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WITHDRAWAL SHEET

Ronald Reagan Library

Collection: DARMAN, RICHARD G.: Files

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File Folder: Presidential Decisions File (2)

Box 4
OA 10476

Date: 5/28/98

| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------|--------|---------------------------------|
| 1. memo <i>514</i> | Decision Memorandum for the President from Secretary Schweiker re Health Care Incentive Project (Comments on Options), 9p. | 1/6/83 | <i>P5</i> <i>05/20/28/00</i> |

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]

- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-3 Release would violate a Federal statute [(b)(3) of the FOIA].
- F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
- F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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THE WHITE HOUSE
WASHINGTON

Date: 4/21/83

NOTE FOR: CRAIG FULLER

The President has

seen

acted upon

commented upon

the attached; and it is forwarded to you for your:

information and/or

action

Richard G. Darman
Assistant to the President
(x-2702)

cc: Central Files - Original

New Paper
CF

THE WHITE HOUSE

WASHINGTON

The President has seen _____

April 21, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: THE CABINET COUNCIL ON ECONOMIC AFFAIRS
SUBJECT: Health Insurance for the Unemployed

Background

During Senate consideration of the Social Security reform legislation we were faced with a costly rider amendment providing health benefits for the unemployed. We were successful in dissuading the Senate leadership from adding this proposal by promising serious consideration of this issue by your Administration.

The Cabinet Council on Economic Affairs first reviewed this issue with you on April 14 and has since developed a package of proposals reflecting that discussion which we feel represent a good faith effort to address the health insurance needs of the unemployed without creating a costly new entitlement program.

Objectives

The proposed program includes five principal objectives:

- o Encourage private sector and state initiatives already underway to help provide health care for the unemployed;
- o Assist unemployed workers in maintaining their health insurance coverage without having to seek a new plan;
- o Place no additional financial burdens on employers;
- o Limit any federal financial involvement while providing added flexibility to States through the Social Services Block Grant without establishing an entitlement for a new set of beneficiaries;
- o Link any federal financial involvement to our current health care cost containment incentives while meeting any additional funding through revenues raised by lowering the proposed cap on employer health benefit premiums.

Elements of the Proposed Program

The proposed program includes five major elements:

1. Encourage Private and State Initiatives

Call attention to the current private sector and State government initiatives to provide health care for the unemployed and encourage more such efforts. Emphasize that this is not a Federal problem but one meriting a cooperative effort by government and the private sector.

2. Require Open Enrollment When Spouse Becomes Unemployed

Require employers to allow the working spouses of persons who become unemployed to change their coverage to family coverage or, if they have not been covered, to elect family coverage. Such elections could be at any time of year, not just the open enrollment period.

3. Require Continuation of Coverage

Require employers to make available extended health insurance coverage to laid off workers.

- The extended insurance would be at individual rates paid for by the worker.
- The insurance would be available for one year or until the worker is employed again, whichever occurs first.
- The employer must make available both the existing employee plan and a low-cost (catastrophic) plan.

4. Permit Use of Social Service Block Grant Funds

Amend the Social Services Block Grant Act to permit states to use these funds for health insurance for unemployed persons who have lost their coverage upon becoming unemployed.

5. Link Additional Funding to Additional Revenues

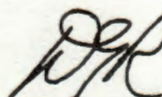
Support additional funds for the Social Services Block Grant only if an equal amount of revenue is raised by lowering the proposed \$175 cap on employer contributions for employee health insurance.

The health insurance for the unemployed legislation would be combined with the health tax cap in a single bill to enhance the prospects for congressional passage of our tax cap provision.

Recommendation: The Cabinet Council on Economic Affairs recommends that you approve the five-point proposed program to meet the health insurance needs of the unemployed outlined above.

Approve ✓RR Disapprove _____

The Departments of the Treasury, Commerce, Labor, Health and Human Services, and Housing and Urban Development, the Office of Management and Budget, the Office of Policy Development, the Council of Economic Advisers, and the U.S. Trade Representative support this recommendation.



Donald T. Regan
Chairman Pro-Tempore

WHITE HOUSE STAFFING MEMORANDUM

DATE: 3/11/83 ACTION/CONCURRENCE/COMMENT DUE BY: FYI

SUBJECT: SAFEGUARDING NATIONAL SECURITY INFORMATION - NSDD #84

| | ACTION | FYI | | ACTION | FYI |
|----------------|----------------------------|----------------------------------------|---------------|--------------------------|-------------------------------------|
| VICE PRESIDENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> | GERGEN | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| MEESE | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HARPER | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| BAKER | <input type="checkbox"/> | <input checked="" type="checkbox"/> | JENKINS | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| DEAVER | <input type="checkbox"/> | <input checked="" type="checkbox"/> | MURPHY | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| STOCKMAN | <input type="checkbox"/> | <input checked="" type="checkbox"/> | ROLLINS | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| CLARK | <input type="checkbox"/> | <input checked="" type="checkbox"/> | WHITTLESEY | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| DARMAN | <input type="checkbox"/> P | <input checked="" type="checkbox"/> SS | WILLIAMSON | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| DUBERSTEIN | <input type="checkbox"/> | <input checked="" type="checkbox"/> | VON DAMM | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| FELDSTEIN | <input type="checkbox"/> | <input checked="" type="checkbox"/> | BRADY/SPEAKES | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| FIELDING | <input type="checkbox"/> | <input checked="" type="checkbox"/> | ROGERS | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| FULLER | <input type="checkbox"/> | <input checked="" type="checkbox"/> | _____ | <input type="checkbox"/> | <input type="checkbox"/> |

Remarks:

Richard G. Darman
Assistant to the President
(x2702)

Response:

THE WHITE HOUSE
WASHINGTON

March 11, 1983

*National Security Decision
Directive Number 84*

Safeguarding National Security Information

As stated in Executive Order 12356, only that information whose disclosure would harm the national security interests of the United States may be classified. Every effort should be made to declassify information that no longer requires protection in the interest of national security.

At the same time, however, safeguarding against unlawful disclosures of properly classified information is a matter of grave concern and high priority for this Administration. In addition to the requirements set forth in Executive Order 12356, and based on the recommendations contained in the interdepartmental report forwarded by the Attorney General, I direct the following:

1. Each agency of the Executive Branch that originates or handles classified information shall adopt internal procedures to safeguard against unlawful disclosures of classified information. Such procedures shall at a minimum provide as follows:

a. All persons with authorized access to classified information shall be required to sign a nondisclosure agreement as a condition of access. This requirement may be implemented prospectively by agencies for which the administrative burden of compliance would otherwise be excessive.

b. All persons with authorized access to Sensitive Compartmented Information (SCI) shall be required to sign a nondisclosure agreement as a condition of access to SCI and other classified information. All such agreements must include a provision for prepublication review to assure deletion of SCI and other classified information.

c. All agreements required in paragraphs 1.a. and 1.b. must be in a form determined by the Department of Justice to be enforceable in a civil action brought by the United States. The Director, Information Security Oversight Office (ISOO), shall develop standardized forms that satisfy these requirements.

d. Appropriate policies shall be adopted to govern contacts between media representatives and agency personnel, so as to reduce the opportunity for negligent or deliberate disclosures of classified information. All persons with authorized access to classified information shall be clearly apprised of the agency's policies in this regard.

2. Each agency of the Executive branch that originates or handles classified information shall adopt internal procedures to govern the reporting and investigation of unauthorized disclosures of such information. Such procedures shall at a minimum provide that:

a. All such disclosures that the agency considers to be seriously damaging to its mission and responsibilities shall be evaluated to ascertain the nature of the information disclosed and the extent to which it had been disseminated.

b. The agency shall conduct a preliminary internal investigation prior to or concurrently with seeking investigative assistance from other agencies.

c. The agency shall maintain records of disclosures so evaluated and investigated.

d. Agencies in the possession of classified information originating with another agency shall cooperate with the originating agency by conducting internal investigations of the unauthorized disclosure of such information.

e. Persons determined by the agency to have knowingly made such disclosures or to have refused cooperation with investigations of such unauthorized disclosures will be denied further access to classified information and subjected to other administrative sanctions as appropriate.

3. Unauthorized disclosures of classified information shall be reported to the Department of Justice and the Information Security Oversight Office, as required by statute and Executive orders. The Department of Justice shall continue to review reported unauthorized disclosures of classified information to determine whether FBI investigation is warranted. Interested departments and agencies shall be consulted in developing criteria for evaluating such matters and in determining which cases should receive investigative priority. The FBI is authorized to investigate such matters as constitute potential violations of federal criminal law, even though administrative sanctions may be sought instead of criminal prosecution.

4. Nothing in this directive is intended to modify or preclude interagency agreements between FBI and other criminal investigative agencies regarding their responsibility for conducting investigations within their own agencies or departments.

5. The Office of Personnel Management and all departments and agencies with employees having access to classified information are directed to revise existing regulations and policies, as necessary, so that employees may be required to submit to polygraph examinations, when appropriate, in the course of investigations of unauthorized disclosures of classified information. As a minimum, such regulations shall permit an agency to decide that appropriate

adverse consequences will follow an employee's refusal to cooperate with a polygraph examination that is limited in scope to the circumstances of the unauthorized disclosure under investigation. Agency regulations may provide that only the head of the agency, or his delegate, is empowered to order an employee to submit to a polygraph examination. Results of polygraph examinations should not be relied upon to the exclusion of other information obtained during investigations.

