

NLWJC - Kagan

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Health - Long Term Care

January 3, 1999

**NEW INITIATIVE TO ADDRESS GROWING LONG-TERM CARE NEEDS AND
SUPPORT FAMILY CAREGIVERS**

DATE: January 4, 1999
TIME: 10:30 am to 11:00 am (Pre-brief)
11:00 am to 11:15 am (Meet and Greet)
+11:15 am to 12:10 pm (Event)
LOCATION: Oval Office (Pre-brief)
Blue Room (Meet and Greet)
Grand Foyer (Event)
FROM: Bruce Reed / Chris Jennings

I. PURPOSE

You are unveiling a new long-term care initiative to support Americans with long-term care needs and the millions of family members who care for them.

II. BACKGROUND

You will unveil a new, four-pronged \$6.2 billion (over five years) initiative that takes important steps to address the complex needs of Americans with long-term care needs and their family members through:

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

community-based long-term services that best meet a families' needs; and counseling and support, such as teaching model approaches for caregivers that are coping with new responsibilities and offering training for complex care needs, such as feeding tubes. This program, which costs \$625 million over five years, would serve approximately 250,000 families nationwide.

- **Launching a national campaign to educate Medicare beneficiaries about the programs' limited coverage of long-term care and how best to evaluate their options.** Nearly 60 percent of Medicare beneficiaries are unaware that Medicare does not cover most long-term care, and many do not know what long-term care services would best meet their needs. This \$10 million nationwide campaign would provide all 39 million Medicare beneficiaries with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home-and community-based care services that best fit beneficiaries' needs.
- **Having the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees.** You will also call on the Congress to pass a new proposal that authorizes OPM, as the nation's largest employer to use its market leverage and set a national example by offering non-subsidized quality private long-term care insurance to all federal employees, retirees, and their families. This proposal, that costs \$15 million over five years, will provide employers a nationwide model for offering quality long-term care insurance. OPM anticipates that approximately 300,000 Federal employees would participate in this program.

Expected Response From Validators. We expect aging advocacy organizations, like AARP and the Alzheimer's Association to be very supportive of your policy. The advocates appear to be impressed that your proposal recognizes the multi-faceted nature of the problems facing the nation's chronically ill and are pleased that you are focusing the initiative on all age groups rather than just the elderly. They will caution, though, that however positive this proposal is, it does not address all of the long-term care challenges facing the nation. We have assured them that we will not make such a claim; indeed, it would hurt us among independent validators as well as the Republican Congress, if we were proposing a much more expansive approach.

Role of the Vice President and Mrs. Gore. The Vice President and Mrs. Gore are participating in this event from the Triple "R", an adult day care program that is part of a successful California statewide caregiving program and that serves approximately 30 families in the Sacramento area. The California program, one of the four model caregiver support programs that currently exist, is similar to the National Family Caregiver Support Program that the Administration is launching nationwide today. The Vice President and Mrs. Gore, who will meet with a number of families with long-term care needs during your remarks, will join you via satellite at 11:40 am to discuss the experiences of these families and they validate the need for your long-term care initiative.

Program Participants

Patricia Darlak, who will introduce you at the event, is a Maryland resident who has recently assumed the responsibility of caring for her 83 year old mother. Mrs. Darlak is a special education teacher in Maryland. Her mother was diagnosed with Alzheimer's almost 2 years ago and has been living with the Darlaks for four months. She currently requires assistance with bathing, dressing, eating, and toileting. Mrs. Darlak had a great deal of difficulty finding information on how to obtain respite and adult day care services for her mother, and still has been unable to find a regular source of respite care. Presently, she drives home during her lunch break in order to check on her mother. She is very worried about the financial burden that caring for her mother creates, especially since she and her husband are still responsible for their two children, who are in college in Florida. The Darlaks would be eligible for the proposed tax credit and would benefit from the respite care, adult day care, and information and referral services provided by the proposed National Family Caregivers Support Program.

When they join you via satellite, the Vice President and Mrs. Gore will tell you about the following caregivers:

Barbara Cepeda-Adams is a 39 year old Hispanic woman who has cared for her father since 1994, when his Parkinson's disease made it impossible for him to continue to live by himself. Ms. Cepeda-Adams stopped working full time shortly after her father moved in with her and was forced to stop working altogether last January in order to care for him properly. Her father, Jesus Cepeda, currently requires assistance with bathing, dressing, eating, and toileting. He is incontinent and is unable to move around the house without assistance. Since Ms. Cepeda-Adams is no longer working, her husband has been the sole financial support for both her father and their two children, aged 6 and 10. Although Mr. Cepeda has a limited income, it does not come close to covering the expenses associated with his care. The Cepeda-Adams family has greatly benefited from the services provided by California's model statewide family caregiving resource program, and would be eligible for the new proposed tax credit.

James Burns has been caring for his wife Ruth since 1993, when she was diagnosed with Alzheimer's disease. He continues to work full time in order to provide for his wife's care. Currently, Ms. Burns requires assistance with bathing, eating, dressing, and toileting. She is unable to move around the house without assistance. Mr. Burns receives respite care services and has enrolled his wife in the adult day care program administered by Triple "R".

III. PARTICIPANTS

Briefing Participants

You

The First Lady

Secretary Shalala

Secretary Rubin

Janice LaChance

Bruce Reed

Gene Sperling

Chris Jennings

Program Participants (Washington, DC)

You

The First Lady

Secretary Shalala

Secretary Rubin

Janice LaChance

Patricia Darlak

Program Participants (Sacramento, CA)

The Vice President

Mrs. Gore

IV. PRESS PLAN

Information about the new initiative has been advanced to all major national papers for Monday. In addition, Secretaries Rubin and Shalala, together with Director LaChance, will brief members of the press at the beginning of Joe Lockhart's daily briefing.

V. SEQUENCE OF EVENTS

- **You** and the First Lady, together with Secretary Rubin, Secretary Shalala, and Director LaChance, will spend 15 minutes meeting with Patricia Darlak in the Blue Room.
- **You** and the First Lady, together with Secretary Rubin, Secretary Shalala, Director LaChance and Patricia Darlak, are announced into the Grand Foyer.
- The First Lady delivers remarks and introduces Patricia Darlak.
- Patricia Darlak delivers brief remarks and introduces **you**.
- **You** deliver remarks.
- The First Lady introduces the Vice President and Mrs. Gore via satellite.
- **You** proceed to your seat.
- The Vice President and Mrs. Gore deliver remarks. (**You** will ask follow-up questions to be provided by speechwriting).
- Upon conclusion of the discussion, the Vice President makes concluding remarks and bids farewell.
- **You** deliver concluding remarks and depart.

VI. REMARKS

Your remarks have been prepared by speechwriting.

VII. ATTACHMENTS

-- Background on the California program

CALIFORNIA'S STATEWIDE CAREGIVING RESOURCE PROGRAM

California is one of four states in the nation which provide model statewide family caregiving resource programs similar to the one that the Administration is launching nationwide today.

California's Department of Mental Health developed a program in 1984 to provide caregiver support services through eleven agencies statewide to provide support services for families caring for persons with Alzheimer's disease, Parkinson's disease, stroke, and traumatic brain injury. In 1996, California's Caregiver Resource Centers served over 10,000 family members and friends who care for loved ones suffering from Alzheimer's disease, stroke, Parkinson's disease, multiple sclerosis, traumatic brain injury, and other adult-onset, brain impairing diseases. The Centers' primary functions include the provision of respite care (e.g. in-home respite care, adult day services, or weekend respite camps), information, education, long-term planning, legal/financial consultations, training, and support groups.

Recent statewide assessments of this program have shown that the typical caregiver in California is 60 years old and most (76 percent) are women, and they typically provide about 10.5 hours per day of care. Depression continues to be a pervasive problem for caregivers; approximately six out of 10 caregivers in California's program have been diagnosed with depression.

PRESIDENT CLINTON AND VICE PRESIDENT GORE UNVEIL HISTORIC LONG-TERM CARE INITIATIVE TO SUPPORT FAMILY CAREGIVERS AND HELP ADDRESS GROWING LONG-TERM CARE NEEDS

January 4, 1999

Today, President Clinton is unveiling an historic new initiative to support Americans with long-term care needs and the millions of family members who care for them. This four-part, \$6.2 billion (over five years) initiative takes important steps to address complex long-term care needs through: (1) an unprecedented \$1,000 tax credit that compensates for formal or informal costs Americans of all ages with long-term care needs or the family caregivers who support them; (2) a new National Family Caregivers Support Program that provides a range of critical services for caregivers such as respite, home care services, and information and referral; (3) a national campaign to educate Medicare beneficiaries about the programs' limited coverage and how best to evaluate long-term care options; and (4) a proposal to have the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees at group rates.

The President is being joined by the First Lady, Secretary Rubin, Secretary Shalala, and OPM Director LaChance to unveil this initiative at the White House and the Vice President and Mrs. Gore are participating from an adult day care center in California, one of four States with model statewide family caregiving resource programs.

