# II. OVERALL FRAMEWORK FOR THE FY2001 BUDGET

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#### BUDGET FRAMEWORK

President Clinton and Vice President Gore's propose a balanced and fiscally responsible budget that eliminates the debt, strengthens the solvency of Social Security and Medicare, and invests in key priorities like health and education. By balancing competing needs and maintaining fiscal discipline, the Clinton-Gore Administration's FY2001 budget continues the successful strategy that has fostered the longest economic expansion in the Nation's history. Over 10 years, it uses the entire \$2.2 trillion Social Security surplus for debt reduction and devotes nearly half of the \$746 billion non-Social Security surplus to debt reduction. Under the President's budget:

- ✓ The debt held by the public would be paid off by 2013, resulting in lower interest rates and a stronger economy.
- ✓ Medicare solvency would be secured for at least 10 years to 2025, Medicare would be reformed to make it more efficient and competitive, and its benefits modernized with a new prescription drug benefit.
- ✓ The Social Security surplus would be dedicated to paying down the debt, and Social Security solvency would be extended to at least 2050.
- ✓ The budget framework is based on realistic discretionary spending levels that include investment in key priorities like education, health care, environment, public safety, and national security, while keeping overall spending growth slightly below inflation.
- ✓ A set of fair and responsible targeted tax cuts would provide tax relief for middle-class Americans while helping them save for retirement.

The President's Balanced and Responsible Budget Will Help Keep the Economy Strong, Building on the Progress That He Has Made in Bringing America's Fiscal House Back in Order. According to the Office of Management and Budget, in 2000 the debt held by the public will be \$2.4 trillion lower than it was projected to be when the President came into office. This achievement has kept interest rates down and confidence and investment up, contributing to the strongest American economy and fiscal position in generations.

- The \$167 billion surplus this year will be the largest on record. In 1992 the deficit was \$290 billion and projected to grow to \$455 billion this year. As a result of the President's seven year record on fiscal discipline, and particularly the major deficit reduction in 1993 and 1997, and the strong economy to which it contributed, the budget surplus for this year is projected to be \$167 billion, the largest dollar surplus on record. Compared with the original projections, that is \$622 billion less borrowing drained by the government in one year alone.
- The largest pay-down of debt in history: \$297 billion. In 1998 and 1999, the debt held by the public was reduced by \$140 billion. OMB is projecting that the government will pay down an additional \$157 billion in debt held by the public this fiscal year. That will bring the total debt pay-down to \$297 billion the largest three-year debt pay-down in American history. In contrast, under Presidents Reagan and Bush, the debt held by the public quadrupled.

- <u>Investment has boomed</u>. The benefits of fiscal discipline for our economy have been enormous. Interest rates are lower than they would have been otherwise, helping to fuel seven consecutive years of double-digit investment growth for the first time on record.
- <u>Unemployment is the lowest in a generation</u>. The unemployment rate in January 2000 was 4.0 percent – the lowest in thirty years – and America has created 20.8 million jobs since January 1993.

President Clinton's Budget Would Pay Off the National Debt by 2013. President Clinton has proposed to use the entire Social Security surplus, \$2.2 trillion over 10 years, for debt reduction. In addition, over the next 10 years he would dedicate \$350 billion of the \$746 billion non-Social Security surplus to debt reduction. That is nearly half of the non-Social Security surplus being used for debt reduction. The President's budget is projected to pay off the debt held by the public by 2013, the first time America will have been debt free since 1835. Debt reduction will continue to benefit the economy and American families:

- Keeps investment and growth strong. With the government no longer draining resources
  from capital markets, interest rates are lower and businesses have more funds for productive
  investment. Paying off the debt would continue to help fuel investment and productivity
  growth while increasing productive capacity and restraining inflation.
- <u>Saves money for families</u>. Because of the deficit and debt reduction we have already done, it is estimated that a typical family with a home mortgage might expect to save roughly \$2,000 per year in mortgage payments.
- <u>Saves money for taxpayers</u>. Currently we spend 13 cents of every Federal dollar on net interest payments. These payments, which were once projected to grow to 26 percent of all federal spending in 2013, would be completely eliminated under the President's plan.
- <u>Prepares for the retiring baby boomers</u>. By paying off the debt, eliminating interest payments, and dedicating the resulting benefits to extending Medicare and Social Security solvency, debt reduction will free up funds for investment and boost workers' productivity and incomes, helping the Nation prepare for the challenge of the retiring baby boomers.

The President's Budget is Based on a Realistic, Fiscally Conservative Plan That Maintains Our Domestic Priorities, Including National Defense, Education, Law Enforcement, Health, the Environment, and Veterans Programs. The President's budget precludes the use of emergency spending except in the case of truly unforeseen contingencies, and it makes sure that all spending is accounted for in the appropriate year. The budget proposes realistic, fiscally conservative levels of spending that respond to the Nation's most pressing needs.

• Smallest government as a share of the economy since 1966. The President's proposal builds on a record of fiscal discipline. President Clinton's fiscal discipline has helped bring spending down from 22.2 percent of the economy in 1992 to 18.7 percent of the economy in 1999 – the lowest share since 1966. Non-defense discretionary spending is now smaller as a share of the economy than any time on record (comparable data go back to 1962). In contrast, Federal government spending increased from 21.6 percent of GDP in 1980 to 22.2 percent in 1992.

- Spending growth slightly below inflation. The President's budget is based on spending plans
  that are tight but realistic, keeping overall discretionary spending growth slightly below
  inflation.
- Invests in expanding health insurance to working Americans. The President's budget also invests \$110 billion over 10 years in a number of policies would efficiently expand coverage to at least 5 million uninsured Americans and expand access to millions more by building on current options. Together with the State Children's Health Initiative enacted in 1997, that would cover 10 million uninsured people.

