary will rise to nearly 7 percent by 2002.

Growth in Medicaid Spending per Beneficiary

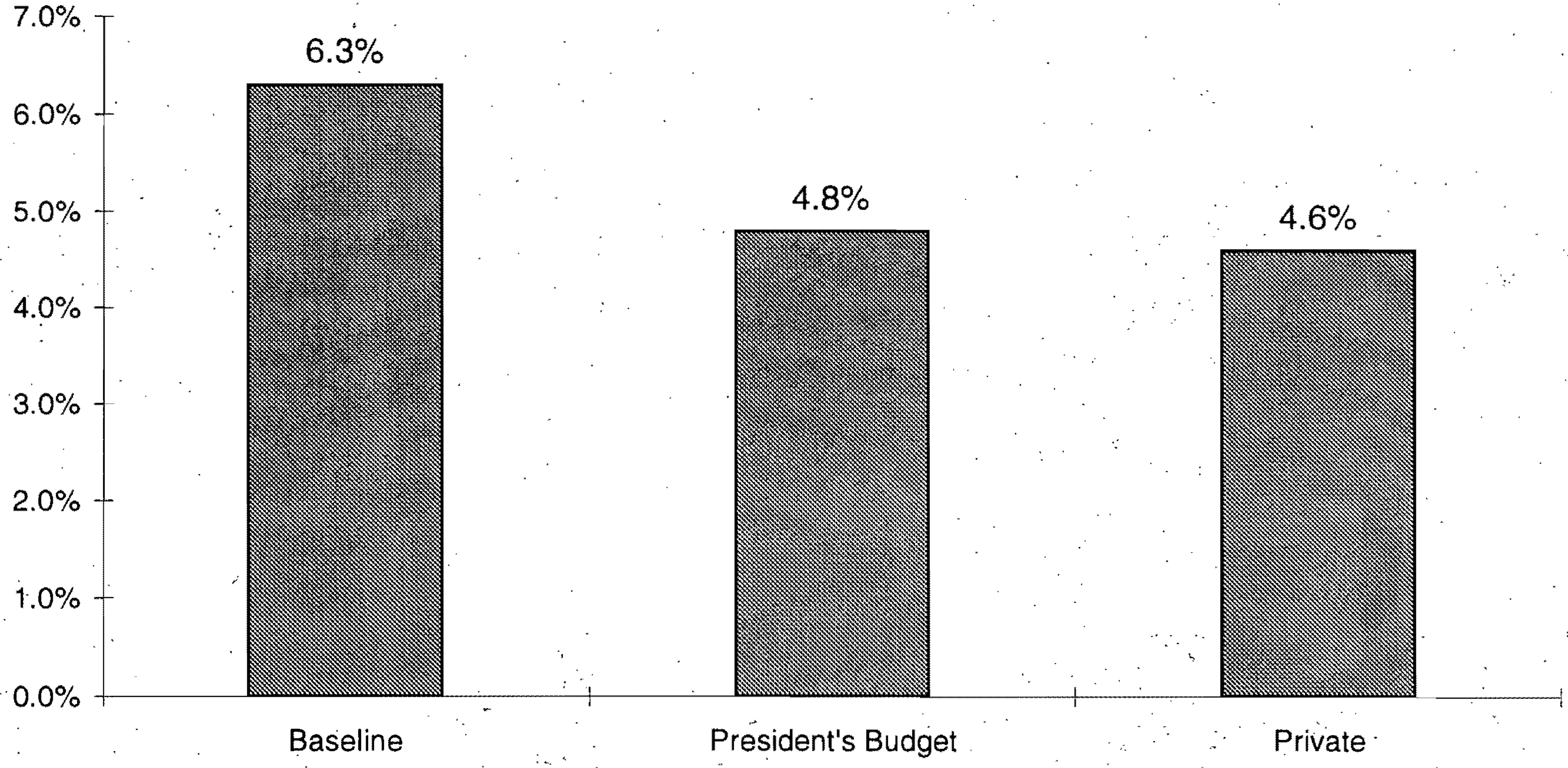
Projections based on CBO's projections of Medicaid spending per beneficiary (including DSH) January 1997

THE PRESIDENT'S PER CAPITA CAP PROPOSAL

- **The President's budget constrains spending growth responsibly.** The President's per capita cap proposal savings $7 billion over five years. The per capita cap:

  - **Creates an incentive to reduce cost growth without reducing coverage.**
  - **Preserves the Federal - State partnership.** The Federal government will continue to share in the States' costs when they face unexpected recessions or changes in demographics.
  - **Lets States decide how to improve efficiency.** States will decide how best to reduce their costs through a flexible spending limit and increased program flexibility offered in the President's budget.
  - **Keeps spending growth in line with the private sector.** Medicaid spending will only be constrained if today's growth rates rise excessively. The growth limit, which parallels the rate of private spending growth, will not be breached unless Medicaid inflation rises.
  - **Increases taxpayer confidence in the program.** By requiring a much greater level of budgetary accountability, the per capita cap enhances the public support for Medicaid.

Comparison of Medicaid and Private Growth Rates Per Beneficiary 1997 to 2002



"Baseline" is CBO's January 1997 Medicaid baseline growth per beneficiary (including DSH); "President's Budget" reflects CBO's estimated Medicaid outlays under the Budget; "Private" is CBO's projected private spending growth divided by its projected growth in privately insured people. Fiscal Years.

HOW THE PER CAPITA CAP WORKS

- **Setting the Federal limit.** Each State will have one spending limit for its Medicaid benefits spending. This limit is calculated by multiplying:

  - 1996 Medicaid spending per beneficiary (separately for aged, disabled, adults & children) by
  - An inflation adjuster, set in legislation, by
  - The actual number of beneficiaries covered by the States (by type of beneficiary).

  The Federal government will match State expenditures as under current law up to this limit.

- **Excluded expenditures.** Spending not counted toward this limit includes all DSH, Medicaid spending on Medicare cost sharing, and other miscellaneous expenditures unrelated to benefits.

- **Setting the inflation adjuster.** The President's budget limits Medicaid spending growth to the average growth in nominal GDP per capita plus 2 percentage points in 1998, and plus 1 percentage point for all subsequent years. This averages about 5 percent between 1997 and 2002.

  Recognizing that there is a debate about what is the most appropriate index, we intend to work with Congress, States, researchers and others to develop the best inflation adjuster.

FLEXIBILITY OF THE PER CAPITA CAP

- **Adjusts for changes in a State's population.**
  - Each State has a unique and changing mix of people it covers through Medicaid.
  - Consequently, the per capita cap explicitly adjusts for changes in both the number and mix of beneficiaries.
  - For instance, a State that experiences a rapid rise in its elderly population will receive a greater increase in their limit than a State with an equal rise in Medicaid children, given the higher cost of care for the elderly.

- **Allows savings from one area to offset overspending in another.** There is only one limit per State. This means that if a State is able to produce extra savings from its elderly program but overspends on its children, it may use those savings to offset the extra spending, thus receiving full matching payments.

ADDRESSING DIFFERENCES ACROSS STATES

- **Helping in the transition.** The budget includes about $1 billion (from the per capita cap savings) in a capped, temporary pool to assist States and other entities who may be disproportionately affected by the new Medicaid policies.

- **Medicaid Commission.** The per capita cap represents a major change in Medicaid financing. The President's budget will establish an independent, impartial commission to examine:

  - **Differences in base year spending.** The commission will examine States' Medicaid spending patterns to better understand why there are differences.

  - **Alternative Medicaid matching rates.** The commission will also assess whether the current Medicaid matching rate, created in the 1960s, is still a fair and accurate formula.

At the end of two years, the commission will recommend any changes to the Medicaid matching rate, per capita cap growth rates or base year spending that ensure equitable treatment across states.

MEDICAID FLEXIBILITY PROVISIONS

- **Unprecedented flexibility.** The President's proposes unprecedented flexibility in Medicaid so that States, not the Federal government, can determine how best to achieve the savings targets in the budget. Under the plan, States can:

  - Reform their programs without the need for a waiver,

  - Set provider payment and managed care rates with less Federal micromanagement, and

  - Administer their programs with fewer and simpler Federal requirements.

FREEDOM FROM WAIVERS

- Managed care without a waiver (1915(b)) with new quality standards
- Home and community-based care programs without a waiver (1915(c))
- Expansion to people with incomes up to 150 percent of poverty without a waiver (1115)

FLEXIBILITY IN PROVIDER PAYMENTS AND MANAGED CARE

- Repeal Boren amendment
- Eliminate cost-based reimbursement requirement for Federally qualified health centers (FQHCs) and rural health clinics (RHCs)
- Replace "75 / 25" enrollment composition rule with reasonable quality standards
- Reduce the number of managed care contracts subject to Federal review
- Revise outdated upper payment limits for managed care
- Allow States to let managed care plans use nominal copayments

SIMPLIFICATION OF ADMINISTRATIVE REQUIREMENTS

- Eliminate a series of unnecessary Federal requirements, including:
    - Requirement for private health insurance purchasing when cost effective
    - Computer systems requirements
    - Increase matching payment for nursing home survey and certification requirements

MEDICAID FY 1998 PROPOSALS

STATE FLEXIBILITY AND NEW INVESTMENTS

PROMOTING STATE FLEXIBILITY

Increase Flexibility in Provider Payment

- **Repeal Boren Amendment**

  Repeal the Boren amendment for hospitals and nursing homes, while establishing a clear and simple public notice process for rate setting for both hospitals and nursing homes.

  Modify the process for determining payment rates for hospitals, nursing facilities and Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) to add a public notification process that provides an opportunity for review and comment, which should result in more mutually agreeable rates.