MILLIONS OF AMERICANS HAVE LONG-TERM CARE NEEDS

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

MULTI-FACETED INITIATIVE TO SUPPORT FAMILY CAREGIVERS AND ADDRESS GROWING LONG TERM CARE NEEDS. The President is unveiling a four-part initiative that is designed to address the broad-based and varied long-term care needs. It will: provide immediate support and assistance for the millions of Americans who care for family members with major long-term care needs; educate the elderly and people with disabilities about long-term care issues and options; and promote new promising strategies directions for long-term care policy for the twenty-first century. The President also called on the Vice President to host a series of forums around the nation to raise awareness about the need to support family caregivers and address the growing need for long-term care options.

The long-term care proposal being unveiled today by the President and Vice President includes:

- **Supporting families with long-term care needs through an historic \$1,000 tax credit.** This initiative, for the first time, acknowledges and supports millions of Americans with long-term care needs or the family members who care for and house their ill or disabled relatives through a \$1,000 tax credit. This new tax credit supports the diverse needs of families by compensating a wide range of formal or informal long-term care for people of all ages with three or more limitations in activities of daily living (ADLs) or a comparable cognitive impairment. This proposal, which supports rather than supplants family caregiving, would provide needed financial support to about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children. It costs \$5.5 billion over five years and phases out beginning at \$110,000 for couples and \$75,000 for unmarried taxpayers.
- **Creating an unprecedented National Family Caregiver Support Program.** Recent studies have found that services like respite care can relieve caregiver stress and delay nursing home entry, and that support for families of Alzheimer's disease patients can delay institutionalization for as long as a year. This new nationwide program, strongly advocated by the Vice President, would support families who care for elderly relatives with chronic illnesses or disabilities by enabling states to create "one-stop-shops" that provide: quality respite care and other support services; critical information about community-based long-term services that best meet a families' needs; and counseling and support, such as teaching model approaches for caregivers that are coping with new responsibilities and offering training for complex care needs, such as feeding tubes. This program, which costs \$625 million over five years, would assist approximately 250,000 families nationwide.
- **Launching a national campaign to educate Medicare beneficiaries about the programs' limited coverage of long-term care and how best to evaluate their options.** Nearly 60 percent of Medicare beneficiaries are unaware that Medicare does not cover most long-term care, and many do not know what long-term care services would best meet their needs. This \$10 million nationwide campaign would provide all 39 million Medicare beneficiaries with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home-and community-based care services that best fit beneficiaries' needs.
- **Having the Federal government serve as a model employer by offering quality private long-term care insurance to Federal employees.** The President also called on Congress to pass a new proposal that allows OPM to use its market leverage and set a national example by offering non-subsidized, quality private long-term care insurance to all federal employees, retirees, and their families at group rates. This proposal, that costs \$15 million over five years, will provide employers a nationwide model for offering quality long-term care insurance. OPM anticipates that approximately 300,000 Federal employees would participate in this program.

Health - long-term care

**PRESIDENT CLINTON AND VICE PRESIDENT GORE:
STRENGTHENING FAMILIES
THAT NEED LONG-TERM CARE**

January 4, 1999

"The senior boom is one of the central challenges of the coming century. If we face these challenges together and make them our top priorities, if we make the efforts I have described today, then we can prove what no generation in history has had the opportunity to prove -- that the infirmities of age need not be the indignities of age."

President Bill Clinton
January 4, 1999

Today, President Clinton, joined by First Lady Hillary Rodham Clinton, Vice President Al Gore, and Tipper Gore, will unveil an historic four-part initiative to support Americans of all ages with long-term care needs and the millions of family members who care for them.

MILLIONS OF AMERICANS NEED LONG-TERM CARE. Over five million Americans have significant limitations due to illness or disability and require long-term care. Approximately two-thirds of these individuals are older Americans. Millions of adults and a growing number of children have long-term care needs because of health condition from birth or a chronic illness developed later in life and with the number of Americans age 65 and older and 85 or older projected to double by 2030, long-term care is a need that will grow in the 21st Century.

AN HISTORIC INITIATIVE TO HELP FAMILIES CARE FOR THOSE WHO NEED LONG-TERM CARE. The President is unveiling a four-part initiative that is designed to address the broad-based and varied long-term care needs of Americans. It will: (1) provide immediate support and assistance for the millions of Americans who care for family members with major long-term care needs; (2) educate the elderly and people with disabilities about long-term care issues and options; and (3) promote new promising strategies for long-term care policy for the 21st century. The President is also asking the Vice President to host a series of forums around the nation to raise awareness about the need to support family caregivers and address the growing need for long-term care options. The long-term care proposal being unveiled today by the President and Vice President includes:

- **An historic \$1,000 tax credit for families with members who need long-term care.** The President is proposing a \$1,000 tax credit to support millions of Americans with long-term care needs or the family members who care for and house their ill and disabled relatives. This proposal, which supports rather than supplants family caregiving, would provide needed financial support to about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children;
- **Creating an unprecedented National Family Caregiver Support Program.** This new nationwide program, strongly advocated by the Vice President, would support families who care for elderly relatives with chronic illnesses or disabilities by enabling states to create "one-stop-shops" that provide: quality respite care and other support services; critical information about community-based long-term services that best meet a families' needs; and counseling and support, such as teaching model approaches for caregivers that are coping with new responsibilities and offering training for complex care needs;
- **Launching a national campaign to educate Medicare beneficiaries about the programs' limited coverage of long-term care and how best to evaluate their options.** Nearly 60 percent of Medicare beneficiaries are unaware that Medicare does not cover most long-term care, and many do not know what long-term care services would best meet their needs. This new, nationwide campaign would provide all 39 million Medicare beneficiaries with critical information about long-term care options including: what long-term care Medicare does and does not cover; how to find out about Medicaid long-term care coverage; what to look for in a quality private long-term care policy; and how to access information about home-and community-based care services that best fit beneficiaries' needs;
- **Offering quality private long-term care insurance to Federal employees.** The President is also calling on Congress to pass a new proposal that allows the Office of Personnel Management (OPM) to use its market leverage and set a national example by offering non-subsidized, quality private long-term care insurance to all federal employees, retirees, and their families at group rates. OPM anticipates that approximately 300,000 Federal employees would participate in this program.

Draft 12/30/98 12:00pm
Jeff Shesol

98 DEC 30 PM 12:14

**PRESIDENT WILLIAM J. CLINTON
REMARKS ON LONG-TERM CARE
THE WHITE HOUSE
January 4, 1999**

Acknowledgments: the First Lady; the VP (via satellite from California); Secs. Rubin and Shalala; Janice LaChance, OPM; person TBD

Another new year is upon us -- a time for celebration, and, perhaps, a time to feel a little bit older. If we do, we are not alone. America may be young in spirit; our nation may have all the energy and intensity and ambition of youth; but our people are aging. On the verge of the new century, we are undergoing a profound, seismic demographic shift. Today I want to talk about the ways we are going to meet the challenges of this new America.

Simply put: The baby boom will soon become the senior boom. And, like the baby boom did in decades past, the senior boom will change the face of America. During the next 30 years, 76 million baby boomers will join -- and greatly expand -- the ranks of the retired. The number of elderly Americans will double by 2030. By the middle of the next century, the average American will live to 82, six years longer than today.

Longer lives will also be stronger, healthier lives, thanks to medical science. Already, older Americans are redefining retirement. They are proving that, rather than an ending, it can be a new beginning: a time to learn new ideas, start a new business, travel to new and distant lands.

Still, aging is inevitable; and so are the infirmities of age. Nearly half the people over 85 -- one of the fastest-growing segments of the American population -- need help with everyday tasks. Eating. Dressing. Going to the doctor. We cannot expect all or even most older Americans to fend for themselves. We cannot expect it and we would never wish it. Nor would we, in every case, send an aging relative to a nursing home. Millions require the kind of care only a nursing home can provide, but millions more choose to remain at home, close to family and friends.

Indeed, the elderly and disabled are staying at home in record numbers, cared for by those who care the very most. Today, more than 22 million households are caring for elderly relatives and even neighbors. It is, more and more, a common choice, but it is rarely an easy one. Since long-term care at home is rarely covered by private insurance or Medicare, out-of-pocket expenses can be high. So, too, are the professional costs. Caregivers who hold jobs outside the home -- and that is a vast majority -- may have to take unpaid leave or work fewer hours to fulfill all their responsibilities. Caregiving is, in countless ways, vital, meaningful work; but it can also be stressful work.

The Vice President just told you what we've been doing to ease the burdens on families:

by improving nursing homes, strengthening Medicare, and making Medicaid more flexible. But America, in the 21st Century, will be a nation of caregivers; so there is more work to be done.

Today, I am announcing a bold initiative to give care to the caregivers -- to help Americans provide for aging and ailing loved ones. The size of the senior boom demands it. The length of our lives makes it more important than ever. And so does the sacrifice of American families -- 22 million households putting the well-being of relatives or neighbors above their own.