President Clinton Will Strengthen and Modernize Medicare, Extending Its Solvency, While Paying Down the Debt to Prepare for Our Future Obligations. The President's FY2001 budget dedicates \$432 billion over 10 years – an amount equivalent to over half the on-budget surplus – to strengthen and modernize Medicare to prepare it for the health, demographic, and financing challenges of the 21st Century.

- Making Medicare more efficient, competitive and fiscally sound. The President's plan will dedicate \$299 billion of the non-Social Security surplus over 10 years to shore up Medicare's Hospital Insurance trust fund and pay-down publicly held debt. Coupled with reforms to add price competition and successful private-sector management tools to Medicare, these resources will extend Medicare solvency by at least a decade, extending its life until at least 2025.
- Modernizing benefits, including adding a prescription drug benefit. Over 3 in 5 Medicare beneficiaries lack dependable prescription drug coverage. The President's plan creates a voluntary prescription drug benefit that is accessible and affordable for all beneficiaries, managed competitively and efficiently, and provides high-quality, needed medications. It also creates a \$35 billion reserve fund that permits the Administration to work with Congress to design protections for catastrophic drug costs. If no consensus emerges, the reserve would be used for debt reduction.

President Clinton Has a Fiscally Responsible Plan to Extend the Solvency of Social Security. The President would ensure that the benefits of the debt reduction that are due to Social Security are used to extend the life of Social Security:

- Keeping Social Security surpluses for Social Security. The President proposes to lock away
  all of the Social Security surplus, a step that would pay down debt and prepare the
  government, and the Nation, for the retirement of the baby boomers.
- Social Security solvency and debt reduction transfers. After a decade of debt reduction, the President's plan earmarks the interest savings resulting from this debt reduction to the Social Security Trust Fund. By themselves, these fiscally prudent steps will pay down the government debt, reduce interest payments in the future, and provide resources to extend the solvency of the Social Security trust fund to 2050. If a prudent portion of the transfers were invested for higher returns, solvency would be extended to 2054. In contrast, the Republican so-called lockboxes would not extend the life of Social Security by a single day.

The President Is Committed to Fair and Responsible Targeted Tax Cuts for American Families. As part of a balanced and fiscally responsible framework, the President believes that we should have targeted tax cuts for working American families.

- <u>Providing tax relief</u>. The President proposes \$351 billion of gross tax cuts over 10 years of which \$256 billion are paid for out of the surplus and \$96 billion are paid for with corporate loophole closers, elimination of tax shelters, and other measures.
- Targeted tax cuts for American families. The President's targeted tax cuts would address a variety of urgent national needs, including promoting progressive retirement savings, making higher education more affordable, increasing the reward to work and family in the Earned Income Tax Credit, helping families meet child care needs and provide long-term care for ill relatives, expanding health insurance options, helping communities build modern schools, promoting energy efficiency to mitigate global climate change, and encouraging investment in areas of our country which have not fully participated in our expansion.

#### **MEDICARE**

The Clinton-Gore Administration budget dedicates \$432 billion over 10 years – the equivalent of over half of the non-Social Security surplus – to strengthen and modernize Medicare. It includes a new, multi-billion dollar reserve fund that can be used to add protections against catastrophic drug costs to the President's prescription drug benefit. This financing commitment is part of the comprehensive reform plan that the President unveiled last June which is also included in the budget. This plan makes Medicare more fiscally sound, competitive, and efficient and it modernizes Medicare's benefits, including the provision of a long-overdue prescription drug benefit. The reforms coupled with the surplus dedication would extend the life of its trust fund by at least 10 years to at least 2025.

Making Medicare More Fiscally Sound, Competitive and Efficient. Since taking office, President Clinton has worked to pass and implement Medicare reforms that, coupled with the strong economy and the Administration's aggressive anti-fraud and abuse enforcement efforts, have saved hundreds of billions of dollars and helped to extend the life of the Medicare Trust Fund from 1999 to 2015. Yet, the doubling of Medicare enrollment with the retirement of the baby boom generation, coupled with the potential return of higher health cost growth in the future, will create unavoidable financing challenges for Medicare. Because the President is committed to not passing this burden on to the next generation, he has proposed a strong plan that not only provides the needed, new financing but provides the program with new private-sector tools and injects competition into the program. Specifically, the plan:

- Allocates Nearly Three-fourths of Medicare Investment to Trust Fund Solvency. It
  would be impossible to pay for a doubling in Medicare enrollment through competition,
  provider payment savings or beneficiary premium increases alone. To address the future
  financing shortfall, the budget dedicates \$299 billion of the surplus to Medicare over 10
  years which not only helps to extend the financial health of the Trust Fund through 2025, but
  reduces publicly held debt since these funds will not be available for tax cuts or other
  spending.
- Gives Traditional Medicare New Private Sector Purchasing and Quality Improvement
  Tools. The President's proposal would make the traditional fee-for-service program more
  competitive through the use of market-oriented purchasing and quality improvement tools to
  improve care and constrain costs. It would provide new, broader authority for competitive
  pricing for current Medicare services, use of private disease management services that have
  demonstrated higher quality, coordinated care for beneficiaries with chronic illnesses, and
  other best-practice private sector tools.
- Improves Price Competition in Medicare through the "Competitive Defined Benefit" Program. The Competitive Defined Benefit proposal would, for the first time, inject true price and quality competition into Medicare. While keeping the same Part B premium for those remaining in the traditional program, the policy would allow beneficiaries to pay lower premiums for choosing efficient private plans. Specifically, beneficiaries would have their

Part B premium reduced by 75 cents of every dollar of savings that the private plan generates. For example, if a person chose a plan that saved \$10 they would get \$7.50 reduced from their premiums every month. Price competition would make it easier for beneficiaries to make informed choices about their plan options and would, over time, save money for both beneficiaries and the program.