- **Eliminate cost-based reimbursement for health clinics**

  Federal requirements that most Federally Qualified Health Centers (FQHCs) and Rural Health Centers (RHCs) be paid based on costs would be removed beginning in 1999; and a capped, temporary funding pool would be established to help these facilities during the transition.

Increase Flexibility in Program Eligibility

- **Allow Budget Neutral eligibility simplification and enrollment expansion**

  Enable States to expand or simplify eligibility to cover individuals up to 150 percent of the Federal poverty level through a simplified and expedited procedure. Current rules would be retained to the extent they are needed to ensure coverage for those who do not meet the eligibility criteria of the new option. Federal spending would be restrained by the per capita cap for current eligibles and such expansions would be approved only if they were demonstrated to be cost neutral (i.e. no credit for persons who were not otherwise Medicaid eligible in the determination of cap number).

  This proposal enables States to expand to new groups that are not eligible under current law without a Federal waiver. Administration would be streamlined and simplified in that States would be able to use the same eligibility rules for everyone eligible under the new percent-of-poverty option in place of the current plethora of different rules for different groups. Integrity of Federal spending limits would be maintained by the cost neutrality requirement.

- **Guarantee eligibility for 12 months for children**

  This proposal would permit States to provide 12-month continuous Medicaid eligibility for children ages 1 and older. (Continuous coverage was enacted for infants by OBRA 90.)

  This proposal would provide stable health care coverage for children -- particularly children in families with incomes close to the eligibility income limits, who often lose eligibility for a month due to an extra pay period within a month. This proposal would also reduce State administrative burden by requiring fewer eligibility determinations.

<u>**Eliminate Unnecessary Administrative Requirements**</u>

- **Eliminate OB/Peds physician qualification requirements**

  Federal requirements related to payment for obstetrical and pediatric services would be repealed. States would only have to certify providers serving pregnant women and children based on their State licensure requirements

  The minimum provider qualification requirements under current law do not effectively address quality of care. In addition, current law fails to recognize all bodies of specialty certification, so certain providers are precluded from participation in Medicaid (e.g., foreign medical graduates). Congress amended the law in 1996 to include providers certified by the American Osteopathic Association and emergency room physicians.

- **Eliminate annual State reporting requirements for certain providers**

  States would no longer have to submit reports regarding payment rates and beneficiary access to obstetricians and pediatricians.

  Current law assumes that access is linked to payment rates. However, the State-reported data do not reveal much regarding the link between payment rates and access.

- **Eliminate Federal requirements on private health insurance purchasing**

  Eliminate requirement that States pay for private health insurance premiums for Medicaid beneficiaries where cost-effective.

  The current law provision is not necessary. States have an inherent incentive to move Medicaid beneficiaries into private health insurance where it is cost-effective. The proposed per capita spending limits increase this incentive. The current, detailed, one-size-fits-all Federal rules hinder States from designing programs that most effectively suit local circumstances.

- **Simplify computer systems requirements**

  Eliminate detailed Federal standards for computer systems design. State systems would be held to general performance parameters for electronic claims processing and information retrieval systems.

  Current detailed requirements for system design were developed for an earlier time in which technology was primitive and detailed Federal rules were necessary to move States closer to what was then state-of-the-art. This is no longer the case. It is now sufficient to require States merely to show that their State-designed system meets performance standards established under an outcome-oriented measurement process.

- **Reduce unnecessary personnel requirements**

  We would work with States and State employees to replace the current, excessively detailed, and ineffective Federal rules regarding administrative issues that are properly under the purview of States, such as personnel standards, and training of sub-professional staff.

<u>Increase Flexibility Regarding Managed Care</u>

- **Modify upper payment limit for capitation rates**

  Modify upper payment limit and actuarial soundness standards for capitation rates to better reflect historical managed care costs by requiring actuarial review of the rates.

  The current Medicaid upper payment limit for managed care contracts (i.e., 100% of fee-for-service) is not an accurate payment measurement for Medicaid managed care plans. It does not reflect historical managed care costs and States claim it is inadequate to attract plans to participate. This proposal would modify the definition of the UPL to more accurately reflect Medicaid spending. It would also modify actuarial soundness standards.

- **Convert managed care waivers [1915(b)(1)] to State Plan Amendments**

  Permit mandatory enrollment in managed care without federal waivers. States would be able to require enrollment in managed care without applying for a freedom of choice waiver [1915(b)(1)]. States would be allowed to establish mandate enrollment managed care programs through a State plan amendment. Qualified IHS, tribal, and urban Indian organization providers would be guaranteed the right to participate in State managed care networks.

  This proposal would provide States greater flexibility in administering their State Medicaid programs by eliminating the freedom-of-choice waiver application process. States would not have to submit applications for implementation or renewal. The Administration is pursuing strategies to assure quality in Medicaid managed care that are more effective and less burdensome than the assurances added through the waiver process. Guaranteeing urban Indian organization providers the right to participate in State Medicaid managed care networks integrates ITUs into managed care delivery systems and recognizes their unique health delivery role.

- **Modify Quality Assurance with new data collection authority while eliminating 75/25 enrollment composition rule**

  Replace the current enrollment composition rule with a new quality data monitoring system under a beneficiary purchasing strategy with new data collection authority.

  As part of the continuous effort to ensure Medicaid managed care beneficiaries receive quality care, HCFA proposes to implement a "beneficiary-centered purchasing" (BCP) strategy. BCP will replace certain current federal managed care contract requirements. The current enrollment composition rule (i.e., 75/25 rule) requires that no more than 75 percent of the enrollment can be Medicare and Medicaid beneficiaries. The current requirement is a process-related, ineffective proxy for quality. This requirement would be replaced with a quality monitoring system based on standardized performance measures.

  HCFA, in collaboration with States, would define and prioritize a new standard set of program performance indicators, including a new quality monitoring system. These measures would be used to quantify and compare plans' quality of care, provide purchasers and beneficiaries with the means to hold plans accountable, and provide HCFA with comparable data to compare the performance of State programs to effectively hold States accountable as well.

  This proposal would enhance the Secretary's ability to ensure that beneficiaries' interests are being protected as enrollment in managed care increases, and to detect and correct possible abuses by managed care plans. A more outcome oriented quality review process is vital to the Federal and State oversight of managed care plans to ensure that Medicaid beneficiaries are receiving the highest quality care possible. Data would be vital to the success of such an effort.

- **Change threshold for federal review of contracts**

  Raise the threshold for the federal review of managed care contracts from the current $100,000 threshold to $1 million contract amount (or base threshold for federal review on lives covered by plan).

  This proposal would provide greater State flexibility in management and oversight of Medicaid managed care programs. It would also reduce the number the of managed care plan contracts requiring HCFA review and approval.

- **Nominal copayments for HMO enrollees**

  Permit States to impose nominal copayments on HMO enrollees.

  This proposal would bring policy on Medicaid copayments for HMO enrollees more in line with Medicaid copayments that a State may elect to impose in fee-for service settings. It would also allow HMOs to treat Medicaid enrollees in a manner similar to how they treat non-Medicaid enrollees. However, impact on beneficiaries would not be harmful since copayments, if imposed, would still have to be nominal.

<u>**Increase Flexibility Regarding Long-Term Care**</u>

- **Convert Home and Community Based Waivers (1915(c)) to State Plan Amendments**

  Give States the option to create a home and community-based services program without a Federal waiver, through a State plan amendment. This proposal would benefit States and beneficiaries by eliminating the constant and costly necessity of renewing the waivers, while ensuring a high level of care.

- **Increase the Medicaid Federal financial participation rate from 75 percent to 85 for nursing home Survey and Certification activities**

  Raise the Medicaid Federal financial participation (FFP) rate to 85 percent.

  Federal funding is important to maintain both quality standards established by OBRA 87 and resulting enforcement activities. Increasing the Medicaid federal financial participation percentage to 85 percent would encourage States to increase total spending on nursing home survey and certification activities.

- **Permit waiver of prohibition of nurse aide training and competency evaluation programs in certain facilities. Clarify that the trigger for disapproval of nurse aide or home health aide training and competency evaluation programs is substandard quality of care (Medicare and Medicaid).**

  This would allow States to waive the prohibition on nurse aide training and competency evaluation programs offered in (but not by) a SNF or Medicaid NF if the State: (1) determines that there is no other such program offered within a reasonable distance of the facility; (2) assures, through an oversight effort, that an adequate environment exists for operating the program in the facility; and (3) provides notice of such determination and assurances to the State long-term care ombudsman. The proposal would also make clear that a survey finding substandard quality of care, rather than the mere occurrence of an extended or partial extended survey is what triggers the sanction of the training program.

  The current prohibition on nurse aide training and competency evaluation programs causes a special problem for rural nursing home where a community college or other training facility may be inaccessible to nurse aides. This proposal would safeguard the availability of nursing homes which might otherwise stop participation in Medicare and Medicaid as a result of losing a training program's approval. This proposal is also a part of the Vice-President's Reinventing Government initiative. A clarification of the circumstances under which a program must be sanctioned is needed because the fact that an extended or partial extended survey is conducted is not, in itself, an indication that substandard quality of care exists in the SNF, NF, or HHA.

- **Eliminate repayment requirement for alternative remedies for nursing home sanctions**

  Eliminate the requirement for repayment of federal funds received if a State chooses to use alternative remedies to correct deficiencies rather than termination of program participation.

  This proposal would allow States to promote compliance by employing alternative remedies on nursing facilities. This provision for alternative remedies gives States the flexibility for more creative implementation of the enforcement regulations.