To improve long-term care in America, to give it the priority and support these families deserve, there are four things we must do. First, I am proposing a long-term care tax credit -- up to \$1,000 for people with long-term care needs or for the families that shelter them. It is far better to devote this money to help keep the elderly and disabled at home than to spend the same amount to have them live away from home. Our parents worked and saved and sacrificed to care for us in our youth. Adult children are working and saving and sacrificing to care for their parents in old age. It is the cycle of life -- a vital and sacred compact among generations -- and one we should recognize and reward as a nation. This targeted tax cut, paid for in our balanced budget, would help offset the direct costs of long-term care -- home health visits, adult day care -- as well as the indirect costs, like the unpaid leave some caregivers take from work. The care they provide is invaluable; but we can show we value it very much indeed.

Second, we should create a Family Caregiver Support Program -- a new national network to support Americans who care for the chronically ill or disabled. In decades past, families could do little for ailing relatives but give them shelter and love. Today, due to advances in science, caregivers tend to everything from dialysis to depression, and prepare everything from intravenous meals to the paperwork that is, it seems, an inescapable part of modern medicine. This initiative enables states to create "one-stop shops" -- providing critical information, caregiver counseling, and respite and adult day care services to families that need them. They want to provide the best possible care; we want to do everything in our power to help them.

That is why, third, we must educate Medicare beneficiaries about long-term care options. This is an efficient way to answer people's essential questions: What are my choices? What should I look for in a private long-term care insurance policy? By launching a national educational campaign, we can help ensure that people in need get the answers -- and the quality care -- they deserve.

Fourth, I am proposing that we offer private long-term care insurance to federal employees. The federal government can, in this way, use its power as the nation's largest employer to set a national example -- promoting high-quality and affordable care to hundreds of thousands of workers.

There is no single solution to the challenges of caregiving. But together, these initiatives represent a powerful force for positive change. To fulfill our fundamental obligation to

America's elderly and disabled, we, too, must act together -- as members of both parties, of two branches of government, putting progress above partisanship for the sake of our people. That means giving care to the caregivers by taking these important steps. It also means strengthening Medicare, and, as I have said many times in the past year, it means saving Social Security for the 21st Century -- for Social Security, too, is a sacred trust between generations. We now have a remarkable opportunity to strengthen it for the future; we must make the most of it.

The senior boom is one of the central challenges of the coming century. If we face these challenges together and make them our top priorities, if we make the efforts I have described today, then we can prove what no generation in history has had the opportunity to prove -- that the infirmities of age need not be the indignities of age. Thank you.

LONG-TERM CARE INITIATIVE
QS AND AS, January 4, 1998

Q. How is this tax policy different than the \$500 credit in the Republican Contract with America?

This proposal is quite different -- and we think much better. First, it would give twice as much assistance (\$1,000 credit). Second, many more people would be eligible under this proposal. It would go to people who have long-term care needs or their spouses, not just to relatives who qualify as caregivers. It also would broaden significantly the definition of a "caregiver" by eliminating the "support test," which essentially excludes people with Social Security income. Our proposal also targets the dollars on middle-class families by phasing out the credit at higher income levels. Finally, it is part of a larger, well-rounded initiative that would help caregivers both financially and through real services in the new Family Caregiver Program.

We are glad, however, that Republicans have supported a similar concept, and seem to want to take credit for this proposal. It makes us optimistic that Republicans and Democrats in Congress can work together to pass this initiative and provide meaningful support for family caregivers.

Q. Didn't the President veto a family caregivers' tax credit in 1995?

A. The President vetoed the 1995 Republican budget, which included massive cuts to Medicare, Medicaid, education, and environmental spending. Somewhere within that budget was a long-term care tax deduction that was poorly targeted and disproportionately benefited upper income families. For obvious reasons, the President was not willing to sign the whole 1995 Republican budget to gain this poorly constructed long-term care tax proposal.

Background: There were actually two different proposals offered by Republicans in 1995: a **\$500 tax credit** that was introduced in early 1995 as a refundable credit for taxpayers housing certain family members (parent, grandparent) needing "custodial care" (2 + ADLs or similar level of disability due to cognitive impairment); and a **tax deduction** of \$1,000 for taxpayers housing certain family members (parent, spouse or former spouse) who are "physically or mentally incapable of caring for himself." The latter was in the Balanced Budget Act of 1995 that was vetoed by the President.

Q. How is this initiative funded?

A. This initiative is fully funded through offsets in the President's proposed FY 2000 budget. The tax proposal is funded through tax offsets such as closing tax loopholes. All of these

provisions will be described in the budget documents released in early February.

Follow-up: Isn't it irresponsible to announce specific spending proposals without announcing how these proposals will be financed?

Not at all. The President will ensure that this -- and all other new initiatives -- will be fully paid for as part of his overall balanced budget proposal. Like most budgets, the President's FY2000 budget will not contain a specific dollar-for-dollar link between new proposals and offsets. The bottom line, however, will reflect the President's long-standing commitment to a balanced budget. Moreover, not one dime will be taken away from the surplus for this initiative.

Q. Why isn't the tax credit refundable? Doesn't this mean that low-income people are not helped by this initiative?

A. No. Eligibility for the tax credit was carefully designed so it reaches virtually all taxpayers with significant long-term care needs. In addition, many individuals who do not pay taxes will be able to gain some benefit from this credit because their caregiver files tax returns. Finally, other aspects of the initiative announced today will benefit all people with long-term care needs, regardless of tax status. The new Family Caregiver Program targets assistance to low-income families who provide long-term care to their elderly relatives, and the Medicare long-term care information campaign will help all beneficiaries regardless of income.

Q. Why isn't there a greater emphasis placed on private long-term care insurance in your initiative?

A. The Federal employees' insurance initiative and the Medicare education campaign are both designed to give people information and encourage them to purchase high-quality long-term care insurance. However, even according to optimistic industry projections, if every baby boomer who could afford private insurance purchased it, less than one-third of long-term care costs would be paid for by private insurance in 2030. This initiative explicitly recognizes that long-term care will continue to be funded and provided through multiple sources and thus addresses it through a multi-faceted response.

Q. By focusing on family caregivers, are you implying that you are not interested in expanding Medicare and Medicaid long-term care coverage?

A. The President has a strong track record of encouraging innovative long-term care services through Medicaid. Today, 20 percent of Medicaid long-term care spending is devoted to home and community-based long-term care services -- double the percent in 1987. The President has encouraged the shift away from Medicaid's "institutional bias" by approving

over 300 waivers for local home and community-based care programs and proposing to repeal the need for such waivers.

Medicare was not designed to cover long-term care, as the Bipartisan Commission on the Future of Medicare has noted. The President looks forward to the recommendations of this Commission on long-term care and other benefits. But given the financing crisis facing Medicare, it seems unlikely that the Commission will vote for a significant expansion of Medicare coverage in this area.

While Medicare and Medicaid cannot be relied on to finance all long-term care, the President will continue to support creative targeted policies, both administrative and legislative, that cost-effectively and appropriately provide for effective long-term care services.

Q. Isn't this a drop in the bucket relative to the size of the long-term care problem?

A. Any initiative that spends \$6.2 billion over 5 years has to be considered a significant proposal. It would make a major contribution toward helping over 2 million Americans afford and obtain much-needed long-term care services. No one in this Administration has or will suggest that this initiative on its own will address all of the problems. But it recognizes and provides meaningful support for the caregiving provided to Americans of all ages with chronic illness or disability.

Q. Isn't this policy another attempt to distract from impeachment?

A. Anyone who has followed this President since he has taken office will recognize his ongoing commitment to help meet the needs of American families. This initiative is a classic example of that commitment. The President has been working on it since the Spring of 1998 and, because it is a new initiative that will be included in his upcoming FY2000 budget, wanted to release it early to ensure that it receives the attention and consideration that it deserves.

Q. How do you think Republicans will respond to this initiative? Will it pass this year?

A. The President believes that this initiative has great potential to attract strong bipartisan support in this Congress. It addresses a set of real problems through an approach that both Republicans and Democrats can embrace. And he believes that any policy to recognize and relieve the tremendous responsibilities that caregivers shoulder should and will receive favorable consideration by both parties in the upcoming Congress.

Q. Is the Medicare buy-in, the Jeffords-Kennedy bill, etc. in this year's budget?

A. The President will not address any other health-care initiatives today. In the coming weeks, he will unveil other proposals and initiatives in the budget. For today, we want to focus on this new and historic commitment to address Americans' long-term health care needs.

COPIED
Sperling
Reed
Jennings
Bowles

THE WHITE HOUSE
WASHINGTON
August 31, 1998

THE PRESIDENT HAS SEEN
9/1/98

MEMORANDUM FOR THE PRESIDENT

FROM: PHILLIP CAPLAN (ml)
SUBJECT: Long-term care initiative

The attached Sperling/Reed/Jennings memo seeks your approval of a package of recommendations on a long-term care initiative. At your request, NEC/DPC ran a policy process to explore how such a package could be added to the Administration's tax cut package. The initiative would be fully paid for by postponing or modifying some of our tax cut proposals, or adding additional offsets.