6. The Attorney General, in consultation with the Director, Office of Personnel Management, is requested to establish an interdepartmental group to study the federal personnel security program and recommend appropriate revisions in existing Executive orders, regulations, and guidelines.

Ronald Reagan

THE WHITE HOUSE
WASHINGTON

March 4, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: EDWIN L. HARPER

SUBJECT: PRESIDENTIAL DECISION PAPERS ON ADOPT-A-SCHOOL,
CHILD CARE, AND ADULT LITERACY ADVANCE

Attached are the decision papers on Adopt-a-School, Child Care, and Adult Literacy Advance that emanated from the Office of Policy Development's Mid-Term Planning Review. These papers incorporate suggestions from the pertinent members of your immediate staff and all relevant Cabinet members, and everyone supports these initiatives.

Adopt-a-School. As you know, the Adopt-a-School concept enables an organization to literally "adopt" a school. Adopt-a-school constitutes the flagship of a great number and variety of business and community involvements with America's public school system. Enhanced support of Adopt-a-School from this Administration would both broaden its growth and demonstrate the positive worth of this Administration's faith in the availability of private charity.

Child Care. Whenever women are polled about their most important concerns, child care invariably ranks near the top of the list. More and more, however, child care is recognized as a significant factor for the work force. A more efficient private child care system would generate a more efficient labor force. The recommendations embodied in this initiative describe the steps by which you will encourage the expansion of private community child care, as you announced in your State of the Union address. Note that these recommendations include the encouragement of workfare and work-study programs whereby welfare recipients and college students provide child care.

Adult Literacy. The adult literacy initiative should heighten public awareness of the significant fraction of adults and teenagers who cannot read or compute well enough to function in our society. Administration support of its recommendations should serve to advance teenage and adult literacy.

If approved, the Adopt-a-School and Adult Literacy Initiatives would become part of the Administration's overall Education Policy, and the Child Care Initiative would become part of the Administration's Women's Strategy.

ADOPT-A-SCHOOL

Issue

Should the Adopt-a-School program be broadened as a private sector initiative? If so, how?

Introduction

The Adopt-a-School concept literally enables an organization, typically a private business, to "adopt" a school. The adoption normally begins with one representative from the organization sitting down with the school principal and listening to each other's concerns about education. Then, they decide what they can do for each other.

In practice, the types of adoptions across the country cover a very broad range, from providing money to academic tutoring to courses that would not exist without the corporate "parent" to vocational classes aimed at students' general employment or specifically by a corporate adopter. Local requirements normally govern selection of types. A number of companies choose to adopt secondary schools -- at least partly out of concern for long-term manpower programs.

Anyone can "adopt" a school or part of one: corporations, community organizations, neighborhood groups, religious organizations, and individuals. Examples:

- o In Washington, D.C., the Prometheans Inc., a group of World War II veterans, sponsor both an annual Career Awareness Fair in the schools and a program to help organizations Adopt-a-School.
- o The Volunteer Center of Memphis began with an Adopt-a-School program and now plans to expand into a broader-based program addressing a greater variety of regional needs, including elderly and youth programs.
- o First Federal Savings and Loan Association of Chicago has been setting up an English language lab in Sullivan High School, where students speak 43 different languages. It has already hired three students who speak Russian, French, and Spanish to work as tellers and interpreters.
- o Also in Los Angeles, Richmond Brothers Hardware and Lumber Company adopted Sierra Park Elementary School, the same elementary school the owners attended.

While the Adopt-a-School program occurs in a number of cities across the nation, there is no national link between these schools. The grass roots across the nation has learned about Adopt-a-School mainly by a few conferences sponsored by successful program leaders.

Casual empiricism indicates positive student benefits from Adopt-a-School.

- o Students appear to respond to the program with higher academic achievement levels.
- o Also, a number of corporate adopters across the country hire graduating seniors for entry-level jobs as tellers, machine operators, and computer operators.
- o Similarly, employees report positive benefits, both from serving as volunteer teachers, tutors and coaches, and from the additional resources flowing to their home communities.

Adopt-a-School constitutes the flagship of a great number and variety of business and community involvements with America's public school system.

Political Impact

Adopt-a-School represents one of the best examples of private charity offsetting reduced public financing. Highlighting this example would both broaden its growth and demonstrate the positive worth of this Administration's faith in the availability of private charity. Adopt-a-School is a simple concept to sell.

Recommendations:

The Adopt-a-School program should receive enhanced support from this Administration:

- o You should periodically visit an Adopt-a-School program. Your goals are to highlight: successful Adopt-a-School programs; the variety of Adopt-a-School efforts practiced across the Country; and the variety of adopters across the Country, from individuals to neighborhood organizations to corporations.
- o In addition, you should periodically visit other superior examples of business and community involvement with America's public school system.
- o You should consider a Presidential Saturday radio message about the Adopt-a-School program.

- o Cabinet members similarly should be encouraged to visit Adopt-a-School programs on their travels.
- o The Secretary of Education has pledged to highlight Adopt-a-School in his Conference on Excellence in Education in Washington, D.C. You should consider making a major education address there.
- o The 42 state-level task forces, established with the help of the President's Task Force on Private Sectors Initiatives, should promote Adopt-a-School through their boards of education.
- o Education Department officials should promote the Adopt-a-School concept in their appearances before groups of school administrators. Schools should be encouraged to reach out to local business and community groups to encourage adoptions.

VR Approved

_____ Disapproved

_____ As modified

CHILD CARE

Issue

Should child care receive direct support from this Administration by private sector initiatives, and from workfare and work-study programs?

Background

Private sector child care constitutes the kind of child care consonant with this Administration's philosophy. It ranges from "family day care" -- provided in homes to small groups of children -- to child care provided outside the home to large groups of children by community groups and for-profit organizations to employer-provided child care at the workplace. Private sector child care excludes direct government support and subsidies for the specific purpose of child care.

While there are no Federal child care regulations, unnecessary state and local regulations and restrictions on day care make it difficult for neighborhood groups and private organizations to provide child care. For example, in some localities, health codes and fire and safety codes disagree about day care facility requirements.

In the 1981 Budget Reconciliation Act, Title 20 of the Social Security Act, the major Federal day care program, was cut 20 percent, and folded into the Social Services Block Grant. States now may decide whether to run or fund a day care program, and the appropriate funding level. Rather than reduce or eliminate child care programs, states may staff them with individuals in workfare and work-study programs. In May, HHS and the American Public Welfare Association will implement a voluntary state reporting system enabling the determination of day care funding levels.

Federal laws provide tax breaks for child care. The Economic Recovery Tax Act of 1981 increases tax credits to working parents, and provides that employer contributions for child care are not taxable to employees. Federal laws also provide financial support for child care under a number of Federal programs. The largest Federal expenditure on child care is the tax credit.

In conjunction with the Ford Foundation and the Rockefeller Foundation, the Women's Bureau, Department of Labor, currently is funding four demonstration projects to induce employers to provide day care services for working women by various means. Final reports are due by October 1983. The types of services include day care vouchers, educating the employer about tax incentives, employer-provided on-site day care, etc.

Political Impact

Whenever women are polled about their most important concerns, child care invariably ranks near the top of the list. More and more, however, child care is recognized as a family issue: day care problems constitute significant factor for the work force. A more efficient private child care system would generate a more efficient labor force.

Recommendations: Administration will directly support child care:

1. The President should visit exemplary private sector-sponsored child care centers on his various trips.
2. Identifying unnecessary state and local child care restrictions and encourage these governments to relax these restrictions. The goal here: to enable community and private groups to more feasibly provide child care.
 - a. The Fifty States Project should identify these barriers to private child care in conjunction with the National Association for Child Care Management, the Heritage Foundation, the American Enterprise Institute, the National Center for Neighborhood Enterprise, groups representing women and educational organizations, and religious organizations.
 - b. The Private Sector Initiatives Office should sponsor a conference to encourage these governments to relax these barriers.
3. Inform and encourage employers to consider providing child care services. For example, the President's Private Sector Initiatives Office should promote the findings of the four Women's Bureau Demonstration Projects on alternative ways for employers to provide child care services for working women. e.g., by way of day care vouchers, educating the employer about tax incentives, employer-provided on-site day care, etc.
4. Encourage workfare programs and work-study programs whereby welfare recipients and college students provide child care.
 - a. Able-bodied welfare recipients to provide low-cost child care for other workfare recipients and for low-income working people.
 - b. College students to provide child care on college campuses or in neighboring communities.

RR Approved

_____ Disapproved

_____ As modified

ADULT LITERACY ADVANCE

Issue

Should the advance of teenage and adult literacy receive direct support from this Administration by private sector initiatives, and from college-level work-study programs?

Background

Literacy competency refers to the ability of an individual to use reading skills in everyday life situations -- reading and comprehending written applications, directions, labels, and work-oriented information. Today, 1 in 5 adults, and a large fraction of teenagers are unable to read, write, or compute well enough to function in U.S. society. And, this pool is expanded each year by more than one million legal and illegal immigrants.

Lack of literacy competency imposes substantial costs on taxpayers. Researchers find correlations between unemployment and the ability to read and to compute basic math problems, and unemployment leads to increased burdens on taxpayers. In addition, researchers find direct correlations between the inability to read well and juvenile delinquency, adult crimes, and the school dropout problem.