- **Delete Inspection of Care requirements in mental hospitals and Intermediate Care Facilities for the Mentally Retarded (ICFs/MR)**

  Eliminate the duplicative requirement for Inspection of Care (IOC) reviews in mental hospitals and ICFs/MR. The survey and certification reviews that currently take place in mental hospitals and ICFs/MR would remain in place.

  Inspection of Care (IOC) reviews were originally designed to ensure that Medicaid recipients were not being forgotten in long term care facilities. The current survey process has been improved through a new outcome-oriented process that protects recipients in mental hospitals and ICFs/MR from improper treatment. Consequently, IOC reviews are no longer needed and are, in fact, in direct conflict with the revised ICF/MR survey protocol. The current requirement for two reviews (IOC and the ICF/MR survey) has become duplicative. If the IOC were eliminated, the ICF/MR survey and certification process would remain in place.

- **Alternative sanctions in Intermediate Care Facilities for the Mentally Retarded (ICFs/MR)**

  Provide for alternative sanctions in ICFs/MR that already are available for nursing homes. Alternative sanctions that currently are available in nursing homes include: directed in-service training, directed plan of correction, denial of payment for new admissions, civil monetary penalties and temporary management.

  Sanctions other than immediate termination were established for nursing homes under the OBRA-87 legislation, but not for ICFs/MR. This proposal would extend the alternative sanction option to ICFs/MR.

HHS FACT SHEET

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

February 6, 1997

Contact: HHS Press Office
690-6343

President Clinton's Children's Health Initiative

<u>Overview</u>: One of the Clinton Administration's major first term accomplishments was improving the health status of children. Today, because of wise investments in public health and medical research, and because of the work of countless citizens: Childhood immunization rates are at an all-time high and infant mortality rates are at a record low. More than 80 percent of pregnant women are getting prenatal care in their first trimesters. And, teen pregnancy rates, teen birth rates and preventable childhood diseases are on the decline.

In addition, the Clinton Administration has expanded health care access to more American families. Since January 1993, the Department of Health and Human Services (HHS) has approved 15 comprehensive state Medicaid demonstration projects, and the framework of one additional demonstration. HHS has also approved Medicaid waivers for 19 states as part of larger welfare reform projects, enabling states to continue providing essential health services while encouraging independence from welfare. These Medicaid demonstration projects have extended health care coverage to 2.2 million Americans who would not have otherwise had coverage. President Clinton also signed into law the historic Health Insurance Portability and Accountability Act of 1996. These are great victories for American families, but we can and must do even more.

Today, an estimated 10 million American children -- one in seven -- are uninsured. Most of them are members of working families. And, when you compare them to children with insurance, they are almost twice as likely not to have seen a physician during the past year. [<u>Archives of Pediatrics and Adolescent Medicine</u>, 1995].

President Clinton recently announced a new children's health initiative that will extend health care coverage to up to five million children.

<u>The Children's Health Initiative</u>

The new children's health initiative announced by President Clinton has three parts:

Children at Risk Because Their Parents Change Jobs

- <u>Workers Between Jobs</u>. In America, nearly half of children who lose insurance do so because their parent lost or changed jobs. President Clinton's initiative will provide annual grants to states to cover health insurance premiums for these children and their parents for up to six months while they seek employment. This assistance may be used to purchase coverage from the worker's former employer (through COBRA) or other private plans, at states' discretion.

Children Whose Parents Earn Too Much For Medicaid But Too Little For Private Coverage

- State Partnership Grants. Many uninsured children have parents who earn too much for Medicaid but too little for private coverage. To help reduce the number of uninsured children, the President's initiative will provide annual grants to states to develop innovative approaches -- like those initiated in Florida, Vermont, and Pennsylvania -- to help working families purchase private insurance for their children. States will receive $3.8 billion over the next five years to support these efforts.

Children Eligible For Medicaid But Not Enrolled

- Medicaid Continuous Eligibility. Today, one million children have less than a year's worth of Medicaid coverage as their parents change jobs, move from welfare to work, or remarry. The President's plan allows states to extend one year of continuous Medicaid coverage to children who have been determined to be eligible for Medicaid. This would also reduce administrative burdens on states, families, and health care plans who now have to determine eligibility more frequently.

- Medicaid Outreach. There are an estimated three million poor children who are currently eligible for Medicaid, but are not enrolled. When these children become sick, their parents often end up taking them to hospital emergency rooms for care. HHS will work actively with the states, communities, advocacy groups, providers, and businesses to identify and enroll these children.

- Adolescents age 13-18. Current law expands Medicaid coverage to reach poor children between the ages of 13 and 18. In each of the next four years, an estimated 250,000 low-income teens will be added to Medicaid -- that's a total increase of 1 million insured children.

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HIGHLIGHTS OF THE PRESIDENT'S MEDICARE REFORM PACKAGE:

Medicare savings

Approximately $100 billion over 5 years; $138 billion over 6 years.

Medicare Trust Fund

Extends the solvency of the Trust Fund to at least 2006 through a combination of scorable savings and the reallocation of home health care expenditures.

Beneficiary impact

Extends current law that sets Part B premium at 25% of program costs. This policy achieves $10 billion in savings over 5 years ($18 billion over 6 years). The Part B premium would go below this percentage without this change after 1998; the expenditures associated with the home health transfer are excluded from this calculation.

Invests in preventive health care to improve seniors' health status and reduce the incidence and costs of disease. The plan covers colorectal screening, diabetics management, and annual mammograms without copayments, and it increases reimbursement rates for certain immunizations to ensure that seniors are protected from pneumonia, influenza, and hepatitis.

Establishes a new Alzheimer's respite benefit starting in 1998 to assist families of Medicare beneficiaries with Alzheimer's diseases.

Buys down excessive outpatient copayments to the traditional 20 percent level. Because of a flaw in reimbursement methodology, beneficiaries now in effect contribute a 50 percent copayment. Our policy will prevent further increases in copayments and reduce the copayment to 20 percent over the next decade.

Adds Medigap protections (such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions) to increase the security of Medicare beneficiaries who wish to opt for managed care but fear they will be unable to access Medigap protections if they decide to return to the fee-for-service plan. (This provision is consistent with bipartisan legislation pending before Congress.)

Provides new private plan choices (through new PPO and Provider Service Network choices) for beneficiaries.

Provider impact

Hospitals

Through a series of traditional savings (reductions in hospital updates, capital payments, etc.), achieves about $33 billion in savings over 5 years (about $45 billion over 6 years).

Establishes new provider service networks (PSNs), which will allow hospitals (and other providers) to establish their own health care plans to compete with current Medicare HMOs.

Establishes a new pool of funding, about $11 billion over 5 years (about $14 billion over 6 years) for direct payment to academic health centers by carrying out medical education and disproportionate share (DSH) payments from the current Medicare HMO reimbursement formula to ensure that academic health centers are compensated for teaching costs.

Managed care

Through a series of policy changes, the plan will address the flaws in Medicare's current payment methodology for managed care. Medicare will reduce reimbursement to managed care plans by approximately $34 billion over 5 years ($46 billion over 6 years). Savings will come from three sources:

(1) The elimination of the medical education and DSH payments from the HMO reimbursement formula (these funds will be paid directly to academic health centers).

(2) A phased-in reduction in HMO payment rates from the current 95% of fee-for-service payments to 90%. A number of recent studies have validated earlier evidence that Medicare significantly overcompensated HMOs. The reduction does not start until 2000 and it accounts for a relatively modest $6 billion in savings over 5 years (about $8 billion over 6 years); and

(3) Indirect savings attributable to cuts in the traditional fee-for-service side of the program (to the extent that HMO payments are based on a percentage of fee-for-service payments, HMO payments are reduced as the traditional side of the program is cut).

Home care — **Saves about $15 billion over 5 years ($20 billion over 6 years) through the transition to and establishment of a new prospective payment system** and a number of program integrity (anti-fraud and abuse) initiatives.

Home health care has become one of the fastest growing components of the Medicare program, growing at double digit rates. Originally designed as an acute care service for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit not linked to hospitalization. The President's proposal restores the original split of home health care payments between Parts A and B of Medicare. The first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A. All other visits -- including those not following hospitalization -- would be reimbursed by Part B.

Beneficiaries will not be affected by this restoration of the original policy; nor will it count toward the $100 billion in savings in the President's plan. The policy avoids the need for excess in reductions in payments to hospitals, physicians, and other health care providers while helping to extend the solvency of the Part A Trust Fund.

Physicians — **Saves about $7 billion over 5 years (about $10 billion over 6 years) through a modification of physician updates.** This reduction is relatively small because Medicare has been relatively effective in constraining growth in reimbursement to physicians.

Skilled Nursing Facilities — **Saves about $7 billion over 5 years ($9 billion over 6 years) through the establishment of a prospective payment system.**

Fraud and Abuse — **Saves about $9 billion over 5 years** through a series of provisions to combat fraud and abuse in areas such as home health care, and by repealing the provisions Congress enacted last year that weaken fraud and abuse enforcement.

Structural Reform — *Brings the Medicare program into the 21st century by:*

(1) Establishing new private health plan options (such as PPOs and Provider Service Networks) for the program;

(2) Establishing annual open enrollment for all Medicare plans within independent third party consumer consulting.

(3) Establishing market-oriented purchasing for Medicare including the new prospective payment systems for home health care, nursing home care, and outpatient hospital services, as well as competitive bidding authority and the use of centers of excellence to improve quality and cut back on costs;

(4) Adding new Medigap protections to make it possible for beneficiaries to switch back from a managed care plan to traditional Medicare without being underwritten by insurers for private supplemental insurance coverage. This should encourage more beneficiaries to opt for managed care because it addresses the fear that such a choice would lock them in forever.