All of your advisors agree on the components of the initiative, which include:

unlike
of but
initial

Long-term care tax credit: broad-based, non-refundable \$500 tax credit for people with long-term care needs (defined as those having two or more limitations, e.g. bathing, dressing, toileting, etc.), or for families who house and care for such relatives. The credit would be given on the basis of illness, rather than expenses, in order to capture people who receive unpaid long-term care and would help 3.4 million people and cost \$3.9 billion over five years. The memo includes a discussion of whether the credit should be (i) larger (\$1000) and cover less people, and/or (ii) refundable, but your advisors agree on the credit as outlined.

Tax credit for impairment-related work expenses for people with disabilities: \$5000 tax credit for personal and medical care expenses incurred at the workplace -- such expenses are often a precondition for the disabled to leave home for work.

Private long-term care insurance for federal workers: there would be no government contribution for this coverage, but OPM would set standards for the plans and sort them into benefit classes to facilitate informed choice. This would be viewed as a small but symbolic step.

Approve Disapprove Discuss

OK

Timing: There is a question of whether to announce this package in mid- to late-September, or to hold it for sometime later (NEC/DPC prefer to hold the \$5000 impairment-related tax credit component for the State of the Union). While announcing the package soon would put you in a leadership position on this issue, it could also generate momentum for the Republican tax cut efforts; Hill Democrats think that inaction on the tax cut front is a good thing at this point. The memo includes a lengthy discussion of whether to announce now or wait, but bottom line: your advisors will come back to you on the timing issue in a couple of weeks once they have a better sense of how it would play on the Hill.

THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN

9/1/98

August 11, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
CHRIS JENNINGS

SUBJECT: LONG-TERM CARE INITIATIVE

cc. THE VICE PRESIDENT, ERSKINE BOWLES, ROBERT RUBIN,
JACK LEW, SYLVIA MATTHEWS, JANET YELLEN, MARIA
ECHAVESTE, JOHN PODESTA, RON KLAIN, LARRY STEIN,
RAHM EMANUEL, PAUL BEGALA, ELENA KAGAN

Per your request, an interagency NEC/DPC process examined long-term care policy options, specifically how long-term care options could be added to our tax cut package. This memo summarizes our recommendations on both the best policy and the advisability of announcing such an initiative in August or September or waiting until the State of the Union.

We developed a long-term care initiative that both assists people who provide or pay for long-term care and encourages workers to purchase high-quality, private long-term care insurance. The centerpiece of the initiative is a broad-based, non-refundable tax credit for people with long-term care needs or for families who house and care for such relatives. The credit could help defray the costs of formal care (e.g., home health care) and informal care (e.g., assisting parents who are bed-ridden). Second, to complement the ongoing work of your Task Force on the Employment of Adults with Disabilities, we could introduce a tax credit of up to \$5,000 for impairment-related work expenses incurred by disabled individuals. Third, we could announce support for offering private long-term care insurance to Federal employees, which would have virtually no costs and bipartisan support. The long-term care tax options cost a total of \$4 billion over 5 years and \$14 billion over 10 years, and would be fully funded by savings from postponing or modifying our budget revenue proposals, plus a few offsets that were in the Senate IRS bill, but that were not included in the final bill, or in your FY 1998 budget.

The timing of an announcement of a long-term care initiative in a modified tax package depends on a number of factors that will be discussed later in the memo.

BACKGROUND

This policy initiative is motivated by an interest to address long-term care and issues facing the chronically ill, particularly the elderly.

Unlike Social Security and Medicare, long-term care has received little attention. Republicans have begun to raise policy options (e.g., MSAs for long-term care in their Patient Protection Act), but not aggressively. Along with the lack of coverage of prescription drugs, the poor coverage of long-term care represents a major concern for the elderly and their families. Medicare pays for only a limited amount of long-term care, and private insurance even less -- only 10 percent of home health care and 5 percent of nursing home care. As a result, long-term care costs account for nearly half of all out-of-pocket health expenditures for Medicare beneficiaries.

Concern about long-term care costs is not limited to the elderly and people with disabilities. Their children, other relatives and friends provide a large amount of formal and informal long-term care. According to an HHS study that has not yet been released, one in three Americans voluntarily provide some unpaid informal care to an ill or disabled family member or friend. Over 90 percent of people with three or more limitations in activities of daily living (ADLs) living in the community receive some kind of informal care, most often from a spouse or relative. This means that middle-class families may find themselves caring both for their parents and their children.

A second motivation for this initiative is to make our targeted tax cut package include a more progressive, senior-focused tax option. Most people with long-term care needs have lower incomes. For example, the poverty rate for the elderly with two or more limitations in ADLs is twice as high as the rate for all elderly.

POLICIES

The proposed long-term care initiative would consist of three policies: two new tax credits plus offering quality private long-term care insurance to federal workers. Savings to pay for this initiative would come from new offsets and savings from postponing or modifying our existing tax cut proposals.

1. Long-term care tax credit

The centerpiece of the long-term care initiative would be a tax credit for people with long-term care needs or the families who house and care for such relatives. A \$500, non-refundable credit would cost \$3.9 billion over 5 years and \$12.4 billion over 10 years (according to preliminary Treasury estimates) and would help a total of 3.4 million chronically ill individuals (described below). People with long-term care needs are defined as having two or more limitations in ADLs (bathing, dressing, eating, toileting, transferring and incontinence management) lasting for longer than six months or severe cognitive impairment, as certified by a doctor. Virtually all people who meet these criteria need some type of long-term care. The credit would be given on

the basis of illness rather than expenses because, otherwise, it would not help people who receive unpaid long-term care. For example, a wife who cares for her husband herself rather than paying someone to do it would not receive a credit if it were based on receipts for long-term care expenses. This approach is also easier to administer than alternatives. About 1.7 million chronically ill individuals would directly get this credit on their own tax returns.

Certain families with "dependents" with long-term care needs could also receive the credit. Under current law, adults can be claimed by tax filers as dependents if they are related, have very low income, and receive at least half of their support from the tax payer (among other criteria). Adult dependents are generally not required to file tax returns themselves. For the purpose of this credit, we would broaden the definition of a "dependent" to include a person who needs long-term care (described above), lives with the family member, and generally does not have any income tax liability. Because by definition they live in the community, dependents are rarely nursing home residents. Simply stated, this allows families (other than spouses) who house and care for relatives needing long-term care to apply for the credit on their behalf. This improves the ability of the credit to help people who do not have enough income to file tax returns, although it does not help the elderly with no tax liability living alone or outside of their relatives' homes. Another 1.7 million families would get the credit in this way.

Over half of the chronically ill individuals benefiting from this credit are elderly, since the need for long-term care increases with age. Preliminary conversations with aging advocates suggest that this tax credit would be well received. However, private long-term care insurers could oppose the credit for fear that it will decrease interest in insurance since people may think that the credit protects them against long-term care costs.

Key Issues

Should the credit be refundable? A large proportion of people with long-term care needs are low-income and do not have tax liability. Refundability could improve the effectiveness of this policy at reaching its target population.

Pro:

- An additional several hundred thousand people would benefit from the credit if it were refundable, and, for those with a low tax liability, they would get the full amount of the credit.

Cons:

- It adds complexity to the policy because it creates a need to exclude certain groups. A large number of non-filers with long-term care needs are already receiving assistance through SSI and Medicaid if in a nursing home. Because a refundable credit would count against their eligibility for these programs, it makes sense to exclude them from the credit. However, this would be difficult, administratively and politically.
- It could jeopardize the initiative. Although we have been successful in our support for

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the refundability of the E.I.T.C. despite the strong Republican opposition, adding another refundable credit could risk the passage of the initiative and potentially undermine support for existing refundable credits as well.

- This proposal, as a refundable credit, may not be administrable at acceptable levels of compliance and intrusiveness.

Should we give a larger credit to few people or a smaller credit to more people? If we make the definition of needing long-term care stricter (i.e., three or more ADL limitations as opposed to two), fewer people would be eligible but we could increase the credit amount within the budget constraints.

Pros:

- Raising the credit amount to \$1,000 would make the amount more meaningful. For example, it is enough to purchase a few hours of respite care per week.
- Eligibility based on two or more limitations in ADLs could be more subject to fraud, since it is a less strict standard.

Cons:

- Even with \$500 credit and the broader definition of needing long-term care, the policy helps a subset of the people who need long-term care or their families. According to one estimate, about 50 million Americans provide some type of informal long-term care to family and friends.
- Because most people meeting the stricter definition (three plus limitations in ADLs) are ill enough to require institutionalization, even a \$1,000 may be perceived as being too small relative to the larger costs incurred by these people and their family.