The Adult Basic Education program, ABE, the major federally-funded program providing basic literacy skills to adults 16 years and over, generally teaches groups of students, last year serving 2 million. ABE teachers normally do not provide the one-on-one instruction required by those who read at grade levels 0 to 5. Many private volunteer organizations are designed to serve these individuals; last year they taught about 60,000 - 70,000. In addition, private corporations and the military provide training specific to their workforce requirements.

Many adults live with a literacy deficiency with no visible handicap. Presuming these individuals know of available means for gaining literacy, their status presents no particular reason for governmental intervention. And economic theory tells us in the case that the reading and writing requirements for maintaining a job in an industry rise, the worker will seek remedial help, whereas business firms will provide remediation when higher firm-specific literacy skills are required.

The bulk of serious social spillovers due to literacy incompetency stem from the somewhat involuntary situation of young adults falling into this category. Many suffer the burdens of deficient schooling. States and localities would internalize the primary benefits from reductions in crime resulting from enhanced literacy among young adults, and all levels of government would benefit from the associated reductions in taxpayer's burdens.

Note that Mrs. Barbara Bush has selected the fight against illiteracy as her special project.

Political Impact

Highlighting private sector successes in enhancing teenager and adult literacy would demonstrate the positive worth of this Administration's faith in the availability of private charity.

Recommendations:

The literacy issue requires a heightened public awareness. This Administration recommends the advance of teenage and adult literacy in the following ways:

- o Encourage college students to provide literacy tutoring to individuals identified by community organizations. College students could continue to provide this unpaid community service, or could be paid for their services as part of the Department of Education work-study programs.
- o Celebrate International Literacy Day, September 8, with the President at the White House, by inviting administrators of at least a half dozen literacy organizations and a few of their "success stories," adults who've learned to read and compute with the help of these volunteer community groups.
- o The President should encourage state and local governments to increase their initiatives to advance adult literacy, e.g., to establish Literacy Councils or work with existing Councils of Adult Education.
- o The Secretary of Education has pledged to highlight the Administration's program for adult literacy advance in his Conference on Excellence in Education.
- o The Private Sector Initiatives Office and ACTION should disseminate various private sector methods of literacy service delivery to communities nationwide: for example, the National Assault on Illiteracy Program's project to develop literature for teaching 18 to 20-year-old Blacks; also, the Literary Management Training Project's training package for demonstrating how to start community-based, literacy training groups.

PR Approved

_____ Disapproved

_____ As modified

THE WHITE HOUSE

WASHINGTON

February 28, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: THE CABINET COUNCIL ON COMMERCE AND TRADE

SUBJECT: Transfer of the Civil Space Remote Sensing Systems
to the Private Sector

Issue

Should the Administration transfer to the private sector the civil operational land and weather satellite systems?

Background

The current U.S. program in operational civil space remote sensing consists of a single land satellite and four operational weather satellites in orbit. Civil ocean observing satellites have demonstrated their utility also, although there are no operational systems currently in place. A number of private entities have expressed interest in assuming responsibility for portions of the civil space remote sensing system. Some firms are interested in the land satellite systems; another is interested in both the land and weather satellite systems.

Foreign governments have recognized the value of this technology. Civil space remote sensing systems are being advanced by France, Japan, the European Space Agency, India, Canada, the Federal Republic of Germany, and the Soviet Union. To date, only France has actually invested in a land remote sensing system (SPOT); others have invested only in weather systems.

All agencies believe that self-supporting, successful private ventures could evolve in the land and weather sensing markets. However, the time required for this process, as well as the potential size and characteristics of the market, once evolved, are uncertain. The Government provides a steady market for weather data. The value of land satellite data to the U.S. Government has not been rigorously established. Federal user agencies have been happy to use data now provided at subsidized costs, but, if required to pay the full cost of land satellite data, they indicate an intention to consider other means to meet their needs. Therefore, to avoid discriminating against economically desirable alternatives, the Federal Government should allow agencies to choose the most cost-effective means of obtaining data.

Other than Federal users, the land satellite data market has not grown as rapidly as it could have because of the inherent limitations on the Government in developing domestic and international markets. The market for land remote sensing data will have to be further developed. If given the opportunity, an aggressive private sector operation could expand the market base for this product.

The U.S. Government is currently spending more than \$14 billion per year on the civil and national defense space programs, of which nominally \$150-\$200 million is devoted to civil space remote sensing. The Administration's current budget includes funding for the long term operation and replacement of the civil weather satellite. For land remote sensing, the current policy is to continue with the two land satellites which were purchased prior to this Administration and are expected to last until 1988. Thus, the budget has only operating costs and does not include additional Federal funding to procure additional land satellites. The budget assumes that any future land remote sensing systems would have to be developed, launched, and operated by a private entity. Current budget projections do not include funding for development and implementation of expanded uses of data generated by land satellite programs.

The United States has created this high-technology field, but it could lose its leadership position in land remote sensing unless action is taken to preserve it. It should be noted, though, that NASA and DOD are heavily committed to R&D in this field. Also, some private U.S. firms have expressed strong interest in entering the field. Any action taken to transfer civil space remote sensing to the private sector should in no way preclude the continuation of R&D in NASA and DOD to advance remote sensing technology.

Transfer to a private entity without any government assurances would be preferable and will be actively sought. However, implementing a commercial satellite system may involve some form of Government-assured market for a time, e.g., a guaranteed minimum purchase agreement, until the private entity is firmly established. The level of need for such support, if any, will be considered carefully in the evaluation of proposals actually submitted. Such support could raise future budget outlays by as much as \$150 million per year, in 1983 dollars, above current budget projections.

Federal interests will require a continuing oversight to any private entity involved in civil space remote sensing, as outlined by existing international law, national law and current

national space policy. Such oversight, carried out with interagency coordination and contractual provisions between the Government and the data supplier, will assure that national defense, intelligence, and foreign relations concerns are satisfied.

The Cabinet Council on Commerce and Trade has extensively reviewed the issue and has identified two principal options for your consideration:

Option 1: Transfer to the private sector, by competitive means, the current operational civil remote sensing satellites. Separate bids would be accepted for the land or weather satellites, or a firm could elect to submit a single bid for all systems.

The Department of Commerce will oversee the transfer of the civil operational remote sensing satellites to the U.S. private sector as soon as possible. The selection of the private entity would occur under conditions of competition among U.S. firms only. The transfer will be guided by the following principles:

- (1) National security and foreign policy concerns must be appropriately addressed in preparing legislation, requesting proposals, and overseeing the private entity or entities.
- (2) The selection of the private entity would occur under competitive conditions. Private firms would have the option of bidding separately for the land or weather satellite system or preparing a joint submission for both. The financial and program justifications would be presented in such a manner that separate submissions can be appropriately compared to joint submissions.
- (3) The Department of Commerce would establish an inter-agency coordinating body as soon as possible.

Advantages

- o Stimulates technology development by the private sector in response to new market demands and expands the role of private industry.

- o Demonstrates commitment to the private sector role in space.
- o Reduces the size and scope of Government activities.
- o Increases the probability that information flows from land satellites will continue.

Disadvantages

- o May require increasing Federal funding to cover minimum purchase commitments by the Government, until the private entity is firmly established.
- o There is a possibility that a new regulatory structure would be required.

Option 2: Continue the current budget policy of bringing the operational land remote sensing systems in the Government to a close nominally by 1988 (or sooner if private industry is willing to take it over) and retain the civil weather satellites under Government control.

Advantage

- o Option is within current budget.

Disadvantages

- o Only minimally reduces the size and scope of Government.
- o May result in the relinquishment of land remote sensing to foreign competitors by U.S..

Decision

Option 1 ✓PR Transfer to the private sector, via competitive means the current operational civil weather and land satellites. Separate bids would be permitted for the land or weather satellites, or a firm could elect to submit a single bid for all.

Option 1 unanimously supported by the Cabinet Council on Commerce and Trade

Option 2

Continue the current budget policy of bringing the operational land remote sensing systems in the Government to a close nominally by 1988 or sooner if private industry is willing to take it over, and retain the civil weather satellites under Government control.

Malcolm Baldrige
Chairman Pro Tempore
Cabinet Council on Commerce and Trade

THE WHITE HOUSE
WASHINGTON

Date: February 10, 1983

NOTE FOR: SECRETARY REGAN
via Craig L. Fuller

The President has

seen
acted upon
commented upon

the attached; and it is forwarded to you for your:

information
action

Richard G. Darman
Assistant to the President
(x-2702)

cc: original to files

THE WHITE HOUSE

WASHINGTON

January 31, 1983

Note RR
decision
here.
RW
2/10/83

MEMORANDUM FOR THE PRESIDENT

FROM: CABINET COUNCIL ON ECONOMIC AFFAIRS
SUBJECT: Davis-Bacon Act

The Cabinet Council on Economic Affairs has reviewed the status of the Labor Department's Davis-Bacon regulatory reform package to assess the Administration's position on legislative reform of the Davis-Bacon Act. In view of the important budgetary and employment impacts of the Davis-Bacon law and the political ramifications of any decision to support legislation, Council members agree that the issue merits your attention.

Background

The Davis-Bacon Act, enacted in 1931, requires payment of "prevailing" wages to workers employed on federally financed construction or public works jobs involving contracts in excess of \$2,000. The Secretary of Labor is authorized to determine separate prevailing wage levels for various classes of workers in each city, town, or village in which a federally financed construction or public works activity takes place. Since its enactment, approximately 60 other statutes have incorporated the wage requirements under the Davis-Bacon law. In fiscal year 1982, construction activity covered by the Davis-Bacon Act totalled \$30.3 billion.