Rural Health Care The plan will have a very strong package of rural health care initiatives, including continuation and improvement of sole community and Medicare dependent hospital protections, the expansion of the so-called RPCH facilities that allow for designation of and reimbursement to facilities that are not full-service hospitals, and the modification of managed care payments to ensure they are adequate for rural settings. The rural hospital investment alone is $1 billion over 5 years ($1 billion over 6 years).

THE PRESIDENT'S FY 1998 BUDGET
CHILDREN'S HEALTH INITIATIVE

Significant gaps remain in children's health coverage. In 1995, 10 million children in America lacked health insurance. While there are many different reasons why children lack insurance, most uninsured children face at least one of three obstacles — each of which calls for a different policy solution.

- **Children at risk because their parents change jobs:** Because most children receive coverage through their parents' jobs, job changes disrupt the continuity of children's coverage. Nearly half of all children who lose health insurance do so because their parents lose or change jobs.

- **Children whose parents earn too much for Medicaid but too little for private coverage:** The highest rate of uninsured children is among families who earn too much to qualify for Medicaid but too little to afford coverage. Nearly one in four children in families with income just above poverty have no health insurance.

- **Children eligible but not enrolled in Medicaid:** Medicaid has not reached all the children who qualify for it. About 3 million children are eligible but not enrolled. In addition, enrolled children often lose Medicaid when their family income fluctuates.

The President's children's health initiative that addresses each of these groups will extend coverage to up to 5 million uninsured children by 2000.

Continuing Coverage for Children Whose Parents are Between Jobs

- The President's budget will give States grants to temporarily cover workers between jobs, including their children, at a cost of $9.8 billion over the budget window.

- The program, which is structured as a four-year demonstration, will offer temporary assistance (up to 6 months) to families who would otherwise lose their coverage. This assistance may be used to purchase coverage from the worker's former employer (through COBRA) or other private plans, at States' discretion. State participation in this grants program is optional.

- Families are eligible for full premium assistance if their monthly income is below 100 percent of poverty, and partial premium assistance if their income is below 240 percent of poverty. Only families who do not have access to Medicaid or insurance through a spouse's employer and are receiving unemployment compensation are eligible.

- This program will help an estimated 3.3 million working Americans and their families, including 700,000 children, in any given year.

- The President's budget also makes it easier for small businesses to establish voluntary purchasing cooperatives, increasing access to insurance for their workers' families.

Building Innovative State Programs for Children in Working Families

- The President's budget provides $3.8 billion between 1998 to 2002 ($750 million a year) in grants to States. States will use these grants to provide insurance for children, leveraging State and private investments in children's coverage through a matching system (using the same matching formula as in Medicaid).

- The Federal grants, in combination with State and private money, will target uninsured children whose families earn too much to qualify for Medicaid but too little to afford private coverage. The grant program will also improve Medicaid enrollment since some families interested in the new program will learn that their children are in fact eligible for Medicaid.

- States may use these grants to target the unique problems facing their children. States have flexibility in designing eligibility rules, benefits (subject to minimums set by the Secretary) and delivery systems. In return for this flexibility, States will provide annual evidence of positive outcomes of the grant money — including the number of uninsured children helped by the program.

- The program builds upon the successful efforts of States that have tailored programs to address the particular gaps in coverage for their children. For example, the Florida Healthy Kids program enlists schools to enroll and insure 40,000 uninsured children.

Strengthening Medicaid for Poor Children

- The President's budget gives States the option to provide one year of continuous Medicaid coverage to children. This will cost an estimated $3.7 billion between 1998 and 2002.

  - Currently, many children receive Medicaid protection for only part of the year. Medicaid eligibility is intermittent due to fluctuations in family income throughout the year.

  - This policy allows States to continue coverage when family's income changes by guaranteeing Medicaid coverage for up to one year. This benefits families who will have the security of knowing that their children will be covered by Medicaid for at least a full year. It also helps States by reducing administrative costs, and managed care plans by enabling them to better coordinate care.

- The President also proposes to work with the Nation's Governors, communities, advocacy groups, providers and businesses to develop new ways to reach out to the 3 million children eligible but not enrolled in Medicaid.

- The President's budget preserves and strengthens Medicaid's guaranteed coverage for low-income children. In addition to protecting coverage for the 18 million children already on Medicaid, the President continues the current law expansion to another one million children between the ages of 13 and 18.