• Constrains Out-year Medicare Spending Growth and Continues to Ensure Program Integrity. Since President Clinton took office, the life of the trust fund has been extended from 1999 to 2015 and spending growth has been reduced by two-thirds. But as health inflation increases, experts suggest that average Medicare spending growth per beneficiary will almost double for 2003-2010 compared to 1998-2002. The FY2001 budget includes the anti-fraud and waste proposals from the FY2000 budget and moderated out-year savings proposals to protect against a return to excessive growth rates.

Savings from Medicare total \$70 billion over 10 years. The budget preserves its commitment to the Balanced Budget Refinement Act, recognizing that in some cases Balanced Budget Act payment reductions were excessive. This budget's savings are about 33 percent less than the budget and reform plan savings proposed last year.

**Modernizing Medicare's Benefits.** Unlike virtually all private health plans, Medicare does not cover prescription drugs. Over three in five lack dependable insurance coverage for drugs. As such, those with the highest need pay the highest prices. The President's budget adds a long-overdue prescription drug benefit, and also improves preventive services and rationalizes cost sharing. Specifically, the plan:

- Establishes a New Voluntary Medicare Prescription Drug Benefit that is Affordable to All Beneficiaries and the Program. The drug benefit costs \$160 billion over 10 years; including savings, the net cost of the President's Medicare proposals would be \$98 billion over 10 years. The voluntary prescription drug benefit would be:
  - Accessible and voluntary. Optional for all beneficiaries. Provides financial incentives for employers to develop and retain their retiree health coverage
  - Affordable for beneficiaries and the program. Premiums of \$26 per month in the first
    year with lower or no premiums for low-income beneficiaries. Provides privatelynegotiated discounts, gained by pooling beneficiaries' purchasing power, for all drug
    expenses. Has no deductible and pays for half of each beneficiary's drug costs from the
    first prescription filled each year up to \$5,000 in spending when fully phased in.
    Discounts continue after limit is reached.
  - Competitively and efficiently administered. Competitively selects private benefit
    manager to deliver benefit to enrollees in traditional program. No price controls, no new
    bureaucracy. Integrated into current eligibility and enrollment systems.

- High-quality and provide necessary medications. Private entities that use formularies
  must ensure access to medications off formulary if physician deems medically necessary.
  Requires use of state-of-the-art quality improvement tools.
- Creates a Medicare Reserve Fund to Add Protections for Catastrophic Drug Costs. To build on the President's prescription drug benefit, the budget includes a reserve fund of \$35 billion for 2006 through 2010, available to design protections for beneficiaries with extremely high drug spending. This reserve will permit the Administration to work in collaboration with Congress to design this enhanced prescription drug benefit. If no consensus emerges, the reserve would be used for debt reduction.
- Improves Preventive Benefits in Medicare. This proposal would:
  - Eliminate the existing deductible and copayments for preventive services, including colorectal cancer screening, bone mass measurements, pelvic exams, prostate cancer screening, diabetes self management benefits, and mammographies.
  - Develop and design a 3-year demonstration project on smoking cessation services.
- Rationalizes Cost Sharing. As proposed last year, the plan would rationalize the current cost sharing requirements for Medicare by:
  - Re-instating 20 percent coinsurance and the Part B deductible for clinical laboratory services. The modest lab copayment would help prevent overuse and reduce fraud.
  - Indexing the Part B deductible for inflation. Over time, inflation decreases the amount of the deductible in real terms. The deductible has been \$100 since 1991 and has only been increased three times since Medicare was created. The deductible would keep pace with inflation under this proposal.
- Reforms Medigap. The plan would reform private insurance policies that supplement Medicare (Medigap) by: (1) working with the National Association of Insurance Commissioners to add a new option with low copayments and to revise existing plans to conform with the President's proposals; (2) directing the Secretary of HHS to determine the feasibility and advisability of reforms to improve supplemental cost sharing in Medicare; (3) providing easier access to Medigap if a beneficiary is in an HMO that withdraws from Medicare; and (4) including people with disabilities and end stage renal disease (ESRD) in the initial 6 month open enrollment.

#### SOCIAL SECURITY

The Clinton-Gore Administration FY2001 budget proposes a plan to extend the solvency of Social Security. For almost 65 years, Social Security has been an unshakable covenant among generations. It provides a bond between workers and retirees, between the disabled and the able bodied. The President's proposal would build on this historic period of prosperity and budget surpluses to strengthen Social Security. The President's plan reserves the entire Social Security surplus for Social Security and debt reduction, and earmarks the benefits of paying down the debt held by the public to extend the solvency of Social Security. According to projections by the independent Office of the Actuary at the Social Security Administration, the President's proposed transfers would extend the solvency of Social Security to 2050. If a prudent portion of the transfers were invested for higher returns, solvency would be extended to 2054. The President's plan to strengthen Social Security is a central part of his fiscally disciplined framework to pay off the debt held by the public by 2013.

Social Security is the Cornerstone of our Retirement System. Social Security is the principal source of retirement income for two-thirds of the elderly. In 1959, the poverty rate for senior citizens was 35.2 percent. In 1998, it was 10.5 percent – the lowest on record. Last year, Social Security benefits lifted roughly 15 million senior citizens out of poverty, but it must be noted that poverty remains too high for widows and other groups. And Social Security is more than just a retirement program. One in five beneficiaries is under the age of 62, receiving either disability benefits or survivors benefits.

Social Security is Projected to Become Insolvent By the End of 2034 As a Result of Demographic Pressures. Currently, Social Security takes in more payroll taxes than it pays out in benefits, and is building up its trust fund to pay future beneficiaries. But, as the baby boomers retire and life expectancies continue to rise, the number of people age 65 and over is projected to double – from 35 million in 1998 to 72 million in 2035. In 1960, there were 5.1 covered workers for every Social Security beneficiary. In 1999 there were only 3.4 workers for every beneficiary. And by 2035, there are projected to be only 2.0 workers for every beneficiary.