Number of hrs of care provided

2. Tax credit for impairment-related work expenses for people with disabilities

To complement the work of the Task Force on Employment of Adults with Disabilities, people with disabilities could receive a new tax credit of up to \$5,000 for their impairment-related work expenses. This credit could be used to offset expenses for personal care in the workplace, for example, which is often a pre-condition for leaving home for work. A similar credit was in the Health Security Act and a Republican "return-to-work" proposal this year. It costs about \$500 million over 5 years, \$1.2 billion over 10 years, and helps about 300,000.

Key Issue

Should this credit remain as part of the long-term care initiative or be saved for a separate announcement? Although this credit can be considered a long-term care policy, it also fits in the context of return-to-work policies for people with disabilities and could be announced by itself or in the State of the Union.

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Pro:

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- Omission of a policy for people with disabilities within a long-term care initiative would be noticed. There is a heightened attention to disability issues both in Congress and the community, and especially close attention is being paid to Administration actions. Even the aging advocates support including people with disabilities to avoid this criticism.


Cons:

- The disability community seems happy with the Administration's work on the Jeffords-Kennedy legislation, so that an additional policy at this point may not be needed.
- Since we do not exclude people under age 65 from the long-term care tax credit, we would be helping people with more severe disabilities even if we dropped this specific credit. The overlap between the two credits, however, may be low.

3. Offering private long-term care insurance to Federal workers


The third piece of the initiative is the small but symbolic non-tax option to offer Federal employees and annuitants a range of high-quality private long-term care insurance policies. There would be no Federal contribution for this coverage, but Office of Personnel Management (OPM) would set standards for the plans and sort them into benefit classes (e.g., "core" policy plus several types of "enhanced" policies) to facilitate informed choice. A seriously flawed bill to allow a open-ended long-term care insurance option was introduced by Representative Mica (R-FL) last week. Democratic members of the Civil Service Subcommittee, plus some Republicans (e.g., Connie Morrella), have expressed interest in a substitute. Proposing an alternative would add to our series of policies for Federal workers that demonstrates our leadership as a responsible employer.

Key Issues. None on policy grounds, although it is not a tax policy like the others. However, your advisors recommend that we act on this as soon as possible to preempt the Republicans from claiming the policy.

4. Offsets


This long-term care initiative would cost about \$4 billion over 5 years and \$14 billion over 10 years. It could be offset by modifying our existing tax package and adding a few new policies. First, we would postpone the effective date of our proposed tax initiatives until January 1, 2000. Given the Year 2000 problem, we would probably have to do so regardless. Second, we would scale back the child and dependent care credit (make it a 40 percent credit as opposed to 50 percent and slow the phase-down). Third, we would add two new policies that were in the Senate IRS package, but weren't included in the final bill and that were in your FY 1998 budget. The first is to modify the Foreign Tax Credit carryover rules; the second is to reform the treatment of Foreign Oil and Gas Income and dual capacity taxpayers.

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Key Issues. None on policy grounds, although like any offsets, they are not universally liked.

RECOMMENDATIONS. Your advisors (Chief of Staff, Office of the Vice President, NEC, DPC, CEA, Legislative Affairs, Treasury and OMB) generally agree on all of the components of this long-term care initiative. On the issue of refundability of the long-term care tax credit, we recommend against it. In particular, NEC, DPC Treasury and Legislative Affairs fear that making the credit refundable could spur an overall attack against refundability and jeopardize the gains that we have made on the E.I.T.C. It does, however, leave us somewhat vulnerable to criticisms that it is regressive. We suggest responding to this concern by stating that we are willing to work with Congress to make this credit more progressive. There is also agreement choose a broader definition of eligibility (two plus limitations in ADLs) even though we would have to lower the credit to make it affordable. This could help broaden the base of support for the initiative. Finally, even though the credit for people with disabilities could be part of the long-term care package, we recommend making it a separate announcement. NEC/DPC think that this credit might be best announced in the State of the Union, since it is likely to be recommended by the Task Force's November report and such an announcement would be viewed as acting on that recommendation.

Long-term care tax credit:

- Include refundable credit
- Include non-refundable credit (RECOMMENDED)
- Do not include in the package

Tax credit for impairment-related expenses for people with disabilities:

- Include tax credit for people with disabilities
- Do not include in the package (RECOMMENDED)

Offering private long-term care insurance to federal employees:

- Include in package (RECOMMENDED)
- Do not include in the package

Discuss some or all options further

ISSUES RELATED TO THE TIMING OF AN ANNOUNCEMENT

Assuming that the long-term care initiative and modified tax cut package are acceptable on policy grounds, the next question is about timing of an announcement. The following outlines the pros and cons of announcing this initiative in August or early September.

Pros:

- **Secures ownership of the long-term care issue.** A strong, affirmative long-term care message would not only be popular amongst the elderly, people with disabilities and most

advocacy groups, but it would probably be well received by validators who think that this is the great, untouched baby-boom issue. This could complement and affirm your leadership on major, societal issues facing the country in the next century.

- **Provides an alternative to private long-term care insurance and MSAs as the only solution to the problem.** In September, the Republicans will probably take up the Mica federal employees' private long-term care insurance proposal and the Senate Patient Bill of Rights legislation that expands MSAs to include long-term care expenses. The mainstream advocates are concerned about the singular focus on private long-term care insurance and MSAs, since they will not come close to covering the costs of long-term care. Even the insurance industry, in its most optimistic projections, does not foresee that private insurance will cover even half of long-term care costs in thirty years. However, in the absence of alternatives, some may feel some pressure to support the Republicans' proposals.
- **Confirms our support for responsible tax cuts.** Presenting a tax cut package with explicit offsets would reaffirm that we support tax cuts, so long as they are paid for. As such, it could complement our Save Social Security First message. These credits also are attractive alternatives to some of the Republican proposals, since they focus on the elderly and people with disabilities who have lower income.

Cons:

- **Could provide impetus for an unacceptable tax cut this year.** The proposal would come at a time when Congressional Democrats, especially in the House, see the Social Security First message as strong and simple. They would probably perceive a new tax package as clouding that message. Also, Gingrich has been musing about settling for a tax cut this year of \$70 billion or even less, so that our announcement of a revised tax package of about \$30 billion could be read as a sign that we are willing to deal with the Republicans on their tax package in September and make our rule of not using the surplus less clear as well. Finally, given that our revenue raising provisions are unpopular on the Hill, an announcement with an attractive set of options could increase the chances of a tax cut that taps the surplus.
- **Democrats may prefer marriage penalty regardless.** The new package could have somewhat limited value for Congressional Democrats because it does not include marriage penalty relief, which is their main concern.
- **May appear political and not receive the attention and validation that it deserves.** Since it is unusual to propose policies with budget implications outside of the State of the Union and Budget process, the timing of the announcement, rather than the substance of it, may be what the press focuses on.

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RECOMMENDATIONS. Your advisors generally do not recommend an August or early September announcement. The importance of this initiative to your overall policy agenda would probably be obscured by a media focused on the timing. Moreover, Republicans could seize on the announcement to generate momentum in September for their tax package or one that uses the surplus. It appears, at this point, that Democrats think that inaction on the tax front is a good outcome for them.

~~However, we think that the question of timing should be revisited in mid-September.~~ At that point, we will have a better sense of the potential ramifications of the announcement for Congress. We can also assess when and how we can make this announcement so it clearly gets the attention it deserves and puts you in a leadership role on this important issue.

- Announce in August or early September
- Revisit timing decision in mid-September (RECOMMENDED)
- Discuss further

LONG-TERM CARE POLICY OPTIONS

JULY 24, 1998

Health - long term care

WHY CONSIDER LONG-TERM CARE POLICIES NOW

- **Increasing interest in long-term care as the baby boom generation ages**
 - The number of elderly Americans -- including those age 85 years and older -- will double by 2030.
 - The need for long-term care rises with age. Nearly half of all people age 85 and older need assistance with everyday activities.
- **Heightened interest in helping people with disabilities receive personal assistance and other long-term care services**
 - Task Force on Employment of Adults with Disabilities
 - Bills (e.g., MiCASA, Kennedy-Jeffords) to expand options for home & community care
- **Not likely to be significantly addressed by Medicare Commission**
 - No desire for large, new entitlement expansion
 - Any new benefit likely to be prescription drugs
- **Congressional Republicans are sending signals that they support using FEHBP, MSAs and other tax incentive proposals to assist the elderly and people with disabilities**

WHAT ARE THE PROBLEMS WITH THE LONG-TERM CARE SYSTEM

- **Little private insurance for long-term care**
 - The Kassebaum-Kennedy law provided important tax clarifications that have contributed to increased marketing and sales of private long-term insurance. However, few businesses offer policies, they remain expensive, and few people recognize the need for this insurance. Only 6 percent of the elderly and a very small percent of baby boomers have private long-term care insurance.
 - Even if every baby boomer who could afford private insurance purchased it, less than one-third of long-term care costs would be paid for by private insurance in 2030.
- **The financial and non-financial burden of long-term care can be devastating**
 - About \$25 billion was paid out-of-pocket on formal nursing home and about \$6 billion on home health care in 1996. Long-term care expenditures account for nearly half (44 percent) of all out-of-pocket health expenditures for Medicare beneficiaries.
 - In addition, a significant amount of long-term care is provided informally, by families and friends. One in three (52 million) Americans voluntarily provide unpaid informal care each year to one or more ill or disabled family members or friends.
- **Personal assistance and other types of home and community-based care are especially important to the 30 million working-age Americans with disabilities.**
 - Despite its institutional bias, Medicaid is the primary health insurer of personal assistance and other home and community-based services. However, in most cases, Medicaid does not cover people with disabilities earning more than about \$20,000/year.