THE PRESIDENT'S FY 1998 BUDGET: CHILDREN'S HEALTH INITIATIVE

BACKGROUND

Numbers and Trends

Who Are Uninsured Children and Why Are Children Uninsured

Challenges to Covering Children

THE PRESIDENT'S CHILDREN'S HEALTH INITIATIVE

Medicaid Improvements for Children

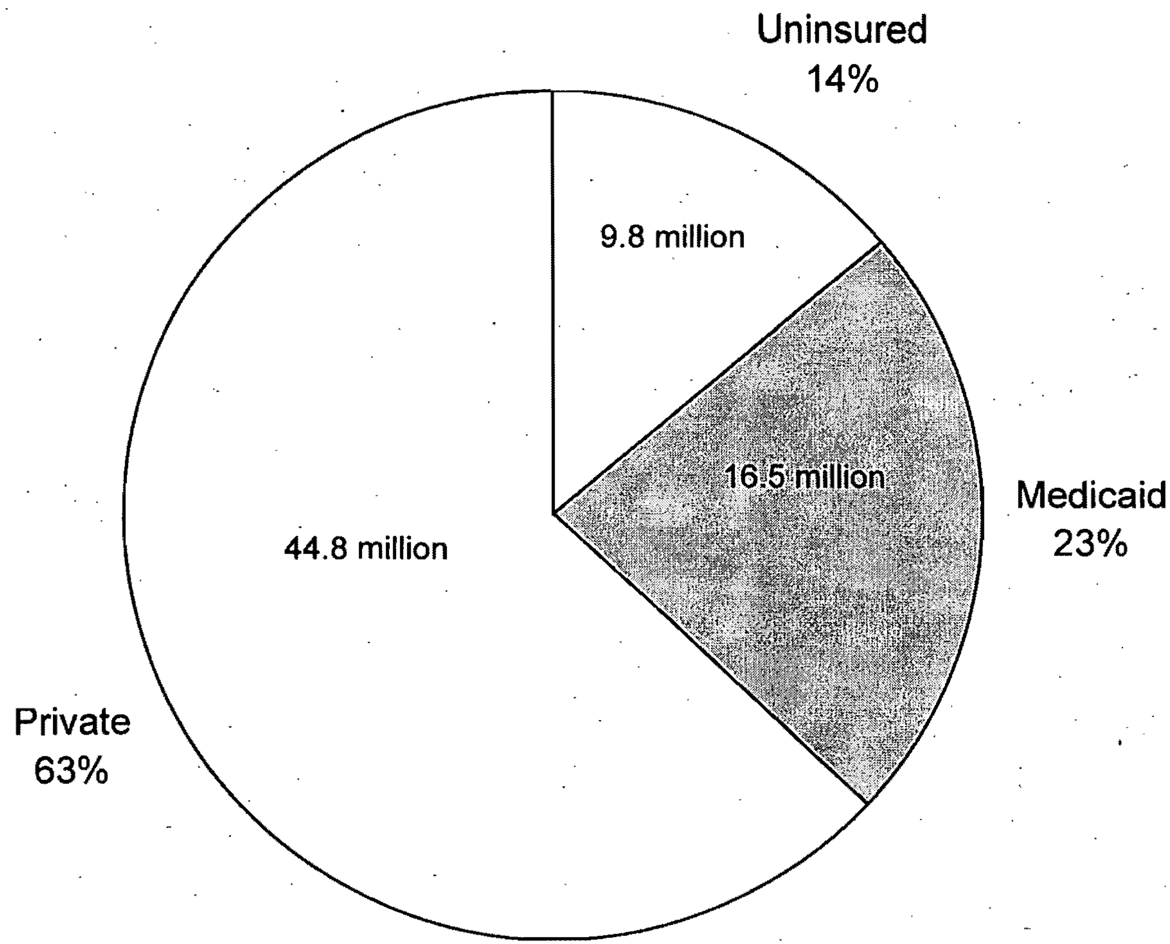
State Partnership Program for Children

Workers Between Jobs Initiative

BACKGROUND

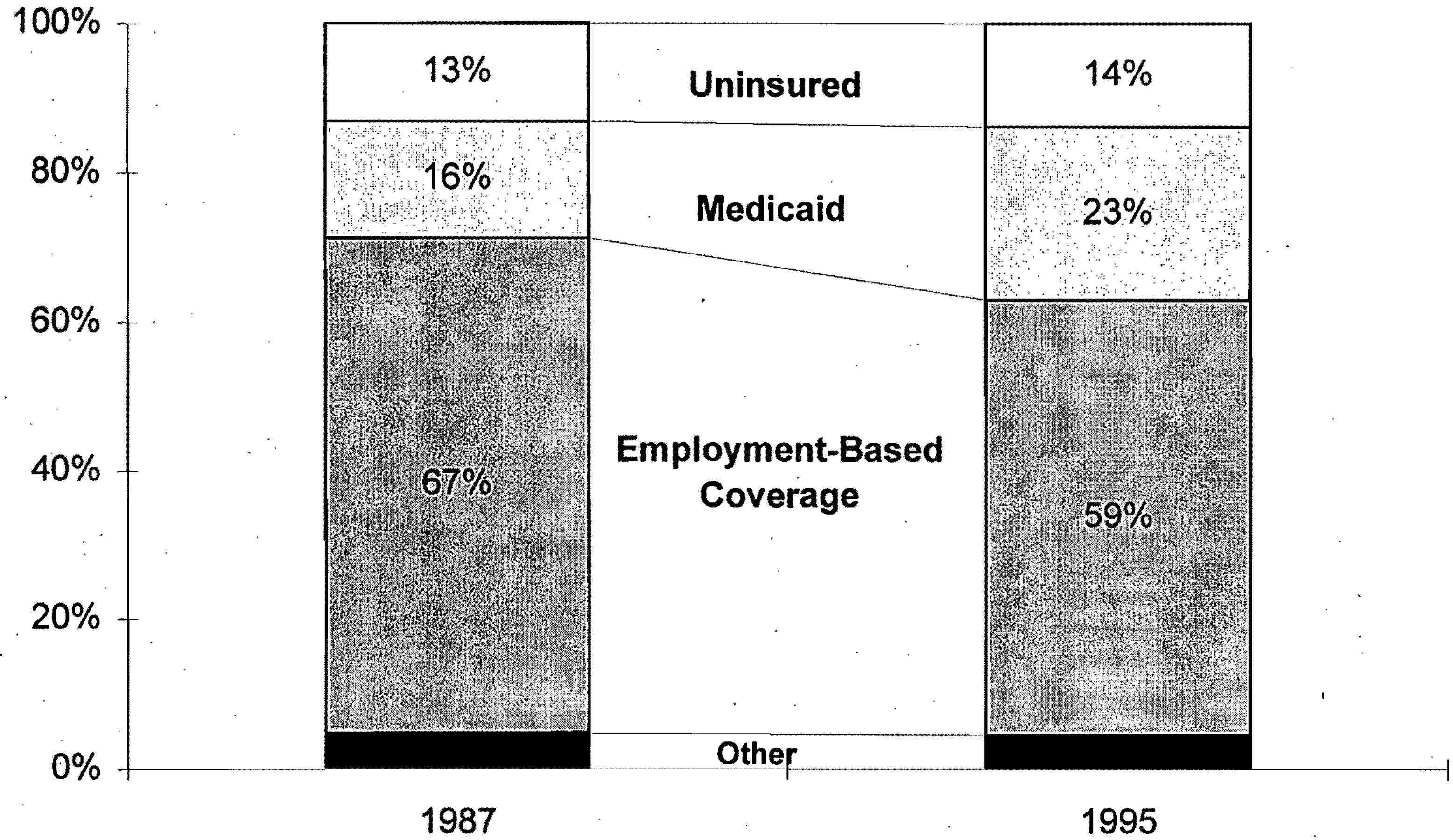
Numbers and Trends

One in Seven Children Are Uninsured



Source: March 1996 Current Population Survey. Children are less than 18 years old.

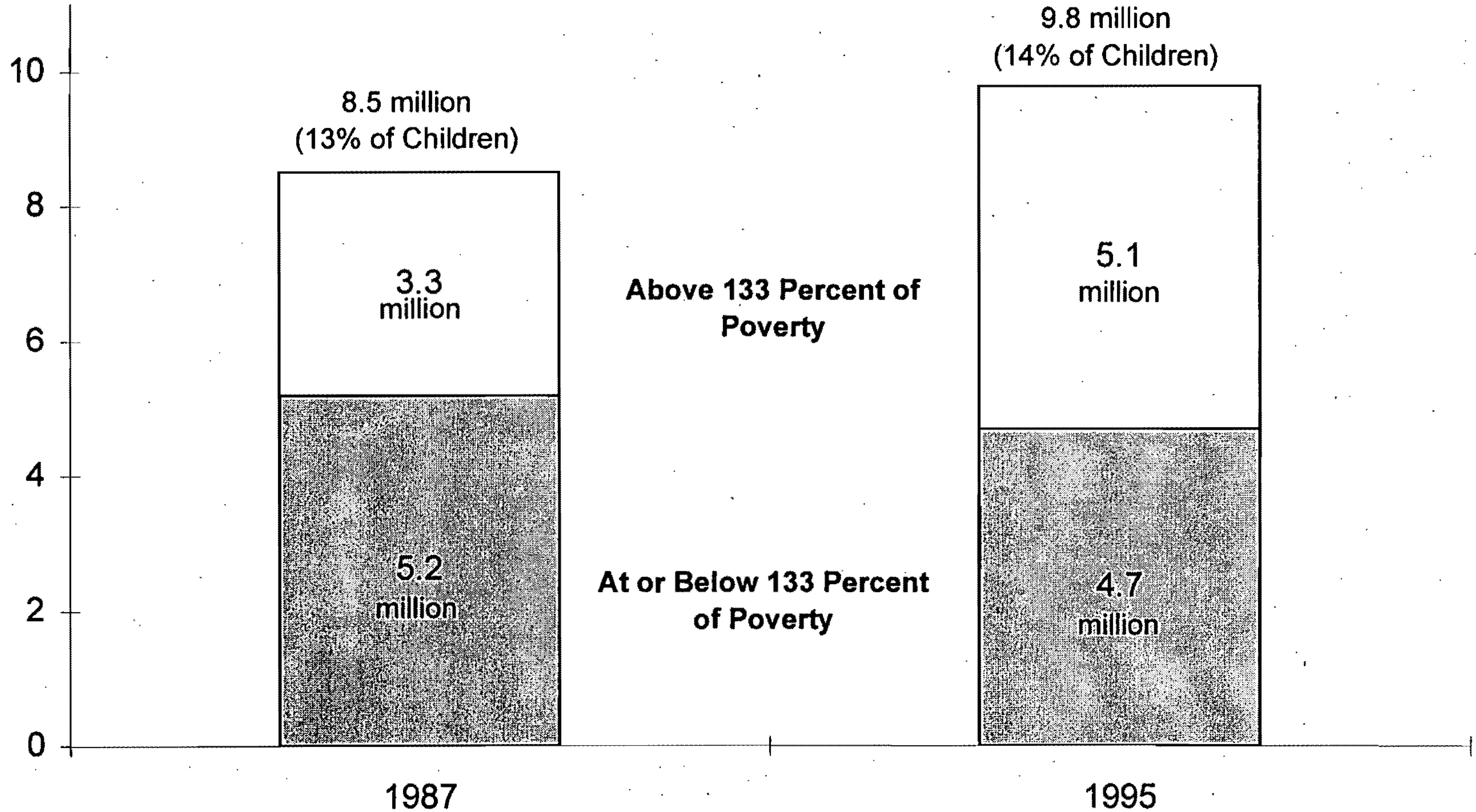
While the Proportion of Uninsured Children Remains Constant, Medicaid & Employer Coverage Have Changed



Note: While it appears that the children losing employer coverage gained Medicaid coverage, recent studies suggest that this is not the case. Medicaid increased coverage of poor children who do not have access to employer insurance.

Source: March 1996 Current Population Survey. Children are less than 18 years old.

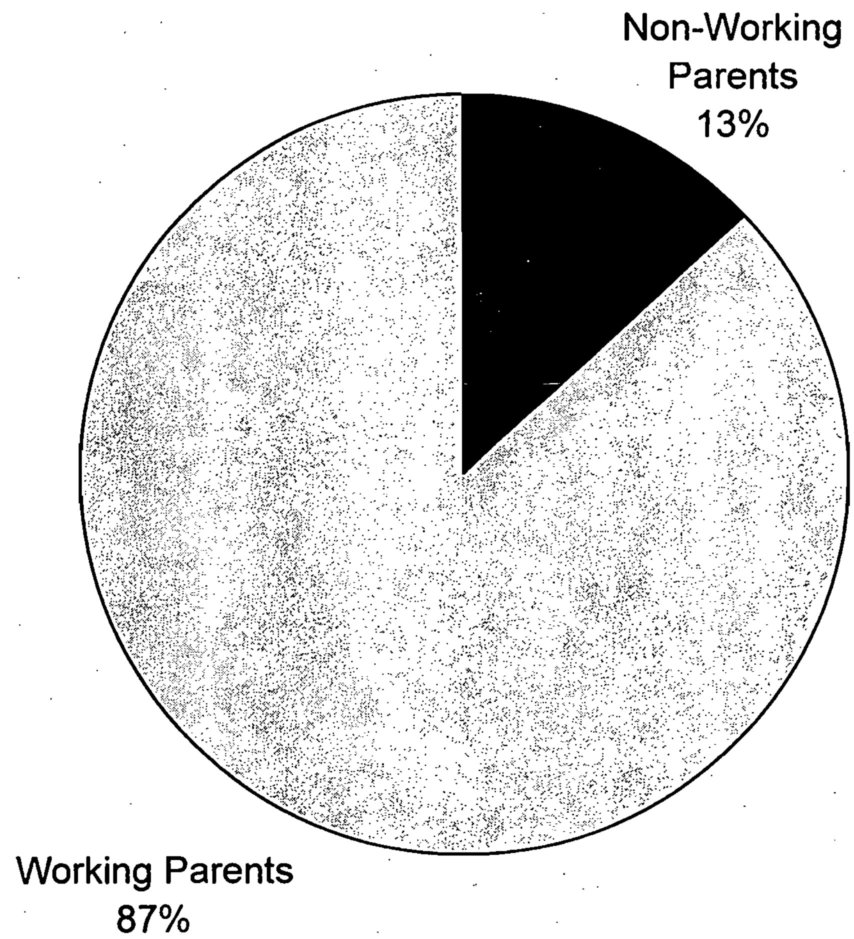
The Number of Uninsured Children Above Medicaid Eligibility Has Increased



Note: Beginning in 1990, states were required to cover children under 6 to 133% of poverty and phase in coverage for children 6 through 18 below poverty. In 1995, children up to age 13 were eligible for Medicaid. Many states have used options to cover children at higher incomes.
Source: EBRI, 1996