The President's Plan Devotes Social Security Surpluses to Debt Reduction. The President's proposal devotes the entire Social Security surplus to paying down the debt held by the public. This is projected to reduce the debt held by the public by \$2.2 trillion over the next 10 years and produce interest savings.

The President Uses the Interest Savings To Extend the Solvency of Social Security.

Although the so-called lockboxes proposed by Republicans would have used any interest savings to pay for an exploding tax cut, the President proposes to use the interest savings for the purpose of extending the solvency of Social Security. As an additional safeguard for fiscal responsibility, the President proposes to limit the amount of the transfers to the available on-budget surpluses that are currently projected to result from the President's fiscally disciplined framework.

The President's Plan Transfers the Interest Savings to the Social Security Trust Fund From 2011 to 2050. The Social Security actuaries project that the interest savings that would occur from the reduction in publicly held debt due to transfers alone would total \$99 billion in 2011 and grow to \$205 billion in 2016. Under the intermediate projections of the Social Security Trustees, these potential interest savings would be transferred in full to the Social Security trust fund. Transfers would stay at the 2016 level through 2050. The total transfers in the first 5 years (2011-2015), as projected by the Social Security actuaries, would be \$690 billion.

The President's Plan Extends Solvency to at Least 2050. The Social Security trust fund is currently expected to be unable to pay benefits in full on a timely basis starting in 2034. According to projections by the Social Security actuaries, the President's proposes interest savings transfers would extend solvency to 2050. This is an extra 16 years added to the life of the trust fund. To put Social Security on an even firmer financial footing, the President also provides the option of allowing a limited and prudent portion of the transfers to be invested independently and without political interference in broad-based equity indexes. Under this plan, the Social Security actuaries project that the Social Security trust fund would hold about 3 percent of the total market value, on average, over the 30-year period 2011 through 2040. The combination of prudent investment in equities and the transfers is projected to extend the life of the trust fund to 2054.

Addressing Widow Poverty and Eliminating the Retirement Earnings Test. The President believes that, in the context of longer-term reforms, it is essential to improve the effectiveness of Social Security in combating widow poverty and to modernize it by eliminating the outdated retirement earnings test.

The President's Plan Provides a Foundation on Which to Build. The President remains committed to working together with Congress on a bipartisan basis to enact reforms that make Social Security solvent for at least 75 years. The President's proposal provides a sound starting point for such an agreement.

#### NEW OPPORTUNITY AGENDA

The Clinton-Gore Administration's FY2001 budget proposes a coherent program to build on the Nation's economic prosperity and expand its reach to every corner of America through an agenda rooted in three core values: community, opportunity and responsibility. It comprises a range of programs designed to ensure that working families have the tools and the opportunity to succeed.

#### REWARDING WORK AND HELPING FAMILIES

- Expanding the Earned Income Tax Credit (EITC) to Reward Work and Family. President Clinton proposes a \$23 billion plan to expand the Earned Income Tax Credit to reward work and family, including more relief with families with three or more children often facing the highest poverty rates. According to estimates by the Department of the Treasury, this EITC expansion would provide tax relief for 6.8 million working families.
- Increasing the Minimum Wage. The President again proposes a \$1 increase in the minimum wage. This proposal, which builds upon President Clinton's 1996 minimum wage increase, would help 10 million Americans 70 percent of whom are adults and 60 percent of whom are women. For a full-time, year-round worker at the minimum wage, this would mean an additional \$2,000 per year.
- Expanding and Improving the Child Care Tax Credit for Working Families. President Clinton will include in his FY2001 budget tax relief for families struggling to pay for child care. As part of a comprehensive child care initiative that includes subsidy assistance and new investments in child care quality, the President will propose to 1) make the Child and Dependent Care Tax Credit refundable for the first time; 2) increase the level of the credit; and 3) extend the credit to parents who stay at home to take care of their infants. The President will also propose tax incentives to encourage businesses to provide child care for employees. The child care package would benefit an estimated 8.1 million families and would cost \$30 billion over 10 years.
- Helping Families Afford Child Care. The President's budget boosts the Child Care and
  Development Block Grant by \$817 million in FY2001, enabling the program to provide child
  care subsidies to nearly 150,000 more children next year. These new funds, combined with
  the child care funds provided in welfare reform, will enable the program to serve over 2.2
  million children in 2001, an increase of nearly one million since 1997.
- Promoting Progressive Savings Through Retirement Savings Accounts. Retirement Savings Accounts (RSAs) would give 76 million low- and moderate-income Americans the opportunity to build wealth and save for their retirement through a progressive tax cut. A person who participated in this savings program for 40 years could accumulate over \$266,000 enough to produce \$24,000 a year of income in retirement.

- Expanding Health Insurance Coverage to Uninsured Americans. The President and Vice President will propose a 10-year, \$110 billion initiative that would dramatically improve the affordability of and access to health insurance for people under 200 percent of the poverty line. The proposal would expand coverage to at least 5 million uninsured Americans and expand access to millions more. Together with the State Children's Health Initiative enacted in 1997, that would cover 10 million uninsured people. The Program includes a new, affordable insurance option for families through the State Children's Health Insurance Program. In addition, in order to ensure that people do not lose their health insurance coverage between jobs, the President will propose a new 25 percent tax credit for COBRA continuation coverage.
- Expansion of Housing Vouchers and Tax Credits for Hard Pressed Working Families.
   The President's budget will include \$690 million for 120,000 new housing vouchers to subsidize the rents of low-income families, and increase and index the Low-Income Housing Tax Credit (LIHTC) which provides incentives to build and make available affordable housing to working families.
- Additional Initiatives to Help Working Families. The President's budget will contain \$255 million to promote responsible fatherhood and support working families as well as provisions that will make it easier for working families to own a car without jeopardizing their food stamps eligibility. These proposals are both critical steps in reforming welfare and emphasizing work.