During the 1980 election campaign you pledged not to seek repeal of the Davis-Bacon Act. This commitment has been reaffirmed by the Administration on numerous occasions during the last two years. You also indicated that you would support administrative reform of the Act.

The Labor Department's Regulatory Changes

During June 1981 the Cabinet Council recommended and you approved seeking a series of administrative changes in the Davis-Bacon Act regulations. After much public review and comment Secretary Donovan issued final regulations on May 28, 1982. The package of regulatory reforms was estimated to save \$585 million in federal outlays per year. The four most significant changes involved:

- o Increasing from 30 to 50 percent, the minimum percentage of workers in a trade group needed to establish a particular wage as the prevailing wage.

- o Prohibiting the use of urban wage rates to determine prevailing wages in rural communities.
- o Prohibiting the inclusion of previously established prevailing wage rates in the determination of a new prevailing wage.
- o Allowing up to 40 percent of the workers in a classification to be designated as a "helper" on federally financed construction projects.

Legal Challenge

In June 1982 the Building and Construction Trades Department of the AFL-CIO, and several other labor unions, sued the Department to restrain implementation of the final regulations. In July 1982 the Federal District Court for the District of Columbia issued a preliminary injunction restraining implementation of the new regulations.

On December 23, 1982, Judge Harold Greene issued a final order ruling in favor of the Labor Department's regulation changing the 30 percent threshold to a 50 percent threshold. He ruled against the Department's three other major Davis-Bacon regulatory reforms. The unions are almost certain to appeal Judge Greene's decision on the 50 percent threshold.

Issue

How should the Administration respond to the December 23, 1982 final order?

Option 1: Seek an expedited appeal of the Federal District Court's decision.

Recent experience with the Court of Appeals suggests that the chances of the Court granting an expedited appeal are good. If granted, we should have a decision before the end of the year. While no decision on an appeal to the Supreme Court can be made until the appeals court renders its opinion, the Department of Justice believes it is not certain this is the kind of case the Supreme Court would agree to review. If they did not agree to review the case, the decision of the Court of Appeals would be final. If the Supreme Court did take the case on certiorari by January 1984 or earlier then we might have a decision by June 1984. If the case were not granted until February 1984 or after, then we probably would not have a decision until sometime in 1985.

Advantages

- o An appeal would permit removal of a judicial road block to the Administration's regulatory reform program. A favorable appellate court decision could establish an important precedent by upholding the Administration's authority to change long-standing regulations and by ruling that cost-saving is a legitimate reason for changing a regulation.
- o The Departments of Labor and Justice feel that our legal position is a good one and that we should prevail. However, there is a substantial possibility that we could lose the appeal, just as we lost in the Federal District Court.

Disadvantages

- o If the District Court's decision is upheld, the precedent set by the appellate court's decision would seriously damage the Administration's regulatory reform program.
- o A final court decision might not be issued until the months immediately preceding the 1984 election. Davis-Bacon could then become a volatile campaign issue.

Option 2: Seek an expedited appeal of the Federal District Court's decision and support legislative reform of the Davis-Bacon Act consistent with the objectives of our proposed administrative changes.

Several bills to reform Davis-Bacon are likely to be introduced during the current congressional session. The legislative proposals include codification of a major portion of the Labor Department's regulatory reform package and one other significant reform measure: raising the coverage threshold substantially above the current \$2,000 level.

Advantages

- o Raising the threshold to \$100,000, as is currently being considered by Senator Nickles, would save between \$200 and \$600 million over the next five years.
- o Supporting such legislation would be enthusiastically received by most members of the business community.
- o Having proceeded in good faith through a lengthy comment process to arrive at final regulations which have now been blocked, the Administration should feel free to seek Davis-Bacon reform through legislation.

Disadvantages

- o Organized labor would regard legislative reforms as tantamount to repeal and would likely claim that the President is breaking his campaign commitment not to seek repeal.
- o Supporting legislative reform would have an adverse impact on our appeal effort. If legislation passed, it would moot the appeal and we would lose the opportunity for a precedent setting decision in our favor. If the legislation does not pass, it undermines our arguments about congressional intent.
- o It is highly unlikely that the 98th Congress will pass such legislation.

This issue is obviously related to what position the Administration should take on Davis-Bacon provisions in legislation we will submit to the 98th Congress.

Currently several bills are circulating within the Administration which would eliminate Davis-Bacon coverage on certain types of construction projects. Three particularly important bills are:

- o The Military Construction Authorization Act which would exempt military construction projects from Davis-Bacon requirements.
- o The New Federalism Bill which would exempt from Davis-Bacon requirements some construction projects under programs proposed for turnback to the states.
- o The Social and Economic Program Adjustment Act which would raise the Davis-Bacon coverage threshold.

A decision on the Davis-Bacon provisions of these bills must be made before they are submitted. The decision on these bills is linked to the question of whether merely to seek an expedited appeal of the Federal District Court's decision or also to support legislative reform.

If you decide simply to seek an expedited appeal, then the Administration would not include provisions in specific new legislative proposals which would exempt construction projects from Davis-Bacon requirements.

If you determine to support legislative reform of Davis-Bacon in addition to seeking an expedited appeal, the Administration would include provisions in specific new legislative proposals

which would exempt or substantially reduce coverage on construction projects from Davis-Bacon requirements.

Decision

Option 1

✓ RR

Seek an expedited appeal of the Federal District Court's decision.

Option 2

Seek an expedited appeal of the Federal District Court's decision and support legislative reform of the Davis-Bacon Act consistent with the objectives of our proposed administrative changes.

Donald T. Regan
Chairman Pro Tempore

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: EDWIN MEESE III
CHAIRMAN PRO TEMPORE
CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

SUBJECT: Abolition of the Federal Regional
Council System

BACKGROUND

In the late 1960's ten Federal Regional Councils were established to coordinate interagency and intergovernmental issues in each of the ten standard Federal Regional headquarters cities. The FRC role has diminished as a result of your emphasis on less federal intervention in the affairs of State and local governments through the use of block grants and deregulatory initiatives.

Agencies now indicate that they can communicate and coordinate on their own more efficiently than through an elaborate field structure such as the FRC system. For much the same reason, the White House approach to intergovernmental issues has been to work directly through the agencies.

RECOMMENDATION

The Cabinet Council on Management and Administration unanimously concurred in the OMB/White House/Agency recommendation that the FRC system be abolished. I believe such a decision should be announced as part of the Administration's continuing drive to eliminate and reduce unnecessary federal structures that no longer serve a productive purpose. Approval of this recommendation will require rescission of the current Executive Order.

DECISION

RR Approve Approve as Amended Reject No Action



United States
**Office of
Personnel Management**

The President has seen _____

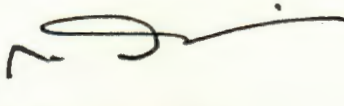
Washington, D.C. 20415

In Reply Refer To:

Your Reference:

January 31, 1983

MEMORANDUM FOR THE PRESIDENT

From: Donald J. Devine 
Director
Office of Personnel Management

Subject: OPTIONS FOR REFORM OF THE COMBINED FEDERAL CAMPAIGN (CFC)

I. ACTION FORCING EVENTS

- * The timely action cycle for the 1983 CFC began December 1, 1982. We are already two months behind
- * Employee pressure is building for nationwide boycotts next year if advocacy groups are included

II. BACKGROUND

- * Employee boycotts of the CFC were averted this year by strong efforts by responsible Union leaders and local Federal officials on the basis of Administration pledges to reform the next CFC; aversion will not be possible in the coming year
- * In the 1982 CFC, even with boycotts and employee resistance, overall employee participation declined slightly and contributions increased slightly
- * The overwhelming majority of employees give to health and welfare charities, while a small minority of employees give to advocacy groups
- * Many more advocacy groups seek admission to the 1983 CFC
- * Unions, Federal Executive Boards, and managers all strongly favor focusing the CFC on health and welfare charities, while "non-traditional" advocates favor no exclusions

III. OPTIONS

Option 1. Continue the Status Quo.

Description: Retain the Executive Order as is. Advocacy groups, as well as health and welfare agencies, may continue to solicit through the CFC.

- Advantages:
- * Avoids lawsuits over exclusion
 - * Gives appearance of freedom-of-choice
 - * Pleases advocacy and other non-traditional agencies
- Disadvantages:
- * Presidential pledge unfulfilled
 - * Many new advocacy groups will join: National Association for Advancement of White People has applied
 - * Unions and employees will boycott
 - * Federal managers will resist administering CFC
 - * Displeases health and welfare charities, United Ways, and Washington Post
 - * Fails to focus Government support on health and welfare needs and programs that lessen the the burdens of Government
 - * Raises charge that taxpayers pay for fundraising for advocacy groups.

Option 2. Limit Eligibility to Health and Welfare Charities

Description: Participation in the CFC would be limited to health and welfare charities.

- Advantages:
- * President fulfills pledge
 - * Boycotts averted
 - * Legally defensible
 - * CFC focuses on lessening burdens of Government, building safety net
 - * Unions will strongly support
 - * Local officials and Washington Post support
 - * Health and welfare agencies strongly support
 - * Government resources not used to fund advocacy groups
 - * Lawsuits by advocacy groups on "clean" legal issue of focus on health and welfare
- Disadvantages:
- * Advocacy groups will sue
 - * Appearance of less freedom-of-choice
 - * Some media will oppose

Option 3. Limit Full Eligibility to Health and Welfare Charities; Permit Write-in Gifts to Other Philanthropies.