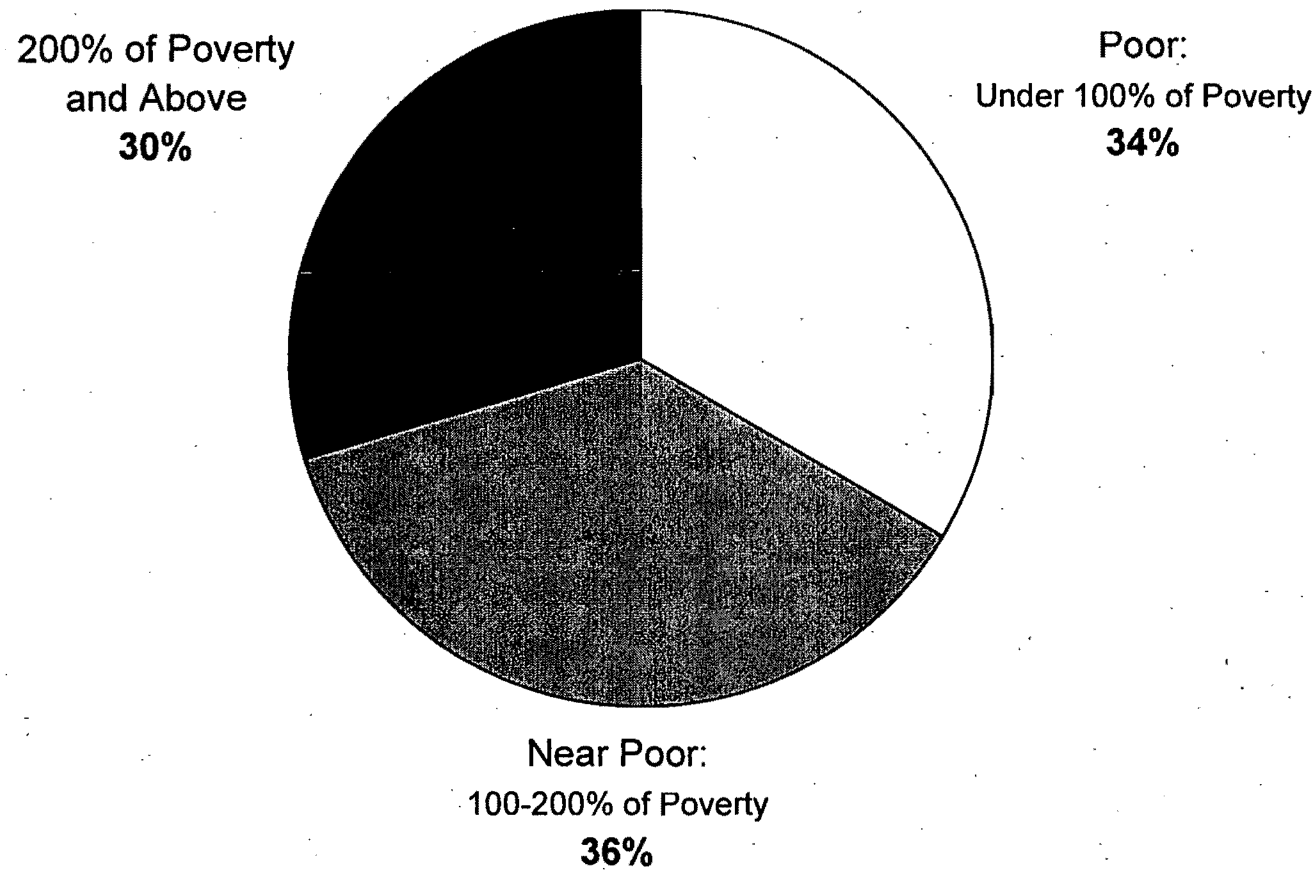
Who Are Uninsured Children and Why Are Children Uninsured

Uninsured Children Come From Working Families



Note: 62% of uninsured children have parents who work full year, full time
Source: March 1996 Current Population Survey. Children are less than 18 years old.

Not All Uninsured Children Are Poor
("Poverty" is about $16,000 for a family of four)



Source: March 1996 Current Population Survey. Children are less than 18 years old.

THE PRESIDENT'S FY 1998 BUDGET: PER CAPITA CAP & DSH REDUCTIONS IN THE MEDICAID PROGRAM

The President's budget saves $9 billion in net savings over five years and takes a number of steps to preserve and strengthen the Medicaid program. It preserves the guarantee of coverage for the 37 million low-income children, pregnant women, people with disabilities, and older Americans who depend on Medicaid for basic health coverage and long-term care, while at the same time strengthening Medicaid's fiscal discipline and building on the success of the past few years in constraining excessive growth in spending.

- **Contains Important Investments in Medicaid.** The President's budget invests about $13 billion in expanding coverage for eligible children, restoring coverage for some groups who lost it as a result of last year's welfare reform law, and contains other investments, including helping people with disabilities who earn above a certain income level retain their Medicaid coverage.

- **Recognizes That Medicaid Spending Growth Has Slowed and Achieves Modest Savings.** The $22 billion in gross savings comes from two sources:

    - **Reducing DSH.** Two thirds of the savings, or roughly $15 billion, comes from reducing the amount the Federal government spends on so-called "disproportionate share hospitals" (DSH).

    - **Implementing a Per Capita Cap.** One third of the savings, or roughly $7 billion, comes from a "per capita cap" policy that will limit Federal Medicaid spending growth on a per-beneficiary basis.

    - **Funding the Transition.** These savings are net of a $2.4 billion investment to assist States and providers in the transition to the new DSH and per capita cap policies. About $1.4 billion over five years will be included in a supplemental fund to help cover the costs of care delivered in Federally-Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs). In addition, $1 billion over five years is reserved for a "transition pool" to assist States and safety net providers that are disproportionately affected by the new policies.

- **Reduces DSH Spending (Net Savings of $15 Billion Over Five Years)**

    - **Controlling DSH Spending.** The Federal government will spend about $10 billion on DSH in FY 1998, which is an important source of support for many hospitals that serve a disproportionate number of Medicaid and low-income patients. In the late 1980's and early 1990's, DSH spending was growing at double-digit rates, and was the driving force in Medicaid's high growth rates. While DSH growth has moderated--partly because of changes made by the Congress and the Administration in 1991 and in OBRA 1993--both the HCFA actuaries and CBO's analysts believe that the growth will accelerate again.

- **Freezing DSH Spending at the 1995 Levels.** The Administration's policy essentially freezes DSH spending in 1998 at 1995 levels, with a gradual decline to $8 billion in spending for FY 2000-2002. (Under the CBO baseline, DSH spending would have grown to about $14 billion by 2002).

- **Distributing DSH Savings Fairly.** DSH savings are achieved by taking an equal percentage reduction from States' 1995 DSH spending, up to an "upper limit." If a State's DSH spending in FY 1995 is greater than 12 percent of total Medicaid spending in that State, the percentage reduction is applied to this 12 percent rather than the full DSH spending amount. This "upper limit" maintains the policy balance struck by Congress in the DSH provisions it enacted in 1991 and 1993, which recognized that some States' Medicaid programs are particularly dependent on DSH spending. Like those earlier Congressional enactments, this "upper limit" policy ensures that the few States with high DSH spending are not bearing most of the impact of the savings policy.

- **Better Targeting DSH Money.** The Administration believes that DSH dollars should be targeted to the providers that need them most: those hospitals and other providers that disproportionately serve a high volume of Medicaid patients, the uninsured, and low-income people. We continue to support better targeting of DSH funds. But because implementing a policy to target DSH funds more effectively is technically complex and could have potentially disruptive effects in some States and for providers, our policy does not specify a mechanism for targeting. We want to work with the Congress, the States, providers, policy experts and advocates to develop an appropriate targeting mechanism.

- **Helping FQHCs and RHCs Make the Transition.** To respond to the special needs of critical safety net providers, the President's plan includes a temporary fund of about $1.4 billion over five years to help cover the costs of care delivered in FQHCs and RHCs. The Administration believes that this supplemental fund will help these providers during the transition to a per capita cap, and will also compensate for our proposed repeal of cost-based reimbursement for these facilities, effective in FY 1999.

- **Implements a Per Capita Cap ($7 Billion Net Savings Over Five Years).** Under the per capita cap policy, Federal Medicaid spending growth will be limited on a per beneficiary basis. The per capita cap is designed to maximize States' responsiveness to the health care needs of their Medicaid populations. It does this by adjusting the cap when enrollment increases when, for example, there is an economic recession. The per capita cap will work as follows:

- **Calculating the Cap.** The cap would be the product of three components:

  1) State and Federal spending per beneficiary in the base year (FY 1996), including administrative costs;

  2) An index specified in legislation (for years between the base year and the current year); and

  3) The number of beneficiaries in the current year.

  To allow for a change in the mix of Medicaid beneficiaries over time, the plan would calculate the cap by using the specific spending per beneficiary and number of beneficiaries in four subgroups: the elderly, individuals with disabilities, non-disabled adults, and non-disabled children. The spending for each of the four groups would be combined to establish the spending limit for the State.

  Each State would be able to use savings from one group to support expenditures for other groups or to expand benefits or coverage. Once the cap is calculated, it would be multiplied by the State matching rate to determine the maximum Federal spending in each state. The Federal match would continue until the capped amount for the State is reached.

- **Determining the Index.** The index we have used is the growth in nominal GDP per capita (based on a five-year rolling historical average), plus adjustment factors that account for Medicaid's high utilization and intensity. Over the budget period--1998-2002--the index would allow per capita spending to increase by an average of 5 percent per year. By 1999 and subsequent years, the index will be nominal GDP per capita plus 1 percent.