#### PROMOTING OPPORTUNITY AND RESPONSIBILITY IN EDUCATION

- Expanding on Early Childhood and Pre-School Programs. High quality early learning
  childhood programs can significantly improve educational achievement, especially among
  low-income children. President Clinton and Vice President Gore are proposing a number of
  different initiatives to support this goal including:
- Creation of the Early Learning Fund. The President's budget includes \$3 billion over five years for the Early Learning Fund to help improve child-care quality and early childhood education for children under five years old. The Early Learning Fund will provide community grants for activities that foster cognitive development, improve childcare quality and readiness for school.
- The Largest Head Start Expansion in History. President Clinton and Vice President Gore have nearly doubled Head Start expanding funding by 90 percent since 1993. The FY2001 budget boosts funding for Head Start by \$1 billion the largest funding increase the program has ever experienced to provide Head Start and Early Head Start slots to approximately 950,000 children, nearing the President's goal of serving one million children in 2002. This builds the foundation for the long-term goal of universal pre-school. The proposed increase for Early Head Start is \$144 million.
- Fixing Failing Schools, Rewarding Success and Universal After School. The President and Vice President are committed to a comprehensive approach to improve student

achievement by investing in raising standards and increasing accountability. President Clinton's budget will more than double the support for the Universal After-School program for students most in need; increase support for the Accountability Fund to \$250 million, boost funding for the Class Size Reduction program to \$1.75 billion, and include \$120 million for a Small Schools Initiative to reinvent high schools on a smaller and more human scale.

- Expanding Opportunities to Make College More Affordable for Disadvantaged Youth by Nearly \$1 Billion. In FY2001, President Clinton budget will propose nearly \$1 billion in increases to Pell Grants, SEOG and Work Study programs and for the creation of the College Completion Challenge Grants and Dual Degree Programs for Minority-Serving Institutions to help students have access to and stay in college.
- Increasing Resources to Keep Youth on the Track to Success by Over \$400 Million. President Clinton and Vice President Gore are dedicated to supporting critical investments in education and will propose over \$400 million in program increases to keep youth on the track to success in their FY2001 budget. These include: an expansion of GEAR UP, increased support of the TRIO Programs, expansion of Youth Opportunity Grants and Youth Training Formula Grants, additional funding for Youthbuild, expanding Job Corps, and a new \$20 million initiative known as Rewarding Achievement in Youth to support comprehensive training and education services to over 9,000 high achieving, low-income youth.

# OPENING NEW MARKETS AND STRENGTHENING COMMUNITY EMPOWERMENT

- Spurring \$22 Billion in New Investment in Economically Distressed Areas. The
  President proposes a package of tax credits and loan guarantees to more than double the New
  Markets Tax Credit from last year (at a cost of \$5 billion over 10 years) to spur \$15 billion
  dollars in new investment in community development in economically distressed areas.
- Expanding and Improving the Empowerment Zones Tax Incentives. In addition, the budget proposes to expand the Empowerment Zone tax incentives to improve economic growth in the 31 existing Empowerment Zones, as well as create a third round of 10 new empowerment zones at a cost of \$4 billion over ten years. The President will also propose creation of new investment vehicles to help leverage private equity capital as well as expand existing programs to promote investments and provide greater access to capital in these distressed areas.
- Creating First Accounts for Low-income Americans. The President's budget will propose \$30 million to: encourage the creation of low-cost bank accounts known as First Accounts; to expand access to ATMs; and provide education low-income Americans about personal financial management.
- Increasing Funding for Native Americans Communities. In order to better serve Native American communities in the 21st Century, the President's budget includes an increase of \$1.2 billion over Fiscal Year 2000 for key new and existing programs assisting Native

Americans and Indian reservations. This initiative brings together several agencies in order to address the needs of Native American communities comprehensively.

• Moving From Digital Divide to Digital Opportunity. There is strong evidence of a "digital divide" – unequal access to technology by income, education level, race, and geography. To address this troubling trend, the President's budget proposes a comprehensive package to help bridge the Digital Divide and to help create more digital opportunity for all Americans. To increase private-sector involvement in bridging the digital divide, the President proposes \$2 billion over 10 years in tax incentives to encourage private sector donation of computers, sponsorship of community technology centers, and technology training for workers. The President has an \$150 million Teacher Training initiative to help train all new teachers entering the workforce to use technology effectively in the classroom. The Digital Divide initiative also includes \$100 million to create up to 1,000 Community Technology Centers in low-income urban and rural communities and \$50 million for a Public-Private Partnerships for Home Access to expand access to computers and the Internet for low-income families.

### HEALTH INSURANCE COVERAGE

The Clinton-Gore Administration's FY2001 budget includes a 10-year, \$110 billion initiative that would dramatically improve the affordability of and access to health insurance. Over 44 million Americans lack health insurance, and this has serious consequences. The uninsured are three times likelier than the privately insured not to receive needed medical care, and 50 to 70 percent more likely to need hospitalization for avoidable hospital conditions like pneumonia or uncontrolled diabetes. The President's proposal would expand coverage to at least 5 million uninsured Americans and expand access to millions more. Together with the State Children's Health Initiative enacted in 1997, that would cover nearly a quarter of all the uninsured people in America. It addresses the nation's multi-faceted coverage challenges by building on and complementing current private and public programs. Specifically, the initiative will: (1) provide a new, affordable health insurance option for families; (2) accelerate enrollment of uninsured children eligible for Medicaid and S-CHIP, which helps children in families with income too high to be eligible for Medicaid but too low to afford private insurance; (3) expand health insurance options for Americans facing unique barriers to coverage; and (4) strengthen programs that provide health care directly to the uninsured. In addition, the President has proposed a \$28 billion initiative to address the Nation's long-term care needs which, together with the health coverage initiative, would bring the cost to \$138 billion over 10 years.