OVERVIEW OF POLICY OPTIONS

- **Private long-term care insurance**
- **Tax incentives for the chronically ill, their caregivers and people with disabilities**
- **Public program options**

PRIVATE LONG-TERM CARE INSURANCE: NEW LONG-TERM CARE OFFERING FOR FEDERAL EMPLOYEES

- Legislation could give OPM the contracting authority to offer Federal active workers, annuitants, and spouses private long-term care insurance.
- Workers, not the Federal government, would pay the full cost. However, participants would have the advantage of lower prices, due to the large number of Federal employees, and assurance of high quality products. People could choose a:
 - “Core” policy, that includes the inflation protection, nonforfeiture protection (among others) and meets financial solvency tests, or an
 - “Enhanced” policy, that includes the core plus options like more generous nursing home coverage, a cash benefit, or adding a parent to the policy.
- Premiums would be based on the age of the insured. New employees could enroll when hired; retirees and spouses could enroll at any time with premiums based on health status.
- Rough estimates of participation would be about 300,000
- Cost: Roughly \$40 million in administrative costs over 5 years.

give stat auth to OPM to offer (selective King)
1st # of LT care policies
2 make sure high-quality
not any willing insurer (MICA)

TAX CREDITS FOR PEOPLE WITH CHRONIC ILLNESS OR DISABILITIES OR THEIR CAREGIVERS

- **Credit to offset long-term care costs for the chronically ill or their caregivers**

(not predicated on expenses)

- Lower credit, broader definition of chronic illness: \$500 credit for people with cognitive impairment or chronic illness lasting more than 6 months that results in 2 or more activities of daily living (ADL) limitations or their caregivers.

People receiving credit: 2.5 million. Cost: \$3.9 billion over 5 years

- Higher credit, narrower definition of chronic illness: \$1,000 credit for people with chronic illness lasting more than 6 months that results in 3 or more ADL limitations or their caregivers. People receiving credit: 1.8 million. Cost: \$5.4 billion over 5 years

- Disabled children (using a restrictive definition of "disabled") could be added to the options above; this would cost \$400 million and \$700 million respectively.
- Number of families with dependent receiving the credit could be broadened (e.g., give credit to all taxpayers who have chronically ill relatives living with them).
- Could target to community-based people with chronic illness or disabilities

- **Credit for work-related expenses for people with disabilities**

- Tax filers who are handicapped would receive a non-refundable credit of 50 percent of the first \$10,000 of impairment-related work expenses.

People receiving credit: about 300,000. Cost: \$600 million over 5 years

*How much low wage?
They're not going to get much from this.
Prob: losing up refundability.*

All agree

PUBLIC PROGRAM OPTIONS

- **Return to work options for people with disabilities (Kennedy-Jeffords alternative)**
 - Medicaid buy-in option: Expand eligibility and provide incentive grants for states to take up this option that allows people with disabilities to buy into Medicaid. Costs: \$500 to 800 million over 5 years
 - Medicare extension: Pay Part A premium for people leaving the SSDI work program. Costs: \$300 million over 5 years
- **Policies to remove Medicaid institutional bias**
 - Allow states to use the “300 percent of SSI” rule for both nursing home residents and people using home and community-based care. Costs: \$500 million over 5 years
 - “Date certain”-like demonstration: Develop, test and evaluate a program for states to help people who live in nursing homes successfully transition to the community Costs: \$56 million over 5 years
 - “Bridge to Independence” grants: Fund a national technical assistance center and grants and awards to states to develop and test new community service models and promote state mentoring, with Indian set-asides. Costs: \$375 million over 5 years
- **Grants to provide support for people who provide informal long-term care**
 - National family caregiver support program: Grants to states to assist families who care for elderly relatives with 2 or more ADL limitations and/or severe cognitive impairment (e.g., provide information, arrange for respite services) Costs: \$750 million over 5 years

Targeting Individuals with Significant Long-term Care Needs Through Tax System

The NEC and DPC have been working with Treasury and other agencies to develop policies that provide financial support to taxpayers with significant long-term care needs or their caregivers. There are currently two options under consideration. **All estimates are still rough and preliminary, pending the addition of new information on disabilities to the tax model.**

There are Two Options Currently Under Discussion

Option 1

Taxpayers would receive a \$500 or \$1,000 tax credit if they are incapacitated or have an incapacitated spouse or dependent. Because the proposed credit is envisioned as an expansion of the \$500 child credit, it would be partially refundable for those with three or more qualifying individuals (including children under 17 and incapacitated taxpayers, spouses, and dependents), would mitigate the effects the AMT, and would begin to phase out at \$110,000 (\$75,000 if the taxpayer is unmarried).

This option would replace the current dependency support test with a residency test. In particular, taxpayers would not have to demonstrate that they provide over half a chronically ill individual's support if the individual meets the following three requirements: (i) the individual meets a relationship test; (ii) the individual lives with the taxpayer for over half the year (if the taxpayer's parent or child) or a full year otherwise; and (iii) the individual's gross income is below the income tax threshold (roughly the poverty level for a nonelderly person or 200 percent of poverty for an elderly person).

- With a maximum credit of \$1,000, this option would cost roughly **\$6.2 billion** through 2003 and **\$18.9 billion** through 2008. It would benefit roughly **2.6 million** chronically ill individuals.
- Dropping the residency test but restoring the support test (and eliminating any gross income test) would lower the cost to **\$5 billion** through 2003 and **\$15 billion** through 2008 and would reduce the number of beneficiaries to **2.1 million**.

Option 2

Taxpayers could not claim individuals as dependents for the tax credit unless they met all the current law dependency tests (including the support test). However, the credit would be refundable.

- With a maximum credit of \$1,000, this option would cost roughly **\$9.0 billion** through 2003 and **\$26.5 billion** through 2008 if both nursing home residents and SSI recipients were ineligible. It would benefit roughly **2.9 million** chronically ill individuals. The estimates assume that a system could be established to prevent SSI recipients from claiming the credit. But such a system does not currently exist and would likely require additional legislative

changes and administrative costs to establish.

- Allowing nursing home residents, who are not on Medicaid, to claim the refundable credit would increase the costs to **\$10 billion** through 2003 and **\$30.5 billion** through 2008.

The Options Incorporate Several Policy Calls

- Our primary focus has been on the population with severe disabilities: they either need hands-on or stand-by assistance with 3 or more activities of daily living (ADLs) or have a severe cognitive impairment (including limitations with 1 or more ADLs or instrumental ADLs).
 - Under option 1, reducing the ADL test to 2 limitations would cost **\$7.5 billion** and aid **3.4 million** chronically ill individuals.
- Because of the difficulty in administering a credit that depends on the type of institution in which care occurs and the small cost saving that arise from excluding nursing home residents, the nonrefundable options do not restrict the population based on the location of care.
- The options include children under 17. Excluding this group would save roughly **\$.7 billion** under options 1 and 2 through 2003.

Pros and Cons of Options 1 and 2

Option 1 Pros:

- Provides assistance to chronically ill taxpayers or their taxpaying caregivers.
- Modifying the support test recognizes that taxpayers who reside with chronically ill relatives are probably providing significant in-kind services, even though they may not be paying for their relatives' expenses. It also eliminates burdensome record-keeping in order to prove support.
- Modifying the support test is also based on a FY 1998 budget proposal to simplify dependency exemptions for children.

Cons for Option 1:

- Adds to complexity of tax system by creating new definition of dependency. Duplicate claims by confused taxpayers are likely.
- Provides no benefit to adult children who care for their parents but do not live with them or

pay for most of their expenses.

- Non-dependent chronically ill individuals who live alone or with a spouse would not benefit from this option.

Pros for Option 2:

- Provides assistance to low-income, chronically ill families who do not pay taxes.
- Full refundability may be less complicated than other options (though for revenue reasons, this option restricts credit eligibility in other ways that may add to complexity). For example, a new definition of dependency would not be created only for purposes of this tax credit.