Description: National eligibility in the CFC solicitation would be limited to health and welfare charities. Local donors would be permitted, however, to earmark gifts to any nonprofit human service agency (including organizations not participating in the CFC and therefore not listed in brochures) by a write-in mechanism on the donor card.

- Advantages:
- * President arguably fulfills pledge
 - * Employees have more freedom-of-choice
 - * Unions might not boycott
 - * Probably satisfies health and welfare agencies
- Disadvantages:
- * Advocacy groups will sue on stronger legal grounds than with Option 2, colorably claiming that they are admitted but with 2d class 1st Amendment rights
 - * Administratively burdensome
 - * Still displeases advocacy groups, with some support, for not being equally open to all
 - * Government resources still subsidize fundraising for advocacy groups

IV. RECOMMENDATION

The status quo is untenable and the President is on record saying so. Under either Option 2 or Option 3 the legal bullet must be bitten; Option 2 presents the cleaner legal position. Option 3 generates new legal exposure by "admitting" advocacy groups sub silentio while denying them the right to "speak" through CFC brochures. The key distinction between this half-step and Option 1 is that here advocacy groups are not allowed to "speak." Simple exclusion of non-health-and-welfare groups may be easier to defend than admission with unequal status. Option 3 also raises many questions of administration that might cost more than it will gain cosmetically. Accordingly, I recommend Option 2.

V. DECISION

(Draft Executive Orders for Options 2 and 3 are attached).

Option 1

Option 2 ✓RR

Option 3

(OPTION 2)

Draft

Executive Order

CHARITABLE FUND-RAISING

By the authority vested in me as President by the Constitution of the United States of America, and in order to lessen the burdens of government and of local communities in meeting needs of human health and welfare, it is hereby ordered as follows:

Section 1. Executive Order 12353 is amended as follows:

(a) In Section 1 delete "such national" and "and such other national voluntary agencies as may be appropriate".

(b) In Section 2 insert "(a)" after the Section number and add the following new subsections:

"(b) In establishing those criteria, the Director shall be guided by the following principles and policies:

"(1) The objectives of the Combined Federal Campaign are to lessen the burdens of government and of local communities in meeting needs of human health and welfare; to provide a convenient channel through which Federal public servants may contribute to these efforts; to minimize or eliminate disruption of the Federal workplace and costs to Federal taxpayers that such fund-raising may entail; and to avoid the reality and appearance of the use of Federal resources in aid of fund-raising for political activity or advocacy of public policy, lobbying or philanthropy of any kind that does not directly serve needs of human health and welfare.

"(2) To meet these objectives, eligibility for participation in the Combined Federal Campaign shall be limited to voluntary, charitable, health and welfare agencies that provide or substantially support direct health and welfare services to individuals or their families. Such direct health and welfare services must be available to Federal employees in the local campaign solicitation area, unless they are rendered to needy persons overseas. Such services must benefit human beings, whether children, youth, adults, the aged, the ill and infirm, or the mentally or physically handicapped. Such services must consist of care, research or education in the fields of human health or social adjustment and rehabilitation; relief of victims of natural disasters and other emergencies; or assistance to those who are impoverished and in need.

"(3) Agencies that seek to influence the outcomes of elections or the determination of public policy through political activity or advocacy, lobbying, or litigation on behalf of parties other than themselves shall not be deemed charitable health and welfare agencies and shall not be eligible to participate in the Combined Federal Campaign.

"(4) International organizations that provide health and welfare services overseas, and that meet the eligibility criteria except for the local services criterion, shall be eligible to participate in each local solicitation area of the Combined Federal Campaign.

"(5) Local voluntary, charitable, health and welfare agencies that are not affiliated with a national agency or federation but that satisfy the eligibility criteria set forth in this Order and by the Director, shall be permitted to participate in the Combined Federal Campaign in the local solicitation areas in which they provide or substantially support direct health and welfare services."

Section 2. All rules, regulations, and directives continued or issued under Executive Order No. 12353 shall continue in full force and effect until revoked or modified under the provisions of this Order.

.....

Draft

Executive Order

CHARITABLE FUND-RAISING

By the authority vested in me as President by the Constitution of the United States of America, and in order to lessen the burdens of government and of local communities in meeting needs of human health and welfare, it is hereby ordered as follows:

Section 1. Executive Order 12353 is amended as follows:

(a) In Section 1 delete "such national" and "and such other national voluntary agencies as may be appropriate".

(b) In Section 2 insert "(a)" after the Section number and add the following new subsections:

"(b) In establishing those criteria, the Director shall be guided by the following principles and policies:

"(1) Eligibility for participation in the Combined Federal Campaign shall be limited to voluntary, charitable agencies whose principal purpose is to provide or substantially support direct health and welfare services to individuals and families; provided, however, that, subject to such regulations as the Director may prescribe, Federal employees and members of the uniformed services shall be permitted to designate gifts to voluntary human-service agencies not participating in the Combined Federal Campaign.

"(2) Where required by this Order, direct health and welfare services must be available to Federal employees in the local campaign solicitation area, unless they are rendered to needy persons overseas. Such services must benefit human beings, whether children, youth, adults, the aged, the ill and infirm, or the mentally or physically handicapped. Such services must consist of care, research or education in the fields of human health or social adjustment and rehabilitation; relief of victims of natural disasters and other emergencies; or assistance to those who are impoverished and in need.

"(3) International organizations that provide health and welfare services overseas, and that meet the eligibility criteria except for the local services criterion, shall be eligible to participate in each local solicitation area of the Combined Federal Campaign."

(c) In Section 6, in the first sentence thereof, delete "such" and the period, and add "including voluntary human-service agencies not participating in the Combined Federal Campaign."

Section 2. All rules, regulations, and directives continued or issued under Executive Order No. 12353 shall continue in full force and effect until revoked or modified under the provisions of this Order.

with \overline{CLF}
staff recommendations

THE WHITE HOUSE
WASHINGTON

Date: 1/13/83

NOTE FOR: DAVID A. STOCKMAN

The President has

seen
acted upon
commented upon

the attached; and it is forwarded to you for your:

information
action

Richard G. Darman
Assistant to the President
(x-2702)

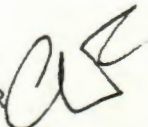
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THE WHITE HOUSE

WASHINGTON

January 12, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: CRAIG L. FULLER 
SUBJECT: Health Care Initiatives

Attached is the revised decision memorandum on Health Care Initiatives. As you heard at the recent meeting of the Cabinet Council on Human Resources, a program has been developed which is designed to reduce the growth of health care costs and limit government spending while protecting medicare recipients against catastrophic costs.

The original decision memorandum has been revised and circulated for comment following the Cabinet Council meeting. The decision memorandum was revised to take into account the discussion at the Cabinet Council meeting. Views on this new memorandum were received from several sources. The views are appended; however, a summary of the comments received appears opposite the recommendations in the attached booklet.

You are requested to initial the options which you wish to approve.

Thank you.

Attachment



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

January 6, 1983

DECISION MEMORANDUM FOR THE PRESIDENT

From : Secretary Schweiker

Subject: Health Care Incentives Project

This memorandum requests your decision on the package of options presented to you at the January 4 meeting of the Cabinet Council on Human Resources. The comments of the Cabinet Council members are summarized after each option. Where there was general agreement, it is noted.

Medicare Options

Option 1: Provide Part A Catastrophic Benefits

- o The following changes would take effect on January 1, 1984.
- o The existing limits on covered hospital days would be removed, but the 100 day per spell-of-illness limit on covered days in a skilled nursing facility would be retained.
- o The current law deductible would be retained--that is the deductible would equal the average cost of a hospital day (about \$350 in 1984) and would be assessed on the first day of each spell of illness.
- o Beneficiaries would pay 10 percent coinsurance (about \$35 per day in 1984) on hospital days two through fifteen in a spell of illness and 5 percent coinsurance (about \$17.50 per day in 1984) on subsequent days.
- o Beneficiaries would pay 5 percent coinsurance (about \$17.50 per day in 1984) on days 21-100 in a skilled nursing facility.
- o No beneficiary would be required to pay the Part A deductible more than twice per year.
- o No beneficiary would be required to pay either a deductible or coinsurance on more than 60 hospital days per year.

Comments on Option 1

Treasury: Recommends approving Option 1 (1a) and extending catastrophic to physician services (this second item will be taken up at a subsequent CCHR meeting as noted in the decision memo).
Recommends you disapprove 1b.

Labor: Does not object to approving Option 1 (1a) and specifically recommends approval of reducing coinsurance on days 2-15 to 5% (1b).

CEA: Recommends approval of Option 1 (1a).

Duberstein: Advises that while there is sentiment for catastrophic coverage, many members of Congress will be reluctant to address the issue which will be very controversial.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-YEAR TOTAL</u> |
|--------|-------|-------|-------|-------|-------------------------|
| \$-890 | -1600 | -1820 | -2035 | -2275 | -8620 |

Comments: It was suggested that catastrophic coverage be extended to cover physician services (Medicare Part B). The Cabinet Council on Human Resources will examine this feature at a later date.