Providing a New, Affordable Health Insurance Option for Families (\$76 billion over 10 years, about 4 million uninsured covered). Over 80 percent of parents of uninsured children with incomes below 200 percent of poverty (about \$33,000 for a family of four) are themselves uninsured. Yet, while states have aggressively expanded insurance options for children through Medicaid and the State Children's Health Insurance Program (S-CHIP), parents are often left behind. There are about 6.5 million uninsured parents with income in the Medicaid and S-CHIP eligibility range for children. These parents frequently do not have access to employer-based insurance, and when they do, cannot afford it. Recognizing that family coverage not only helps a large proportion of the nation's uninsured adults but also increases the enrollment of children, the President, Vice President, the National Governors' Association, and a wide rage of groups including Families USA and the Health Insurance Association of America have called for building on S-CHIP to cover parents. The Administration's budget adopts this approach by:

• Creating a New "FamilyCare" Program. Under FamilyCare, states would have the option to cover parents in the same plan as their children. States would use the same systems and follow most of the same rules as they do in Medicaid and S-CHIP today, and the program would be overseen by the same state agency. State spending for FamilyCare would be matched at the same higher matching rate as S-CHIP (up to 15 percentage points higher than the Medicaid rate). To ensure adequate funding, \$50 billion over 10 years would be added to the current state S-CHIP allotments. To access this option, states would have to first cover children to 200 percent of poverty as 30 states now have done. Given states' enthusiastic response to S-CHIP and the NGA support for this option, we expect strong state response and significant expansions to parents under FamilyCare. If after 5 years, some states have not

expanded coverage of parents to at least 100 percent of poverty (\$16,700 for a family of 4), a fail-safe mechanism would be triggered to require states to expand coverage to that level.

• Assisting Families in Affording Private Employer-Based Coverage. FamilyCare would also facilitate the option to pool state funding with employer contributions toward private insurance, which can be a cost-effective way to expand coverage. Under this option, families otherwise eligible for FamilyCare coverage could get assistance in purchasing their employers' health plan if it meets FamilyCare standards, is cost effective, and their employer pays for at least half of the premium. This minimum employer contribution, along with the S-CHIP crowd-out policies, should discourage employers from reducing or dropping coverage. This option is supported by the National Governors' Association as well.

Accelerating Enrollment of Uninsured Children Eligible for Medicaid and S-CHIP (\$5.5 billion over 10 years, an additional 400,000 uninsured children covered). Enrollment in S-CHIP doubled to 2 million children in 1999. Despite this encouraging trend, millions of children remain eligible but unenrolled in both S-CHIP and Medicaid. The Administration's budget includes ideas advocated by the Vice President that would give states needed tools to increase coverage by:

- Allowing School Lunch Programs to Share Information with Medicaid (\$345 million over 10 years). Since 60 percent of uninsured children are in the school lunch program, sharing eligibility information can efficiently help outreach efforts.
- Expanding Sites Authorized to Enroll Children in S-CHIP and Medicaid (\$1.2 billion over 10 years). This includes schools, child care resource and referral centers, homeless programs, and other sites.
- Requiring States to Make their Medicaid and S-CHIP Enrollment Equally Simple (\$4.0 billion over 10 years). Most states have carried over their S-CHIP simplification strategies like eliminating assets tests and using mail-in applications into the Medicaid program. This proposal would have all states do so to make enrollment easier for both programs.

**Expanding Health Insurance Options for Americans Facing Unique Barriers to Coverage** (\$28.5 billion over 10 years, about 600,000 uninsured people covered). Some vulnerable groups of Americans often lack access to employer-sponsored insurance and insurance programs like Medicare or Medicaid. These include older Americans, people in transitions (between jobs, turning 19 and entering the workforce, leaving welfare for work), and workers in small businesses. This plan addresses these specific and other problems by:

• Establishing a Medicare Buy-In Option and Making It More Affordable Through a Tax Credit (\$5.2 billion for both the buy-in and credit over 10 years). The rate of uninsured is growing fastest among people ages 55 to 65 and is expected to increase even faster in the future. Recognizing this, the President and Vice President have called on Congress to pass legislation that allows people ages 62 through 65 and displaced workers ages 55 to 65 to pay premiums to buy into Medicare. The proposal also would require employers who drop previously-promised retiree coverage to allow early retirees with limited alternatives to have

access to COBRA continuation coverage until they reach age 65 and qualify for Medicare. This year, to make this policy more affordable, the President proposes a tax credit, equal to 25 percent of the premium, for participants in the Medicare buy-in. Coupled with the tax credit for COBRA (described below), this policy will address both access to and the affordability of health insurance for this vulnerable group.