Cons for Option 2:

- Individuals would be eligible for a flat check of \$1,000 even if they had zero income. This is different from the EITC which is phased-in as earned income increases. The IRS does not have experience administering a negative income tax, and the effects on compliance are not known.
 - There are other key differences between the EITC and the proposed credit that may make the latter more difficult to administer. Since the EITC is based on wage income and wage income is subject to a well-established comprehensive independent reporting system, the IRS has procedures and experience in distinguishing between real and fraudulent claims. Further, most EITC claimants have a reason, other than the EITC, to file a tax return (for example, claiming a refund of overwithheld taxes). But if someone submitted a claim for the proposed credit with no income, a false physician's certificate, and a borrowed or stolen social security number for an elderly person who hasn't had to file a return in years, the IRS would have little independent information to determine that the claim was bogus before the money was paid out.
- Previous proposals to make credits refundable have led to Congressional counter-attacks on the earned income tax credit (EITC). The imminent release of new GAO report on EITC compliance problems may make the credit particularly vulnerable to attack at this time (even though the report is generally a rehash of old news).
- Adds new filers to tax system. Many elderly, disabled individuals who have no reason to file a tax return would be required to file in order to obtain the tax credit.
- Could become magnet to refund anticipation loan industry who charge high interest rates on loans to low-income populations anxious for their tax refund checks.

- Denying eligibility to nursing home residents (both private payors and Medicaid recipients) and SSI recipients will be administratively cumbersome (at best) and difficult to enforce.
 - IRS will not know if a chronically ill individual is at home or in a nursing home, unless an audit is initiated. But the IRS will generally not be able to identify a questionable return for audit based on the information reported on the tax return.
 - The IRS generally does not know who is receiving SSI or Medicaid, and the states must rely on the SSI or Medicaid beneficiary to report receipt of tax refunds. Enforcing a firewall between tax credit recipients and SSI and Medicaid beneficiaries will require, at a minimum, states to report information on SSI and Medicaid receipt in a timely fashion to the IRS so that it can be used during processing. This will probably require new funding for the necessary automation requirements and time.
- Nursing home residents who pay for their own care also incur significant costs, and it would be inequitable to deny them eligibility for the tax credit.

Payfors

The attached list gives some possible ways of paying for the long-term care proposal.

- The first three items are relatively noncontroversial and not included in the FY99 Budget. The first two were all included in the Senate's version of the IRS Restructuring legislation.
 - The FTC item is supported in the Senate and anathema to Chairman Archer.

Several issues need to be noted with the **liquidating REIT** proposal.

- There is an enormous baseline scoring difference between Treasury and the JCT on the liquidating REIT proposal. The JCT scores it as raising nearly \$5 billion through 2003. Treasury scores it as raising roughly \$500 million through 2003.
 - Using liquidating REITs as a payfor could possibly lead to the charge that under the President's scoring, the long-term care initiative is not fully paid for.
- By next January, both the JCT and Treasury may score the liquidating REIT proposal as raising even more money than the current JCT estimate (because the erosion of the tax base caused by liquidating REITs will be fully reflected in the respective baselines).
 - Given Y2K and IRS Restructuring concerns, the long-term care initiative would have a 1/1/2000 effective date. If Congressional action on the proposal did not take place until next year, the baseline scoring difference between the JCT and Treasury would likely not exist.

Possible Revenue Offsets
[\$ in millions]

		1998-2003	1998-2008
Modify Foreign Tax Credit carryover rules*	/1	1,925	3,391
Liquidating REITs (see attached discussion)	/1	4,900	8,600
Constructive ownership (Kennelly)*		150	300
	Subtotal	6,825	11,991
Superfund AMT tax*		3,800	5,000
Superfund excise tax*		3,600	5,000
10-cent tobacco excise tax (could be scaled down or up) +		7,500	15,000
	Subtotal	14,900	25,000

* = JCT scoring

+ = rough guess

1. Used in the Senate's version of IRS Restructuring

THE WHITE HOUSE

WASHINGTON

August 10, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
CHRIS JENNINGS

SUBJECT: LONG-TERM CARE INITIATIVE IN A MODIFIED TAX CUT
PACKAGE

cc. THE VICE PRESIDENT, ERSKINE BOWLES, ROBERT RUBIN,
JACK LEW, JANET YELLEN, MARIA ECHAVESTE, JOHN
PODESTA, RON KLAIN, LARRY STEIN, RAHM EMANUEL, PAUL
BEGALA

Per your request, an interagency NEC/DPC process examined long-term care policy options, specifically how long-term care options could be added to our tax cut package. This memo summarizes our recommendations on both the best policy and the advisability of announcing such an initiative in August or September.

We developed a long-term care initiative that both assists people who provide or pay for long-term care and encourages workers to purchase high-quality, private long-term care insurance. The centerpiece of the initiative is a broad-based, non-refundable tax credit for people with long-term care needs or for families who house and care for such relatives. The credit could help defray the costs of formal care (e.g., home health care) and informal care (e.g., assisting parents who are bed-ridden). Second, to complement the ongoing work of your Task Force on the Employment of Adults with Disabilities, we could introduce a tax credit of up to \$5,000 for impairment-related work expenses incurred by disabled individuals. Third, we could announce support for offering private long-term care insurance to Federal employees, which would have virtually no costs and bipartisan support. The long-term care tax options cost a total of \$4 billion over 5 years and \$14 billion over 10, and would be fully funded by savings from postponing or modifying our budget revenue proposals, plus a few offsets that were in the Senate IRS bill, but that were not included in the final bill or your FY 1998 budget.

The timing of an announcement of a long-term care initiative in a modified tax package depends on a number of factors that will be discussed later in the memo.

BACKGROUND

This policy initiative is motivated by an interest to address long-term care and issues facing the chronically ill, particularly the elderly.

Unlike Social Security and Medicare, long-term care is a major baby-boom generation issue that has received little attention. Republicans have begun to raise policy options (e.g., MSAs for long-term care in their Patient Protection Act), but not aggressively. Yet, along with the lack of coverage of prescription drugs, the poor coverage of long-term care represents a major concern for the elderly and their families. Medicare pays for only a limited amount of long-term care, and private insurance even less -- only 10 percent of home health care and 5 percent of nursing home care. As a result, long-term care costs account for nearly half of all out-of-pocket health expenditures for Medicare beneficiaries.

Concern about long-term care costs is not limited to the elderly and people with disabilities. Their children, other relatives and friends provide a large amount of formal and informal long-term care. According to an HHS study that has not yet been released, one in three Americans voluntarily provide some unpaid informal care to an ill or disabled family member or friend. Over 90 percent of people with three or more limitations in activities of daily living (ADLs) living in the community receive some kind of informal care, most often from a spouse or relative. This means that middle-class families may find themselves caring both for their parents and their children.

A second motivation for this initiative is to make our targeted tax cut package include a more progressive, senior-focused tax option. Most people with long-term care needs have lower incomes. For example, the poverty rate for the elderly with two or more limitations in ADLs is twice as high as the rate for all elderly.

POLICIES

The proposed long-term care initiative would consist of three policies: two new tax credits plus offering quality private long-term care insurance to Federal workers. Savings to pay for this initiative would come from new offsets and savings from postponing or modifying our existing tax cut proposals.

1. Long-term care tax credit

The centerpiece of the long-term care initiative would be a tax credit for people with long-term care needs or the families who house and care for such relatives. A \$500, non-refundable credit would cost \$3.9 billion over 5 years, \$12.4 billion over 10 years (according to preliminary Treasury estimates) and would help a total of 3.4 million chronically ill individuals (described below). People with long-term care needs are defined as having two or more limitations in ADLs (bathing, dressing, eating, toileting, transferring and incontinence management) lasting for longer than six months or severe cognitive impairment, as certified by a doctor. Virtually all people who meet these criteria need some type of long-term care. The credit would be given on

the basis of illness rather than expenses because, otherwise, it would not help people who receive unpaid long-term care. For example, a wife who cares for her husband herself rather than paying someone to do it would not receive a credit if it were based on receipts for long-term care expenses. This approach is also easier to administer than alternatives. About 1.7 million chronically ill individuals would directly get this credit on their own tax returns.

Certain families with “dependents” with long-term care needs could also receive the credit. Under current law, adults can be claimed by tax filers as dependents if they are related, have very low income, and receive at least half of their support from the tax payer (among other criteria). Adult dependents are generally not required to file tax returns themselves. For the purpose of this credit, we would broaden the definition of a “dependent” to include a person who needs long-term care (described above), lives with the family member, and generally does not have any income tax liability. Because by definition they live in the community, dependents are rarely nursing home residents. Simply stated, this allows families (other than spouses) who house and care for relatives needing long-term care to apply for the credit on their behalf. This improves the ability of the credit to help people who do not have enough income to file tax returns, although it does not help the elderly with no tax liability living alone or outside of their relatives’ homes. Another 1.7 million families would get the credit in this way.

Over half of the chronically ill individuals benefiting from this credit are elderly, since the need for long-term care increases with age. Preliminary conversations with aging advocates suggest that this tax credit would be well received. However, private long-term care insurers could oppose the credit for fear that it will decrease interest in insurance since people may think that the credit protects them against long-term care costs.

Key Issues

Should the credit be refundable. A large proportion of people with long-term care needs are low-income and do not have tax liability. Refundability could improve the effectiveness of this policy at reaching its target population.