- **Finding the Most Appropriate Index.** Our policy development to this point has focused on an index based on the growth in nominal GDP per capita, but we are reviewing indexes that could more precisely reflect growth in health care costs, and in particular, the volume and intensity inherent in a program that serves many low-income people. Recognizing that there is a debate about which is the most appropriate index, we intend to work with the Congress, the States, policy experts, and other stakeholders in order to facilitate the development of the best index possible.

- **Exempting Spending From the Cap.** Certain aspects of Medicaid spending not tied to individual beneficiaries or not under direct control of the States would not be subject to the cap: vaccines for children, payments to Indian health providers and Indian Health Services, DSH payments, and Medicare premiums and cost-sharing for dual eligibles and qualified Medicare beneficiaries (QMBs). On the other hand, Medicaid expenditures for services and administration delivered under Section 1115 demonstration waivers would be subject to the per capita cap.

- **Assessing the Impact of the Per Capita Cap.** After 2000, when both the HCFA actuaries and CBO's analysts have indicated that they expect Medicaid spending growth on a per capita basis to rise more rapidly again, the per capita cap would constrain Medicaid growth per-person (for non-DSH benefits and administration) to about 5 percent per year.

  If the Administration and the States are successful in holding spending growth per beneficiary to about 5 percent a year during this period--which is close to the annual growth rate CBO is projecting for private insurance on a per-person basis--the per capita cap will produce little to no savings. But if the projections that per capita spending growth will rise again turns out to be correct, the Administration's policy will prevent that increase from overtaking our balanced budget.

- **Creates Transition Pool for Those Who Are Disproportionately Affected By New Policy.** We also include about $1 billion in capped "transition pool" funding over five years to assist States and safety net providers who are disproportionately affected by the Medicaid savings policies.

THE PRESIDENT'S FY 1998 BUDGET
INITIATIVE FOR FAMILIES OF WORKERS BETWEEN JOBS

Job changes put all families at risk of losing their health care coverage. Nearly 148 million Americans receive their health insurance from an employment-based plan. When these workers change or temporarily lose their jobs, it often means losing health care coverage, leaving workers and their families to pay their health care costs at a time when they no longer have a significant part of their income.

- Over 50 percent of Americans who lose their health care coverage lose it due to a job change. Many of these are the spouses and children of the worker.

- Over one-third of workers who left an insured job, became unemployed, and received unemployment insurance become uninsured.

- Workers with job changes are more than three times as likely to have gaps in health care coverage than continuous workers.

Providing Temporary Health Insurance Premium Assistance for Families With Workers Who Are Between Jobs

- **The President's proposal provides temporary premium assistance for up to six months for workers between jobs who previously had health insurance through their employer, are in between jobs, and may not be able to pay the full cost of coverage on their own.**

- **This initiative assures that Kassebaum-Kennedy protections against pre-existing conditions are not placed at risk because of breaks in insurance coverage.** It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose much of their income. To ensure cost effectiveness, it does not cover individuals who are eligible for Medicare, Medicaid, or who have a spouse with access to employer coverage.

- **To assure that limited federal dollars are targeted to those most in need, only families up to 240 percent of poverty are eligible for this program.** Families with incomes below poverty will receive full premium assistance, and families below 240 percent of poverty will receive partial assistance.

- **States have the flexibility to provide coverage in the way that best meets the needs of their populations:**

  - States will receive funding from a capped Federal pool to provide premium assistance. States will choose how this assistance will be used (e.g., to buy COBRA continuation coverage, Medicaid, or some alternative).

  - In the unlikely event that a State's allotment is not enough to provide coverage, it will have access to supplemental funding. States will also have the option to modify their program if these additional funds are not enough to operate within their budget.

- **This initiative is structured as a four-year national demonstration.** This demonstration includes an evaluation which provides the flexibility to restructure the program to better meet the needs of workers between jobs and their families if unanticipated problems develop.

- **In the context of his balanced budget plan, the President invests $9.8 billion to pay for his proposal.**

Helping All Working Americans and Their Families

- **The President's proposal will provide piece of mind for virtually every American worker who lives in fear of losing health insurance because of a short-term loss of employment.**

- **It will also directly help an estimated 3.3 million Americans in 1998, including about 700,000 children, in any given year.**

- **This initiative strengthens the safety net for middle-income, working Americans in an increasingly mobile workforce.** This assistance is accessible for most middle class families since income drops for the months between jobs. For example, over half of participants would come from families who previously had incomes above 200 percent of poverty, over $30,000 for a family of four.

President Clinton Unveils Tax Cut Proposal

June 30, 1997

President Clinton's tax cut proposal provides needed tax relief to working families who play by the rules, pay taxes, and are trying to do the best for their kids. It includes a major investment in the President's top priority -- education -- by making the first two years of college universally available and doing something the other plans do not: helping those Americans who are working and want to improve their education and upgrade their skills. Lastly, President Clinton's proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement for a tax cut the American people deserve.

THE PRESIDENT'S PROPOSAL IS FAIR. The bulk of the President's tax cut goes to middle-class families -- two-thirds of the President's tax cut goes to the middle sixty percent of families, twice the share the alternative congressional plans provide these middle class families.

THE PRESIDENT PLACES A HIGHER PRIORITY ON EDUCATION TAX CUTS. Education must be America's highest priority and the core of our tax cut plan must help families pay for education. To offer opportunity in the new and rapidly changing economy, we must make the 13th and 14th years of education -- the first two years of college -- as universal as a high school diploma is today. We must also do what we can to help people throughout their lives improve their education and upgrade their skills throughout their lives. The President's plan:

- ✓ **ADVANCES THE GOAL OF MAKING THE FIRST TWO YEARS OF COLLEGE UNIVERSAL.** The plan includes a modified two-year $1,500 HOPE Scholarship that does more to help community college students than the congressional alternatives. First and second year students would receive a $1,000 credit for the first $1,000 of tuition and fees plus 50% of as much as another $1,000 in tuition and fees. Therefore, a student going to a typical community college with tuition of $1,200 would receive a $1,100 credit under the President's proposal, compared to just $600 and $900 under the House and Senate plans respectively.

- ✓ **HELPS THIRD AND FOURTH YEAR STUDENTS AND PROMOTES LIFELONG LEARNING.** The congressional plans give virtually no support to families who are struggling to pay college costs out of pocket. Students beyond the second year would benefit only if they had substantial savings or when they paid interest on student loans. Students over 30 -- one-fourth of all undergraduate students -- could not even make use of the education savings accounts that Congress is proposing. At a time when older workers need to improve their education and upgrade their skills, it is critical that the education tax cuts promote lifelong learning. The President's proposal accomplishes this goal: It provides a 20 percent tuition credit on expenses up to $5,000 initially and $10,000 beginning in 2001.

- ✓ **INCORPORATES OTHER GOOD EDUCATION IDEAS INCLUDED IN VARIOUS PROPOSALS,** such as a permanent extension of the tax preference for employer-provided undergraduate and graduate education, tax incentives for school construction, a student loan interest deduction, and tax exclusion for community service and income-contingent loan forgiveness.

THE PRESIDENT BELIEVES THAT FAMILIES WHO WORK HARD, PAY TAXES, AND TRY TO DO THE BEST FOR THEIR KIDS DESERVE A TAX CUT. HIS PLAN CUTS THE TAXES OF THE 4 MILLION FAMILIES SHORTCHANGED BY CONGRESS. The President's proposal includes a $500 child tax credit for children under 17 through 2002 and under 19 thereafter. The President has a basic disagreement with some members of Congress. Consider *a family of four with two small children: the father is a rookie police officer making $23,000, and the mother is taking a few years off from teaching. They pay out of pocket over $1,000 a year in federal taxes*. The President believes that this family needs and deserves a tax cut just as much as family who makes twice as much. The Congressional plans would deny this family a tax cut. Under the President's plan, this family would receive a $767 child tax credit.

TAX INCENTIVES TO CLEAN-UP AND REVITALIZE DISTRESSED NEIGHBORHOODS BELONG IN THE FINAL TAX PACKAGE. In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

THE PRESIDENT'S TAX CUT PROPOSAL DELIVERS BIG FOR CITIES

June 30, 1997

In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

PRESIDENT CLINTON'S TAX PLAN HELPS TO CLEAN UP AND REDEVELOP BROWNFIELDS. The Brownfields tax incentive included in the President's tax cut proposal would reduce the cost of cleaning up thousands of contaminated, abandoned sites in economically distressed areas by permitting clean-up costs to be immediately deducted for tax purposes, rather than requiring this spending to be written off over time. This would, in turn, encourage redevelopment of these areas. *The Treasury Department estimates this $2 billion tax incentive will, over seven years, leverage more than $10 billion for private sector cleanups nationwide, allowing redevelopment of 30,000 brownfields.*

- <u>Chicago Mayor Richard Daley, writing on behalf of the U.S. Conference of Mayors, urged Ways and Means Chairman Archer to include the President's Brownfields proposal in the tax bill</u>: "This is a high priority for communities across this nation and we stand united in urging you and other members of the House Ways and Means Committee to modify the tax bill to include the $2 billion brownfields tax incentive."

THE PRESIDENT'S TAX PLAN CREATES NEW EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES. Under the President's 1993 Empowerment Zones and Enterprise Community initiative, communities develop a strategic plan to spur economic development, and they receive Federal tax benefits, social service grants and flexibility in use of Federal funds in order to put this plan in effect. The EZs and ECs are urban or rural areas with high poverty and unemployment rates.

- *Many communities that were not designated as EZs or ECs in that first round lack the seed capital to begin revitalization efforts. In response, the President proposes a second-round of EZs and ECs--15 urban and 5 rural EZs and 50 urban and 30 rural ECs.* The new EZs and ECs will benefit from a slightly different blend of tax credits than the first-round communities.