- Making COBRA Continuation Coverage More Affordable (\$10.3 billion over 10 years). The Consolidated Omnibus Budget Reconciliation Act (COBRA), passed in 1985, allows workers in firms with greater than 20 employees to pay a full premium (102 percent of the average cost of group health insurance) to buy into their employers' health plan for up to 18 to 36 months after leaving their job. However, fewer than 25 percent of people eligible for this coverage participate, in part due to cost. The Administration's budget includes a 25 percent tax credit for COBRA premiums to reduce the number of Americans who experience a gap in coverage due to job change.
- Improving Access to Affordable Insurance for Workers in Small Businesses (\$313 million over 10 years). Nearly half of uninsured workers are in firms with fewer than 25 employees. The President proposes to give small firms that have not previously offered health insurance a tax credit equal to 20 percent their contribution twice the credit he proposed last year towards health insurance obtained through purchasing coalitions. In addition, tax incentives would be given to foundations to help pay for start-up costs of these coalitions, and the Federal Employees' Health Benefits Program would make available technical assistance to purchasing coalitions.
- Expanding State Options to Insure Children Through Age 20 (\$1.9 billion over 10 years). Nearly one in three people ages 18 to 24 are uninsured mostly because they age out of Medicaid or S-CHIP or no longer are dependents in private plans. However, they often do not have jobs that offer affordable coverage. The budget would gives states the option to cover people ages 19 and 20 through Medicaid and S-CHIP.
- Extending Transitional Medicaid (\$4.3 billion over 10 years). Many people leaving welfare for work take first jobs that do not offer affordable health insurance. Recognizing this, Congress passed a requirement in 1988 that extends Medicaid coverage for up to a year for those losing it due to increased earnings. This provision was extended in the welfare reform law to 2001. The budget makes this provision permanent and simplifies the state and family requirements to promote enrollment.
- Restoring State Options to Insure Legal Immigrants (\$6.5 billion over 10 years). States are prohibited from providing health insurance for certain legal immigrants who entered the U.S. after the enactment of welfare reform. The uninsured rate for people of Hispanic origin, some of whom are legal immigrants, was 35 percent in 1998 over twice the national average of 16 percent. The proposal would give states the option to insure children and pregnant women in Medicaid and S-CHIP regardless of their date of entry. It would eliminate the 5-year ban, deeming, and affidavit of support provisions. The proposal would also provide Medicaid coverage to disabled immigrants who would be made eligible for SSI by the FY2001 budget's SSI restoration proposal.

Strengthening Programs that Provide Health Care Directly to the Uninsured (At least \$1 billion over 10 years). Public hospitals, clinics, and thousands of health care providers give health care of the uninsured and receive inadequate compensation for doing so. Despite a rising need, reductions in government spending and aggressive cost cutting by private insurers has left less money in the health care system to address these needs. The President will renew his commitment to helping these providers by:

- Increasing Funding for Increasing Access to Health Care for the Uninsured (+\$100 million for FY2001, \$1 billion over 5 years). Last year, the President and Secretary Shalala proposed an historic new program to coordinate systems of care, increase the number of services delivered and establish an accountability system to assure adequate patient care for the uninsured and low-income. The Congress funded an initial \$25 million investment for this program. This year, the President proposes funding this initiative at \$125 million, a \$100 million increase over 2000, representing a down payment on the President's proposal to invest \$1 billion in this initiative. The Administration will also aggressively pursue an authorization to ensure that the program addresses health care safety net needs.
- Investing in Community Health Centers (+\$50 million for FY2001). The budget proposes a \$50 million increase to \$1.0690 billion in FY2001 to support and enhance the network of community health centers that serve millions of low-income and uninsured Americans.

#### TARGETED TAX RELIEF

President Clinton has worked to deliver tax relief to America's working families. In 1993, the President delivered a tax cut to 15 million working Americans through an expanded EITC. Then, in 1997, the President delivered a \$500 child tax credit, \$1,500 Hope Scholarships to make the first years of college universally available, and expanded IRAs. The result: the lowest Federal tax burden in more than two decades for a typical middle-income family. To build on this record of tax relief for working families, President Clinton is proposing significant new tax relief for America's working families as part of a budget framework that maintains fiscal discipline, makes investments in key priorities, strengthens the solvency of Social Security and Medicare, and pays down the debt by 2013. The President proposes \$351 billion of gross tax cuts over 10 years – of which \$256 billion are paid for out of the surplus and \$96 billion are paid for with corporate loophole closers and other measures.

#### MAKING RETIREMENT MORE SECURE BY ENCOURAGING SAVINGS

- Retirement Savings Accounts (RSAs) To Help Families Save and Invest And Expand Pension Coverage for Small Businesses. The President's Retirement Savings Accounts (RSAs) proposal will give 76 million Americans the opportunity to build wealth and save for their retirement through a progressive tax cut. This proposal builds on the successful model of Individual Development Accounts (IDAs), extending generous matches to all low- and moderate-income families to encourage them to develop savings and assets. A person who participated for 40 years in this savings program could accumulate over \$266,000 enough to produce \$24,000 a year of income in retirement. This proposal would cost \$54 billion over 10 years.
- Tax Incentives For Small Businesses To Offer High-Quality Pension Coverage. In an effort to encourage more small businesses to offer pensions for their employees, the budget provides for a 50 percent tax credit for three years of qualified contributions to employees' pensions. This provision would cost \$17 billion over 10 years.

#### **REWARDING WORK AND FAMILY**

- Expanding the Earned Income Tax Credit (EITC): The President is proposing a \$23 billion plan to expand the EITC. According to estimates by the Department of the Treasury, the President's proposed EITC expansion would deliver tax relief for 6.8 million families, providing up to \$1,155 in additional tax relief. The President's proposal builds on the 1993 expansion signed into law by the President, which provided a tax cut for 15 million families.
- Reducing the Marriage Penalty for Married, Two-Earner Couples By Increasing the Standard Deduction by More Than \$2,000. The President will propose to increase the standard deduction for two-income married couples to twice that of single filers, providing substantial tax relief for 9.1 million married couples. When fully phased in, this change would result in a \$2,150 increase in the standard deduction. The President's proposal would

also increase the standard deduction by \$500 for single-earner married couples and by \$250 for single filers. Both elements of the President's plan would cost \$45 billion over 10 years and benefit 42.1 million families.

• Alternative Minimum Tax Relief: The President will propose in his budget a \$33 billion proposal over 10 years to correct serious design flaws in the individual Alternative Minimum Tax (AMT) that increasingly hurt middle-income families with children who play by the rules. It complicates their tax preparation and raises their tax bills. The President's proposal will take over 9 million families per year off the AMT when fully phased in.