It was also suggested that the coinsurance be reduced to 5 percent for hospital days 2-15. Doing this would decrease savings from about \$890 million in FY 1984 to roughly \$15 million. From FY 1984 - 1988, savings would be reduced from \$8.6 billion to about \$900 million.

| | |
|--------------|----------------------------------------------|
| <u>RR 1a</u> | Approve Option 1 |
| <u>1b</u> | Reduce coinsurance on days 2-15 to 5 percent |

Option 2: Increase the Part B Premium

- o Beginning July 1, 1984, the Part B premium would be set so that total premium income equals 35 percent of projected Part B outlays for the aged.
- o In subsequent years, the percentage of Part B outlays covered by premiums would increase by one percentage point each year until it reaches 40 percent. It would then be held constant at 40 percent.
- o Although participation in Part B is voluntary, most beneficiaries elect to have the Part B premium deducted from their monthly Social Security check. To prevent any beneficiary from experiencing an actual reduction in his Social Security check compared to the preceding year, a "hold harmless" provision would be included in this proposal.

Effect on Medicare Premium Revenues
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-YEAR TOTAL</u> |
|--------|--------|--------|---------|--------|-------------------------|
| \$+525 | +2,335 | +3,280 | \$4,445 | +5,805 | +16,390 |

Comments on Option 2:

Labor: Recommends approval of Option 2.

Treasury: Recommends approval of Option 2.

CEA: Recommends approval of Option 2.

Duberstein: Does not object to approving Option 2; however, he points out that while Social Security checks would not go down, they may not go up as a result of this proposal. Hence, this proposal would be very controversial.

Comments on Option 3:

Labor: Recommends approval of Option 3.

Treasury: Recommends approval of Option 3.

CEA: Recommends approval of Option 3.

Duberstein: No objection to Option 3. Points out that it was almost approved last year.

Effect on Medicaid Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-YEAR TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| \$+39 | +175 | +246 | +333 | +435 | +1228 |

Comments: Almost 60 percent of the projected Medicare savings are due to this proposal.

RR
 Approve Option 2
 Reject Option 2

Option 3: Establish a Voluntary Voucher Program

- o Medicare beneficiaries would be given the option of applying their Medicare benefits toward the premium of a private health plan. Medicare's contribution would be set at 95 percent of what it would have cost the government to care for the beneficiary if he or she had elected to receive traditional Medicare benefits.
- o Enrollment in a private health plan would be voluntary, and all beneficiaries would retain the right to return to Medicare during an annual open enrollment period.

Effect on Federal Benefit Outlays*
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-----------------------------------------------------|-------|-------|-------|-------|-------------------------|
| \$+ (An average of less than \$50 million per year) | | | | | less than +250 |

* This estimate is being revised by the Medicare actuaries.

Comments: There was general agreement on this proposal.

RR
 Approve Option 3
 Reject Option 3

Comments on Option 4:

Labor: Recommends approval of Option 4.

Treasury: Recommends approval of Option 4.

CEA: Recommends approval of Option 4.

Duberstein: "Good idea with bipartisan support."

Option 4: Prospective Payment for Hospitals

- o Rather than reimbursing hospitals for whatever costs they incur, as is done under current law, Medicare would pay hospitals according to a schedule of prospectively determined rates.
- o A separate rate would be set for each of 467 diagnosis-related groups (DRGs), with adjustments for local wages, teaching costs, and capital costs.
- o Regardless of the costs they incur, hospitals would be paid no more than the DRG-based rate. As an incentive for efficiency, hospitals that incur costs lower than the DRG-based rate would be permitted to keep the difference.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|-------------------------------------------------------------------|-------|-------|-------|-------|-----------------|
| (Same as in the Tax Equity and Fiscal Responsibility Act of 1982) | | | | | |

Comments: There was general agreement on this proposal.

RL
 Approve Option 4
 Reject Option 4

Option 5: Index the Part B Deductible

- o The Part B deductible would be indexed to rise with the Medicare economic index.
- o The indexing would take effect January 1, 1984.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| \$-46 | -116 | -199 | -287 | -379 | -1027. |

Comments on Option 5:

Labor: Recommends approval of Option 5.
Treasury: Recommends approval of Option 5.
CEA: Recommends approval of Option 5.
Duberstein: Recommends approval of Option 5 and
 indicates that it should not be a problem on the
 Hill.

Comments on Option 6:

Labor: Recommends approval of Option 6.
Treasury: Recommends approval of Option 6.
Duberstein: No comment.
CEA: Recommends approval of Option 6.

Comments: There was general agreement on this proposal.

RR
 Approve Option 5
 Reject Option 5

Option 6: Limit Medicare Reimbursement to Home Health Agencies for Durable Medical Equipment

- o This proposal would limit reimbursement for durable medical equipment provided by home health agencies to 80 percent of the reasonable costs of the equipment. The beneficiary would pay the other 20 percent as coinsurance.

Effect on Federal Benefit Outlays
 (in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| -\$14 | -14 | -18 | -18 | -23 | -87 |

Comments: There was general agreement on this proposal.

RR
 Approve Option 6
 Reject Option 6

Option 7: Defer Medicare Eligibility Until the First Full Month Following Sixty-fifth Birthday

- o Under current law, individuals become entitled to Medicare benefits on the first day of the month of their sixty-fifth birthday.
- o This proposal would defer eligibility until the first day of the month following the individual's sixty-fifth birthday.

Effect on Federal Benefit Outlays
 (in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|--------|-------|-------|-------|-------|-------------------------|
| -\$230 | -270 | -310 | -350 | -400 | -1560 |

Comments on Option 7:

Labor: Recommends disapproval of option 7.

Treasury: No Comment.

CEA: Recommends approval of option 7.

Duberstein: Makes no recommendation. Indicates that this would be "highly visible and contentious issue that would be used to hammer us." And also, indicates that it would be very difficult to pass.

Comments on Option 8:

Labor: Recommends approval of Option 8. (8a)

Treasury: Recommends approval of Option 8.

CEA: Recommends approval of Option 8.

Duberstein: This is a waste, fraud and abuse issue which should not cause problems on the Hill.

Comments: A person retiring at age 65 becomes eligible for Social Security cash benefits on the first day of the month of his or her 65th birthday. Thus, Option 7 would make Medicare eligibility different than eligibility for Social Security. It was noted that for most beneficiaries there would be no gap in their insurance coverage since private employment-based health plans usually cover workers for 30 days after their employment ends.

RR
Approve Option 7
Reject Option 7

Option 8: Competitive Bidding for Laboratory Services and Durable Medical Equipment

- o HHS would be authorized to employ competitive procurement procedures for the bulk purchase of laboratory services and durable medical equipment (DME).
- o HHS would be authorized to limit beneficiaries' choice of laboratory or DME provider and to waive patient cost-sharing for lab services and DME.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| -\$9 | -14 | -20 | -35 | -55 | -133 |

Comments: There was general agreement on this proposal.

RR
Approve Option 8
Reject Option 8

Comments on Option 9:

Labor: Recommends approval of Option 9.

Treasury: Recommends approval of Option 9.

CEA: Recommends approval of Option 9.

Duberstein: Fears that high unemployment and a continued recession would cause liberals on the Hill to mount an attack.

Medicaid OptionsOption 9: Mandatory Nominal Copayments Under Medicaid

- o On outpatient services, categorically needy beneficiaries would be charged a \$1 copayment per visit. Medically needy beneficiaries would be charged \$1.50 per visit.
- o On inpatient hospital services, the categorically needy would be charged \$1 per day. The medically needy would be charged \$2 per day.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|--------|-------|-------|-------|-------|-------------------------|
| \$-320 | -359 | -398 | -452 | -500 | -2029 |

Comments: There was general agreement on this proposal.

RR

Approve Option 9
Reject Option 9

Option 10-A: Extend OBRA's Reduction in the Federal Share of
Medicaid Outlays

- o In FY 1985 and all subsequent years, Federal payments to each State for Medicaid would be reduced by 3.0 percent, thus extending into future years the reductions in the Omnibus Budget Reconciliation Act of 1981 (OBRA) but reducing the amount of the reduction. (The OBRA mandated reduction is 4.5 percent.)
- o As in OBRA, States would be able to "earn back" part of the reduction in Federal payments if they have a hospital cost review program, high unemployment rate, or high fraud and abuse recoveries, or if they hold Medicaid outlays below the target level of expenditures established in OBRA.

Comments on Option 10-A:

Labor: Recommends approval of Option 10-A.
Treasury: Recommends approval of Option 10-A.
CEA: Recommends approval of Option 10-A.
Duberstein: Congress may be willing to approve inspite of
 early accomplishments in this area.

Comments on Option 10-B

Labor: Recommends disapproval of Option 10-B.
Treasury: Expresses concern about any further reduction in
 Federal payments to the States.
CEA: Recommends approval of Option 10-B.
Duberstein: Indicates that this would be difficult to
 achieve.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|-------|-------|-------|-------|-------|-----------------|
| \$ 0 | -570 | -630 | -685 | -740 | -2625 |

Comments: There was general agreement on this proposal.

RR

Approve Option 10-A
Reject Option 10-A

Option 10-B: Provide Added Incentives for States to Reduce
Medicaid Spending

- o For States whose expenditures exceed the target established by the Omnibus Budget Reconciliation Act of 1981, Federal payments would be reduced by an additional one-quarter of one percent for each percent by which the State is over its target. This provision would be effective in FY 1984.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-Year TOTAL |
|--------|-------|-------|-------|-------|-----------------|
| \$-615 | -875 | -1180 | -1540 | -2050 | -6260 |

Comments: Concern was expressed about any further reduction in Federal payments to the States.

RR

Approve Option 10-B
Reject Option 10-B

Comments on Option 11/Issue A:

Labor: Recommends approval of only Option 11-Aa.