Pro:

- An additional several hundred thousand people would benefit from the credit if it were refundable, and, for those with a low tax liability, they would get the full amount of the credit.

Cons:

- It adds complexity to the policy because it creates a need to exclude certain groups. A large number of non-filers with long-term care needs are already receiving assistance through SSI and Medicaid if in a nursing home. Because a refundable credit would count against their eligibility for these programs, it makes sense to exclude them from the credit. However, this would be difficult, administratively and politically.
- It could jeopardize the initiative. Although we have been successful in our support for

the refundability of the E.I.T.C. despite the strong Republican opposition, adding another refundable credit could risk the passage of the initiative and potentially undermine support for existing refundable credits as well.

- This proposal, as a refundable credit, may not be administrable at acceptable levels of compliance and intrusiveness.

Should we give a larger credit to few people or a smaller credit to more people. If we make the definition of needing long-term care more strict (i.e., three or more ADL limitations as opposed to two), fewer people would be eligible but we could probably increase the credit amount.

Pros:

- Raising the credit amount to \$1,000 would make the amount more meaningful. For example, it is enough to purchase a few hours of respite care per week.
- Eligibility based on two or more limitations in ADLs could be more subject to fraud, since it is a less strict standard.

Con:

- Even with \$500 credit and the broader definition of needing long-term care, the policy helps a subset of the people who need long-term care or their families. According to one estimate, about 50 million Americans provide some type of informal long-term care to family and friends.
- Because most people meeting the stricter definition (three plus limitations in ADLs) are ill enough to require institutionalization, even a \$1,000 may be perceived as being too small relative to the larger costs incurred by these people and their family.

2. Tax credit for impairment-related work expenses for people with disabilities

To complement the work of the Task Force on Employment of Adults with Disabilities, people with disabilities could receive a new tax credit of up to \$5,000 for their impairment-related work expenses. This credit could be used to offset expenses for personal care in the workplace, for example, which is often a pre-condition for leaving home for work. A similar credit was in the Health Security Act and a Republican “return-to-work” proposal this year. It costs about \$500 million over 5 years, \$1.2 billion over 10 years, and helps about 300,000.

Key Issue

Should this credit remain as part of the long-term care initiative or be saved for a separate announcement. Although this credit can be considered a long-term care policy, it also fits in the context of return-to-work policies for people with disabilities and could be announced by itself or in the State of the Union.

Pro:

- Omission of policy for people with disabilities within a long-term care initiative would be noticed. There is a heightened attention to disability issues both in Congress and the community, and especially close attention is being paid to Administration actions. Even the aging advocates support including people with disabilities to avoid this criticism.

Cons:

- The disability community seems happy with the Administration's work on the Jeffords-Kennedy legislation, so that an additional policy at this point may not be needed.
- Since we do not exclude people under age 65 from the long-term care tax credit, we would be helping people with more severe disabilities even if we dropped this specific credit. The overlap between the two credits, however, may be low.

3. Offering private long-term care insurance to Federal workers

The third piece of the initiative is the small but symbolic non-tax option to offer Federal employees and annuitants a range of high-quality private long-term care insurance policies. There would be no Federal contribution for this coverage, but Office of Personnel Management (OPM) would set standards for the plans and sort them into benefit classes (e.g., "core" policy plus several types of "enhanced" policies) to facilitate informed choice. A seriously flawed bill to allow a very open-ended long-term care insurance option was introduced by Representative Mica (R-FL) last week. Democratic members of the Civil Service Subcommittee, plus some Republicans (e.g., Connie Morrella), have expressed interest in a substitute. Proposing an alternative would add to our series of policies for Federal workers in which we take the lead as a responsible employer.

Key Issues. None on policy grounds, and your advisors recommend that we act on this to preempt the Republicans from claiming the policy. However, it does not necessarily need to be included in an otherwise tax-oriented package.

4. Offsets

This long-term care initiative would cost about \$4 billion over 5 years and \$14 billion over 10 years. It could be offset by modifying our existing tax package and adding a few new policies. First, we would postpone the effective date of our proposed tax initiatives until January 1, 2000. Given the Year 2000 problem, we would probably have to do so regardless. Second, we would scale back the child and dependent care credit (make it a 40 percent credit as opposed to 50 percent and slow the phase-down). Third, we would add two new policies that were in the Senate IRS package, but weren't included in the final bill and that were in your FY 1998 budget. The first is to modify the Foreign Tax Credit carryover rules; the second is to reform the treatment of Foreign Oil and Gas Income and dual capacity taxpayers:

Key Issues. None on policy grounds, although like any offsets, they are not universally liked.

Recommendations. Your advisors generally agree on all of the components of this long-term care initiative. On the issue of refundability of the long-term care tax credit, we recommend against it. In particular, NEC, Treasury and Legislative Affairs fear that making the credit refundable could spur an overall attack against refundability and jeopardize the gains that we have made on the E.I.T.C. It does, however, leave us somewhat vulnerable to criticisms that it is regressive. We suggest responding to this concern by stating that we are willing to work with a bipartisan Congress to make this credit more progressive. There is also agreement choose a broader definition of eligibility (two plus limitations in ADLs) even though we would have to lower the credit to make it affordable. This could help broaden the base of support for the initiative. Finally, even though the credit for people with disabilities could be part of the long-term care package, we recommend making it a separate announcement. NEC/DPC think that this credit might be best announced in the State of the Union, since it is likely to be recommended by the Task Force's November report and such an announcement would be viewed as acting on that recommendation.

Long-term care tax credit:

- Include refundable credit
- Include non-refundable credit (RECOMMENDED)
- Do not include in the package

Tax credit for impairment-related expenses for people with disabilities:

- Include tax credit for people with disabilities
- Do not include in the package (RECOMMENDED)

Offering private long-term care insurance to Federal employees:

- Include in package (RECOMMENDED)
- Do not include in the package

Discuss some or all options further

ISSUES RELATED TO THE TIMING OF AN ANNOUNCEMENT

Assuming that the long-term care initiative and modified tax cut package are acceptable on policy grounds, the next question is about timing of an announcement. The following outlines the pros and cons of announcing this initiative in August or early September.

Pros:

- **Secures ownership of the long-term care issue.** A strong, affirmative long-term care message would not only be popular amongst the elderly, people with disabilities and most

advocacy groups, but it would probably be well received by validators who think that this is the great, untouched baby-boom issue. This could complement and affirm your leadership on major, societal issues facing the country in the next century.

- **Provides an alternative to private long-term care insurance and MSAs as the only solution to the problem.** In September, the Republicans will probably take up the Mica Federal employees' private long-term care insurance proposal and the Senate Patient Bill of Rights legislation that expands MSAs to include long-term care expenses. The mainstream advocates are concerned about the singular focus on private long-term care insurance and MSAs, since they will not come close to covering the costs of long-term care. Even the insurance industry, in its most optimistic projections, does not foresee that private insurance will cover even half of long-term care costs in thirty years. However, in the absence of alternatives, some may feel some pressure to support the Republicans' proposals.
- **Confirms our support for responsible tax cuts.** Presenting a tax cut package with explicit offsets would reaffirm that we support tax cuts, so long as they are paid for. As such, it could complement our Save Social Security First message. These credits also are attractive alternatives to some of the Republican proposals, since they focus on the elderly and people with disabilities who have lower income.

Cons:

- **Could provide impetus for an unacceptable tax cut this year.** The proposal would come at a time when Congressional Democrats, especially in the House, see the Social Security First message as strong and simple. They would probably perceive a new tax package as clouding that message. Also, Gingrich has been musing about settling for a tax cut this year of \$70 billion or even less, so that our announcement of a revised tax package of about \$30 billion could be read as a sign that we are willing to deal with the Republicans on their tax package in September and make our rule of not using the surplus less clear as well. Finally, given that our revenue raising provisions are unpopular on the Hill, an announcement with an attractive set of options could increase the chances of a tax cut that taps the surplus.
- **Democrats may prefer marriage penalty regardless.** The new package could have somewhat limited value for Congressional Democrats because it does not include marriage penalty relief, which is their main concern.
- **May appear political and not receive the attention and validation that it deserves.** Since it is unusual to propose policies with budget implications outside of the State of the Union and Budget process, the timing of the announcement, rather than the substance of it, may be what the press focuses on.

Recommendations. Your advisors generally do not recommend an August or early September announcement. The importance of this initiative to your overall policy agenda would probably be obscured by a media focused on the timing. Moreover, Republicans could seize on the announcement to generate momentum in September for their tax package or one that uses the surplus. It appears, at this point, that Democrats think that inaction on the tax front is a good outcome for them.

However, we think that the question of timing should be revisited in mid-September. At that point, we will have a better sense of the potential ramifications of the announcement for Congress. We can also assess when and how we can make this announcement so it clearly gets the attention it deserves and puts you in a leadership role on this important issue.

- _____ Announce in August or early September
- _____ Revisit timing decision in mid-September (RECOMMENDED)
- _____ Discuss further