#### **EXPANDING EDUCATION INCENTIVES**

- College Opportunity Tax Cut: The President will propose a College Opportunity Tax Cut costing \$30 billion over 10 years to, for the first time, make tax deductible up to \$10,000 of tuition and fees for any post-secondary education (includes training and graduate school). Families would also have the option to take a 28 percent credit, which would be worth almost twice as much as a deduction for families in the 15 percent tax bracket. In general, the proposal would provide up to \$2,800 annually in tax relief per family.
- Tax Credits For School Construction and Modernization: To address this critical need, President Clinton is renewing his commitment to provide \$24.8 billion in tax credit School Modernization Bonds and Qualified Zone Academy Bonds over two years to modernize up to 6,000 schools. The cost would be \$8 billion over ten years.

#### MAKING HEALTH CARE MORE AFFORDABLE

- Long-term Care Credit: As part of a 10-year initiative that helps address the nation's multifaceted long-term care challenge, the President proposes a \$3,000 tax credit to compensate people with long-term care needs or their caregivers for the cost of care. The cost is \$27 billion over 10 years.
- Expanding Health Coverage Through Targeted Tax Credits: As part of his initiative to dramatically improve the affordability of and access to health insurance for at least 5 million uninsured Americans, the President will propose \$12 billion in targeted tax cuts to expand health insurance options for Americans facing unique barriers to coverage.

#### HELPING FAMILIES AFFORD CHILD CARE

• Child Care Tax Credit. President Clinton will include in his FY2001 budget tax relief for families struggling to pay for child care. As part of a comprehensive child care initiative that includes subsidy assistance and new investments in child care quality, the President will propose to 1) make the Child and Dependent Care Tax Credit refundable for the first time; 2) increase the level of the credit; and 3) extend the credit to parents who stay at home to take care of their infants. The President will also propose tax incentives to encourage businesses to provide child care for employees. The child care package would benefit an estimated 8.1 million families and would cost \$30 billion over 10 years.

#### **OPENING NEW MARKETS & EMPOWERING COMMUNITIES**

- A Major Expansion of the New Markets and Empowerment Zone Tax Credits: As part
  of the President's New Markets initiative, which will spur at least \$22 billion in new capital
  investment in businesses in economically-distressed areas, the President has proposed to
  more than double the proposed New Markets tax credit at a cost of about \$5 billion over 10
  years and expand Empowerment Zone Tax Incentives at a cost of \$4.4 billion.
  - New Markets Tax Credit. The budget more than doubles the proposed New
    Markets tax credit to spur \$15 billion in new private investment. An entity
    making new equity investments in a selected community development projects would
    be eligible for a tax credit worth up to 25% of the cost of the investment. A variety of
    vehicles providing equity and credit to businesses in underserved areas would also be
    eligible.
  - Empowerment Zone Tax Incentives. The President is proposing to expand the Empowerment Zones tax incentives to promote economic growth in underserved areas through expanding business investment incentives, ensuring that all Empowerment Zones get the wage tax credit, and the creation of a Third Round of 10 new Empowerment Zones.
- **Better America Bonds.** The President is proposing Federal tax credits to pay the interest on \$10.75 billion in bonds over 5 years for investments by State, local, and tribal governments. The bonds can be used to preserve green space, create or restore urban parks, protect water quality and clean up brownfields (abandoned industrial sites). The cost is \$3.1 billion over 10 years.
- Increase the Low-Income Housing Tax Credit. To expand and improve the supply of available low-income housing, the budget raises the allocation of low-income housing tax credits to States. The President proposes to raise the State per capita cap from \$1.25 to \$1.75 beginning in 2001 and index it for inflation thereafter at a cost of \$5.7 billion over 10 years. This proposal would provide additional incentives to build and make an additional 180,000 units of affordable housing available to working families over the next five years.

#### INCREASING ENERGY EFFICIENCY & IMPROVING THE ENVIRONMENT

• Tax Credits For Energy-Efficient Cars, Homes, and Appliances. Cars and light trucks currently account for 20 percent of U.S. greenhouse gas emissions. The budget provides for tax incentives to help curb these emissions by moving advanced technologies for the purchase of qualifying hybrid vehicles from the laboratory to the highway. Tax credits would be offered for the purchase of qualifying hybrid vehicles from 2003 through 2006; and the current tax credit for electric vehicles and fuel cell vehicles would be extended through 2006. The President is also proposing tax credits for the purchase of energy-efficient homes; for solar energy systems, for the purchase of energy-efficient heating and cooling equipment;

and for wind and biomass power. The cost of these proposals would be \$9 billion over 10 years.

### **ENCOURAGING CHARITABLE GIVING**

• Encouraging Philanthropy. President Clinton will unveil a package of new tax proposals to encourage philanthropy. First, he will propose allowing non-itemizers to take a tax deduction for charitable giving. Second, he will propose new rules to make it easier for charitable foundations to make gifts in times of need. And third, he will propose to raise the limit for individual donations of appreciated assets like securities and real property. These proposals would cost \$14 billion over 10 years.

## $\frac{\text{CURBING CORPORATE SHELTERS AND REDUCING UNWARRANTED TAX}}{\text{SUBSIDIES}}$

The President also proposes sound tax policies, including proposals to curb corporate tax shelters and reductions in unwarranted tax subsidies, which pay for \$96 billion of the targeted tax cuts over 10 years. Tax shelters require taxes for everyone else to be higher and create perceptions of unfairness and disrespect for the system. The budget increases disincentives for entering into abusive transactions and attacks specific tax shelter transactions. The Department of the Treasury will continue to study additional remedies for corporate tax shelters and will work with Congress to address this issue.