Treasury: Recommends approval of Option 11-Aa and believes that approval of Option 11-Ab, which would require co-payments in addition to imposing a dollar limit on the level of tax exempt health insurance premiums, would strengthen the proposal.

OMB: Recommends approval of only Option 11-Aa. OMB fears that approval the co-payment option (11-Ab) would significantly decrease the political acceptability of the tax cap option. Additionally, the savings from the inclusion of the co-payment feature have not been determined.

OPD: Ed Harper concurs with OMB's position.

CEA: Marty Feldstein now concurs with OMB although he spoke in favor of the co-payment option at the Cabinet Council meeting.

Duberstein: No comment.

Comments on Option 11/Issue B:

Labor: Recommends approval of Option 11-Ba.

Treasury: Recommends approval of Option 11-Bb. Indicating that the amount of employer-paid health benefits that are tax free to the employee should be limited (11-Bb). Limitation of the employer deduction (11-Ba) clearly denies employers a legitimate deduction for costs of compensation. Moreover, this first option would put the Administration in the undesirable position of favoring employees of government and non-profit institutions.

CEA: Concurs with Treasury position to support 11-Bb. Adds that organized labor will probably oppose any option but business support is likely to be stronger for 11-Bb.

OPD: Concurs with Treasury and CEA to support 11-Bb.

Duberstein: Very difficult to pass. It may be suggested that we are seeking a large tax increase.

Private Insurance

Current Law

Unlike cash wages, an employer's contribution to an employee health plan is not taxable income to the employee. The employer may, however, deduct the health plan contribution as an ordinary business expense. Furthermore, the employer does not pay FICA or FUTA taxes on health plan contributions. Health benefits receive this preferential tax treatment regardless of the structure of the health plan.

Option 11: Alter the Tax Treatment Given to Employer-Provided Health Plans

Issue A: Should the Administration propose restricting the favorable tax treatment currently given to all employer-provided health plans?

11-Aa *RR* Impose a dollar limit on the level of tax exempt health insurance premiums.

11-Ab Impose a dollar limit on the level of tax exempt health insurance premiums and require a minimum patient copayment at the time of care up to a catastrophic limit.

11-Ac As an alternative to imposing a tax cap, simply require a minimum patient copayment at the time of care up to a catastrophic limit.

11-Ad Maintain the current favorable tax treatment of employer-paid health insurance.

Issue B: If the Administration proposed limiting the amount of employer-paid health benefits that are tax free, should the limit apply to employers or employees?

11-Ba Limit the amount of employer-paid health benefits that are tax deductible to the employer.

11-Bb *RR* Limit the amount of employer-paid health benefits that are tax free to the employee.

Issue C: If the Administration proposed limiting the amount of employer-paid health benefits that are tax free, at what level should the tax cap be set?

Comments on Option 11/Issue C:

Labor: Recommends approval of Option 11-Ca.

Treasury: Recommends approval of Option 11-Ca indicating that it is "slightly preferable because it restricts the number of employees initially affected, although it raises less revenues. All options are acceptable."

CEA: Recommends approval of Option 11-Cb because \$150 per month is a very generous level of tax free health insurance. Also, since Congress is likely to try to raise whatever tax cap level you set, the \$175 per month level runs the risk of being turned into \$200 per month which would have much less of an effect on controlling health care costs.

Duberstein: No comment.

11-Ca RR

Establish a \$175 per month limit for family health benefit plans.

Note: 72% of current health plans are below this limit and would not be affected.

11-Cb

Establish a \$150 per month limit for family health benefit plans.

Note: 60% of current health plans are below this limit and would not be affected.

11-Cc

Establish a \$125 per month limit for family health benefit plans.

Note: Approximately 46% of current health plans are below this limit and would not be affected.

Following are estimates of the effect on tax revenues of a \$175 per family per month limit on the amount of employer-paid benefits that are tax deductible to the employer.

Effect on Federal Revenues
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|---------|-------|-------|-------|-------|-----------------|
| +\$1600 | +3400 | +4500 | +6100 | +8100 | +23,700 |

A \$175 per month limit on the amount of employer-paid benefits that are tax-free to the employee would have the following effect.

Effect on Federal Revenues
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|---------|-------|-------|-------|---------|-----------------|
| +\$2500 | +4600 | +6200 | +8300 | +11,100 | +32,700 |

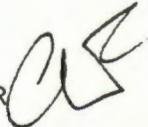
without (CLF)
staff commendation

THE WHITE HOUSE

WASHINGTON

January 12, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: CRAIG L. FULLER 

SUBJECT: Health Care Initiatives

Attached is the revised decision memorandum on Health Care Initiatives. As you heard at the recent meeting of the Cabinet Council on Human Resources, a program has been developed which is designed to reduce the growth of health care costs and limit government spending while protecting medicare recipients against catastrophic costs.

The original decision memorandum has been revised and circulated for comment following the Cabinet Council meeting. The decision memorandum was revised to take into account the discussion at the Cabinet Council meeting. Views on this new memorandum were received from several sources. The views are appended; however, a summary of the comments received appears opposite the recommendations in the attached booklet.

You are requested to initial the options which you wish to approve.

Thank you.

Attachment



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

January 6, 1983

DECISION MEMORANDUM FOR THE PRESIDENT

From : Secretary Schweiker

Subject: Health Care Incentives Project

This memorandum requests your decision on the package of options presented to you at the January 4 meeting of the Cabinet Council on Human Resources. The comments of the Cabinet Council members are summarized after each option. Where there was general agreement, it is noted.

Medicare Options

Option 1: Provide Part A Catastrophic Benefits

- o The following changes would take effect on January 1, 1984.
- o The existing limits on covered hospital days would be removed, but the 100 day per spell-of-illness limit on covered days in a skilled nursing facility would be retained.
- o The current law deductible would be retained--that is the deductible would equal the average cost of a hospital day (about \$350 in 1984) and would be assessed on the first day of each spell of illness.
- o Beneficiaries would pay 10 percent coinsurance (about \$35 per day in 1984) on hospital days two through fifteen in a spell of illness and 5 percent coinsurance (about \$17.50 per day in 1984) on subsequent days.
- o Beneficiaries would pay 5 percent coinsurance (about \$17.50 per day in 1984) on days 21-100 in a skilled nursing facility.
- o No beneficiary would be required to pay the Part A deductible more than twice per year.
- o No beneficiary would be required to pay either a deductible or coinsurance on more than 60 hospital days per year.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-YEAR TOTAL</u> |
|--------|-------|-------|-------|-------|-------------------------|
| \$-890 | -1600 | -1820 | -2035 | -2275 | -8620 |

Comments: It was suggested that catastrophic coverage be extended to cover physician services (Medicare Part B). The Cabinet Council on Human Resources will examine this feature at a later date.

It was also suggested that the coinsurance be reduced to 5 percent for hospital days 2-15. Doing this would decrease savings from about \$890 million in FY 1984 to roughly \$15 million. From FY 1984 - 1988, savings would be reduced from \$8.6 billion to about \$900 million.

RR 1a Approve Option 1
1b Reduce coinsurance on days 2-15 to 5 percent

Option 2: Increase the Part B Premium

- o Beginning July 1, 1984, the Part B premium would be set so that total premium income equals 35 percent of projected Part B outlays for the aged.
- o In subsequent years, the percentage of Part B outlays covered by premiums would increase by one percentage point each year until it reaches 40 percent. It would then be held constant at 40 percent.
- o Although participation in Part B is voluntary, most beneficiaries elect to have the Part B premium deducted from their monthly Social Security check. To prevent any beneficiary from experiencing an actual reduction in his Social Security check compared to the preceding year, a "hold harmless" provision would be included in this proposal.

Effect on Medicare Premium Revenues
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-YEAR TOTAL</u> |
|--------|--------|--------|---------|--------|-------------------------|
| \$+525 | +2,335 | +3,280 | \$4,445 | +5,805 | +16,390 |

Effect on Medicaid Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-YEAR TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| \$+39 | +175 | +246 | +333 | +435 | +1228 |

Comments: Almost 60 percent of the projected Medicare savings are due to this proposal.

RR

Approve Option 2
Reject Option 2

Option 3: Establish a Voluntary Voucher Program

- o Medicare beneficiaries would be given the option of applying their Medicare benefits toward the premium of a private health plan. Medicare's contribution would be set at 95 percent of what it would have cost the government to care for the beneficiary if he or she had elected to receive traditional Medicare benefits.
- o Enrollment in a private health plan would be voluntary, and all beneficiaries would retain the right to return to Medicare during an annual open enrollment period.

Effect on Federal Benefit Outlays*
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-----------------------------------------------------|-------|-------|-------|-------|-------------------------|
| \$+ (An average of less than \$50 million per year) | | | | | less than +250 |

* This estimate is being revised by the Medicare actuaries.

Comments: There was general agreement on this proposal.

RR

Approve Option 3
Reject Option 3

Option 4: Prospective Payment for Hospitals

- o Rather than reimbursing hospitals for whatever costs they incur, as is done under current law, Medicare would pay hospitals according to a schedule of prospectively determined rates.
- o A separate rate would be set for each of 467 diagnosis-related groups (DRGs), with adjustments for local wages, teaching costs, and capital costs.
- o Regardless of the costs they incur, hospitals would be paid no more than the DRG-based rate. As an incentive for efficiency, hospitals that incur costs lower than the DRG-based rate would be permitted to keep the difference.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|-------------------------------------------------------------------|-------|-------|-------|-------|-----------------|
| (Same as in the Tax Equity and Fiscal Responsibility Act of 1982) | | | | | |

Comments: There was general agreement on this proposal.