THE PRESIDENT'S TAX PLAN ALSO PROVIDES FOR A NEW COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS TAX CREDIT. The President's CDFI Fund is helping to build a national network of community development financial institutions -- including banks, thrifts, and credit unions -- by providing financial and technical assistance to these entities. CDFI dollars are being used to create jobs, rebuild neighborhoods and restore hope in communities from San Francisco to Boston, Louisville to Chicago. The Fund represents a promising model for Federal government action -- investing in local private sector institutions, leveraging private sector resources (to the tune of ten times the initial investment) and generating economic growth in distressed areas. *The President's tax cut proposal creates a new tax credit to encourage investment in CDFIs. This new credit is not included in either the House or Senate versions of the tax legislation.*

THE PRESIDENT'S PLAN INCLUDES A SPECIAL WELFARE-TO-WORK TAX CREDIT. This credit gives employers added incentive to hire welfare recipients. Although the congressional leadership pledged to seek a credit along these lines, the House bill includes only a scaled-back version, and the Senate bill omits it entirely.

Cot Dpe All Staff

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 11, 1997

SECRETARY OF THE TREASURY

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515-4005

Dear Bill:

I have reviewed the Chairman's Mark you released earlier this week, providing the details of the tax portion of the bipartisan budget agreement. The President is eager to sign legislation implementing the agreement into law, but in its present form, the proposal you have put forth does not meet the test of fairness to working families and has other serious problems. Over 35 percent of the benefits from your tax cuts go to families with incomes in the top five percent of the income distribution, and 68 percent of the benefits go to families in the top 20 percent. I have included preliminary Treasury distribution tables for your package after this letter.

Your bill will reduce the value of the $500 child credit for millions of low income families by requiring a family to take the child credit only after the earned income tax credit is taken against their tax liability. A family with two children and $25,000 of income, for example, would receive no tax relief from the child credit under your proposal. Under the President's plan, this family would get $1,000, the same as a family that earned twice as much. We would favor a refundable child credit that better targets low and middle income working families. The credit should be indexed for inflation. We would also permit taxpayers to place their child credit into a tax-favored savings account to finance their children's college education. In combination with our tuition deduction, this proposal would allow families to save and pay for college tax-free.

The proposed legislation singles out six million families who pay for child care and gives them a smaller tax cut. Beginning in 2002, families who receive a tax credit for their child care expenses would lose 50 cents for each dollar of their child credit. This provision unfairly reduces tax relief for working parents who are struggling to maintain a decent standard of living and to pay for child care. For example, a family with two working parents making $45,000 who pay for child care for their two children would seemingly be eligible for a $1,000 child tax credit. But under the proposed legislation, they would also lose $480 of their child tax credit. Furthermore, because dependent care constitutes a cost of earning income, the child and dependent care credit should not be phased out.

The education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education, which are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward upper-income families while reducing the benefits to lower-income families. It introduces serious administrative complications and is less effective at easing the burden of college attendance for working families.

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the broadly available tuition deduction in the President's package, the tuition deduction in your proposal would be available only if education expenses are paid from certain education savings plans. Hence, no help is given beyond the first two years of higher education to low-income students and students who must borrow to pay tuition. In addition, your proposal does much less to encourage lifelong learning, one of the central objectives of the President's package.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses. In the early years, the benefits for education will only be available to those who already have large reserves of cash to deposit in these accounts, not to others who can contribute only modest amounts each year.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings.

The proposal to index certain capital assets and lower the rate of tax on capital gains provides a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit the wealthy over lower- and middle-income wage earners. The package also has an explosive revenue cost in years after 2007, possibly jeopardizing all our important work to balance the budget. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would "overwhelm taxpayers and the IRS."

We want a capital gains tax cut that will help the economy and will not explode in cost. Therefore, we propose an expansion of the existing exclusion for long-term equity investments in smaller businesses. The expansion of the capital gains incentive for small businesses will help more start-ups get off the ground, and ensure that America continues to lead the world in high technology.

At a time when business conditions are strong and profits are at their highest shared of GDP in two decades, you have proposed to spend $34 billion over 10 years to eliminate the corporate alternative minimum tax. This provision would return us to the days when some of the largest and most profitable corporations paid zero income taxes.

Your plan contains other provisions that raise serious concerns. The safe-harbor for independent contractor status would permit employers to avoid essential worker protections. At a time when we are trying to expand health and pension coverage, this proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.

Under your proposal, Indian tribes would be subject to the unrelated business income tax on all income earned from commercial activities. Contrary to long-established U.S. policy, this tax fails to respect the sovereignty of Indian tribes and their special status as domestic dependent nations. This lack of respect for sovereignty is particularly apparent in the difference the proposal would create between tribes and States. In addition, the proposal would be extremely difficult to administer.

We are very disappointed that your proposal excluded a number of important initiatives for the President's FY 1998 Budget that were included in the budget agreement. For example, the Nation's mayors and urban and rural communities have been extremely supportive of the President's brownfields provision, which provides a tax incentive for environmental cleanup and encourages economic development in formerly contaminated areas. Your proposal excludes this provision. And while tax relief is provided for the District of Columbia, no additional Empowerment Zones or Enterprise Communities for the rest of the country are provided.

In addition, no provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio.

Your bill also includes a provision to raise the debt ceiling. We believe that it should be included in the other reconciliation bill.

In summary, we think this package disproportionately benefits the most well off in society at the expense of working families. Given the tough choices that need to be made within this tax package, we think it is unwise, for example, to eliminate the corporate AMT, while at the same time denying tax relief provided by the child credit to millions of hard-working taxpayers with children who receive the earned income tax credit. Moreover, the provisions in the package that drive up costs beyond the ten year budget window, are those that most advantage high-income taxpayers.

We look forward to working with the Congress to design a tax package that helps working families pay for education, buy and sell homes, and raise their children. We are committed to achieving a tax package that is fair to all Americans.

Sincerely,

Robert E. Rubin

Attachments

Welfare Reform
(outlay savings in billions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	5-Year Savings	10-Year Savings
Immigrants	--	~~2.7~~ 2.3	2.6 2.2	~~2.5~~ 2.1	2.0 1.6	~~2.0~~ 1.8	2.0 1.8	2.0 1.8	~~2.0~~ 1.8	~~1.9~~ 1.7	~~2.0~~ 1.8	~~11.8~~ 9.9	~~21.6~~ 18.9
Food Stamps	--	~~0.3~~ 0.4	~~0.3~~ 0.5	~~0.3~~ 0.5	~~0.3~~ 0.5	~~0.3~~ 0.6	~~0.5~~ 0.6	~~0.3~~ 0.6	~~0.4~~ 0.6	~~0.4~~ 0.7	~~0.4~~ 0.7	~~1.5~~ 2.5	~~3.3~~ 5.7
Welfare to Work	--	~~0.8~~ 0.4	~~0.1~~ 0.6	~~0.6~~ 0.8	0.2	--	--	--	--	--	--	~~1.6~~ 2.0	~~1.6~~ 2.0
Welfare reform, net	--	~~3.3~~ 3.1	~~3.4~~ 3.3	3.4	~~2.5~~ 2.3	2.4	2.4	~~2.3~~ 2.4	~~2.3~~ 2.4	~~2.3~~ 2.4	~~2.3~~ 2.5	~~15.0~~ 14.4	26.5

(Numbers may not add due to rounding)

Description

Immigrants

- Current recipients and new applicants. Restore SSI and Medicaid benefits for all legal immigrant adults who are currently receiving SSI and Medicaid who became disabled after entering the U.S. Provide access to SSI and Medicaid to all legal immigrants who became disabled after entering the U.S. and who are not currently receiving benefits if the immigrant entered before their sponsor was required to sign a legally binding affidavit of support (May, 1997).

- New entrants. Retain SSI and Medicaid for new entrants who become disabled after entering the U.S. New entrants who apply for disability benefits and have legally binding affidavits of support from their sponsors would have the income of their sponsor deemed to them.

- Children. Restore SSI for approximately 6,000 legal immigrant children currently receiving SSI. Provide access to SSI and Medicaid for legal immigrant children who are not currently receiving benefits and do not have legally binding affidavits of support. New entrant children who have legally binding affidavits of support would have the income of their sponsors deemed for SSI and Medicaid.

- Refugees and asylees. Lengthen the exemption for refugees and asylees from the first 5 years in the country to 7 years for SSI and Medicaid.

Food Stamps

190,000 by 2002

- Retain "3 in 36" time limit but redirect $470 million ~~in~~ existing Food Stamp Employment and Training Program funds and add $150 ~~$375~~ million in new funding to create an additional ~~120,000~~ work slots monthly for individuals subject to the time limits (includes the cost of providing on-going benefits to individuals fulfilling the work requirements)

The total cost of 2B

- Permit States to exempt 15 ~~10~~ percent of the individuals who would lose benefits because of the time limit, enabling States to exempt ~~40,000~~ nearly 70,000 individuals who want to work but are unable to find a job within the three-month time limit.

Welfare to Work

- Add $2.0 ~~$1.6~~ billion to TANF, allocated to States through a formula and targeted within a State to areas with poverty and unemployment rates at least 20 percent higher than the State average. A share of funds would go to cities with large poverty populations commensurate with the share of long-term welfare recipients in those cities. Eligible activities include job retention services; job retention or creation vouchers; and private sector wage subsidies for new jobs lasting 9 months.

- [Include tax incentives to create job opportunities for long-term welfare recipients. The new credit would give employers a 50% credit on the first $10,000 a year of wages for up to 2 years. Also expand the existing WOTC to able-bodied childless adults ages 18-50 who face work and time limit requirements.]

May 1, 1997