RL
 Approve Option 4
 Reject Option 4

Option 5: Index the Part B Deductible

- o The Part B deductible would be indexed to rise with the Medicare economic index.
- o The indexing would take effect January 1, 1984.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| \$-46 | -116 | -199 | -287 | -379 | -1027 |

Comments: There was general agreement on this proposal.

RR
 Approve Option 5
 Reject Option 5

Option 6: Limit Medicare Reimbursement to Home Health Agencies for Durable Medical Equipment

- o This proposal would limit reimbursement for durable medical equipment provided by home health agencies to 80 percent of the reasonable costs of the equipment. The beneficiary would pay the other 20 percent as coinsurance.

Effect on Federal Benefit Outlays
 (in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| -\$14 | -14 | -18 | -18 | -23 | -87 |

Comments: There was general agreement on this proposal.

RR
 Approve Option 6
 Reject Option 6

Option 7: Defer Medicare Eligibility Until the First Full Month Following Sixty-fifth Birthday

- o Under current law, individuals become entitled to Medicare benefits on the first day of the month of their sixty-fifth birthday.
- o This proposal would defer eligibility until the first day of the month following the individual's sixty-fifth birthday.

Effect on Federal Benefit Outlays
 (in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|--------|-------|-------|-------|-------|-------------------------|
| -\$230 | -270 | -310 | -350 | -400 | -1560 |

Comments: A person retiring at age 65 becomes eligible for Social Security cash benefits on the first day of the month of his or her 65th birthday. Thus, Option 7 would make Medicare eligibility different than eligibility for Social Security. It was noted that for most beneficiaries there would be no gap in their insurance coverage since private employment-based health plans usually cover workers for 30 days after their employment ends.

RR
Approve Option 7
Reject Option 7

Option 8: Competitive Bidding for Laboratory Services and Durable Medical Equipment

- o HHS would be authorized to employ competitive procurement procedures for the bulk purchase of laboratory services and durable medical equipment (DME).
- o HHS would be authorized to limit beneficiaries' choice of laboratory or DME provider and to waive patient cost-sharing for lab services and DME.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | <u>5-Year TOTAL</u> |
|-------|-------|-------|-------|-------|-------------------------|
| -\$9 | -14 | -20 | -35 | -55 | -133 |

Comments: There was general agreement on this proposal.

RR
Approve Option 8
Reject Option 8

Medicaid OptionsOption 9: Mandatory Nominal Copayments Under Medicaid

- o On outpatient services, categorically needy beneficiaries would be charged a \$1 copayment per visit. Medically needy beneficiaries would be charged \$1.50 per visit.
- o On inpatient hospital services, the categorically needy would be charged \$1 per day. The medically needy would be charged \$2 per day.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-Year TOTAL |
|--------|-------|-------|-------|-------|-----------------|
| \$-320 | -359 | -398 | -452 | -500 | -2029 |

Comments: There was general agreement on this proposal.

RR

Approve Option 9
Reject Option 9

Option 10-A: Extend OBRA's Reduction in the Federal Share of Medicaid Outlays

- o In FY 1985 and all subsequent years, Federal payments to each State for Medicaid would be reduced by 3.0 percent, thus extending into future years the reductions in the Omnibus Budget Reconciliation Act of 1981 (OBRA) but reducing the amount of the reduction. (The OBRA mandated reduction is 4.5 percent.)
- o As in OBRA, States would be able to "earn back" part of the reduction in Federal payments if they have a hospital cost review program, high unemployment rate, or high fraud and abuse recoveries, or if they hold Medicaid outlays below the target level of expenditures established in OBRA.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|-------|-------|-------|-------|-------|-----------------|
| \$ 0 | -570 | -630 | -685 | -740 | -2625 |

Comments: There was general agreement on this proposal.

RR
 Approve Option 10-A
 Reject Option 10-A

Option 10-B: Provide Added Incentives for States to Reduce
 Medicaid Spending

- o For States whose expenditures exceed the target established by the Omnibus Budget Reconciliation Act of 1981, Federal payments would be reduced by an additional one-quarter of one percent for each percent by which the State is over its target. This provision would be effective in FY 1984.

Effect on Federal Benefit Outlays
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-Year TOTAL |
|--------|-------|-------|-------|-------|-----------------|
| \$-615 | -875 | -1180 | -1540 | -2050 | -6260 |

Comments: Concern was expressed about any further reduction in Federal payments to the States.

RR
 Approve Option 10-B
 Reject Option 10-B

Private Insurance

Current Law

Unlike cash wages, an employer's contribution to an employee health plan is not taxable income to the employee. The employer may, however, deduct the health plan contribution as an ordinary business expense. Furthermore, the employer does not pay FICA or FUTA taxes on health plan contributions. Health benefits receive this preferential tax treatment regardless of the structure of the health plan.

Option 11: Alter the Tax Treatment Given to Employer-Provided Health Plans

Issue A: Should the Administration propose restricting the favorable tax treatment currently given to all employer-provided health plans?

11-Aa *RR* Impose a dollar limit on the level of tax exempt health insurance premiums.

11-Ab Impose a dollar limit on the level of tax exempt health insurance premiums and require a minimum patient copayment at the time of care up to a catastrophic limit.

11-Ac As an alternative to imposing a tax cap, simply require a minimum patient copayment at the time of care up to a catastrophic limit.

11-Ad Maintain the current favorable tax treatment of employer-paid health insurance.

Issue B: If the Administration proposed limiting the amount of employer-paid health benefits that are tax free, should the limit apply to employers or employees?

11-Ba Limit the amount of employer-paid health benefits that are tax deductible to the employer.

11-Bb *RR* Limit the amount of employer-paid health benefits that are tax free to the employee.

Issue C: If the Administration proposed limiting the amount of employer-paid health benefits that are tax free, at what level should the tax cap be set?

11-Ca RR

Establish a \$175 per month limit for family health benefit plans.

Note: 72% of current health plans are below this limit and would not be affected.

11-Cb

Establish a \$150 per month limit for family health benefit plans.

Note: 60% of current health plans are below this limit and would not be affected.

11-Cc

Establish a \$125 per month limit for family health benefit plans.

Note: Approximately 46% of current health plans are below this limit and would not be affected.

Following are estimates of the effect on tax revenues of a \$175 per family per month limit on the amount of employer-paid benefits that are tax deductible to the employer.

Effect on Federal Revenues
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|---------|-------|-------|-------|-------|-----------------|
| +\$1600 | +3400 | +4500 | +6100 | +8100 | +23,700 |

A \$175 per month limit on the amount of employer-paid benefits that are tax-free to the employee would have the following effect.

Effect on Federal Revenues
(in millions)

| FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | 5-YEAR TOTAL |
|---------|-------|-------|-------|---------|-----------------|
| +\$2500 | +4600 | +6200 | +8300 | +11,100 | +32,700 |

THE WHITE HOUSE
WASHINGTON

December 23, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: EDWIN MEESE III
RICHARD S. WILLIAMSON

SUBJECT: 1983 FEDERALISM INITIATIVE

The Cabinet Council on Management and Administration recommended the following additions and changes to the 1983 Federalism Initiative proposal:

Presidential Commission on Revenue Return: Because of the importance of returning revenue sources to the states, it is recommended that you form this commission to review all potential financing capabilities and possible sources for federalism program. Language should be drafted to require a date certain that the Commission report and the Congress act on the recommendations of the Commission.

RR approve _____ disapprove

Block Grants to States: It is recommended that the expenditure of Block Grant funds be limited to the programs included in the Block Grant during the first five years. Following that five year period, states would have discretionary authority to utilize the funds according to their own priorities.

RR approve _____ disapprove

Block Grants to States: Given our requested funding levels for FY 84, excise taxes will be sufficient to fund the programs included in the Block Grant. Therefore, it is recommended that the funding for the state block grant be limited to excise tax revenue.

RR approve _____ disapprove

THE WHITE HOUSE
WASHINGTON

December 22, 1982

MEMORANDUM FOR THE PRESIDENT

SUBJECT: 1983 Federalism Initiative

The Cabinet Council on Management and Administration has been presented with the attached recommendation from Rich Williamson concerning a 1983 Federalism Initiative. This will be the subject of discussion at the meeting of the Cabinet Council on Management and Administration on Thursday, December 23, 1982.

Outlined below are the elements of the proposal that require approval:

1. Income Maintenance: It is recommended that the administration not include a restructuring of responsibilities in the income maintenance area.

approve disapprove

2. Transportation Block Grant: The grant would be funded by 2 cents of the federal gas tax, allocated based on historical formulas, and would be spent on urban, secondary, non-primary bridges, Appalachia, Highway Safety, and Safety Construction transportation projects.

approve disapprove

3. Block Grants to the States: Most of the programs originally proposed for turnback to the states are included in this element. The programs are listed in the attached paper.

approve disapprove

4. Federal-Local Block Grant: This package would include a block grant to local governments for General Revenue Sharing, Community Development Block Grants, Transportation Programs which are direct federal-local in nature.

RR approve _____ disapprove

5. Rural Housing Block Grant: A rural housing block grant is also recommended as part of the package.

RR approve _____ disapprove

Edwin Meese III

Edwin Meese III
Counsellor to the President