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# FOIA MARKER

**This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.**

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**Record Group/Collection:** George H.W. Bush Presidential Records  
**Collection/Office of Origin:** Chief of Staff, White House Office of  
**Series:** Skinner, Sam, Files  
**Subseries:**

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**OA/ID Number:** 40923  
**Folder ID Number:** 40923-014

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**Folder Title:**  
[Publications]

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Stack:	Row:	Section:	Shelf:	Position:
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**TRANSFER SHEET  
BUSH PRESIDENTIAL MATERIALS PROJECT**

**COLLECTION:** Bush Presidential Records

**ACCESSION NO.:** 93-01

The following material was transferred to:

**Audiovisual Collection:** X

**Book Collection:**

**Museum Collection:**

**Other (Specify):**

**DESCRIPTION:**

VHS Tape: *U.S. Environmental Protection Agency - One-on -One with Administrator Reilly*

When transferring material to the museum collection, complete the following donor material.	<b>Donor:</b> (Name/Org.)
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If this material is being transferred as part of a FOIA request, please check the box to the right and enter the FOIA log number.

**FOIA Request**

**FOIA Log Number:** 99-0277-F

<b>Book Location:</b>	Row	Section	Shelf	Position	<b>Map Case Location:</b>
<b>Series:</b> Sam Skinner Files					<b>Box No:</b> 5
<b>File Folder Title:</b> [Publications] [OA/ID 05828]					
<b>Transferred By:</b> Foulk					<b>Date of Transfer:</b> 7/26/99
<b>Received By:</b> Bush					<b>Date Received:</b> 7/26/99

**TRANSFER SHEET  
BUSH PRESIDENTIAL MATERIALS PROJECT**

**COLLECTION:** Bush Presidential Records

**ACCESSION NO.:** 93-01

The following material was transferred to:

**Audiovisual Collection:** X

**Book Collection:**

**Museum Collection:**

**Other (Specify):**

**DESCRIPTION:**

VHS Tape: *Partnership Community Concern Tape* 4/16/92

When transferring material to the museum collection, complete the following donor material.	<b>Donor:</b> (Name/Org.)
	<b>Address:</b>
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If this material is being transferred as part of a FOIA request, please check the box to the right and enter the FOIA log number.

**FOIA Request**

**FOIA Log Number:** 99-0277-F

<b>Book Location:</b> Row      Section      Shelf      Position	<b>Map Case Location:</b>
Series: Sam Skinner Files	<b>Box No:</b> 5
<b>File Folder Title:</b> [Publications] [OA/ID 05828]	
<b>Transferred By:</b> Foulk	<b>Date of Transfer:</b> 7/26/99
<b>Received By:</b> Bush	<b>Date Received:</b> 7/26/99

# George Bush Presidential Library Transfer Sheet

**COLLECTION:**

George H.W. Bush Presidential Records  
Policy Development, White House Office of

**ACCESSION NUMBER:**

Transferred During Accessioning

Transferred During Processing

FOIA/SYSTEMATIC  
PROCESSING CASE  
NUMBER (if app.):

The following material was transferred to:

**Audiovisual Collection**

**Book Collection**

**Museum Collection**

**Other**

**Other (Specify):**

**DESCRIPTION:**

Budge of the United States Government - Fiscal Year 1993: Ending the Scourge of Drugs and Crime

When transferring  
material to the  
museum  
collection,  
complete the  
following.

**Donor:**

**Donor Org.:**

**Address:**

**Telephone:**

**Book Location:**

**Row:**

**Section:**

**Shelf:**

**Position:**

**Map Case Location:****Series:**

Skinner, Sam, Files

**Box Number:**

5

**Folder Title:**

Publications

**OA/ID Number:**

05828

**Transferred by:**

Foulk

**Date of Transfer:**

7/26/1999

**Received by:**

Doug Campbell

**Date Received:**

7/26/2017

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## George Bush Presidential Library Transfer Sheet

**COLLECTION:**

George H.W. Bush Presidential Records  
Policy Development, White House Office of

**ACCESSION NUMBER:**
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 Transferred During Processing

FOIA/SYSTEMATIC  
PROCESSING CASE  
NUMBER (if app.):

The following material was transferred to:

 **Audiovisual Collection**
 **Book Collection**
 **Museum Collection**
 **Other**

**Other (Specify):**

**DESCRIPTION:**

Reference Guide for State and Rural Development Councils - The Initial Milestones

When transferring material to the museum collection, complete the following.

**Donor:**

**Donor Org.:**

**Address:**

**Telephone:**

**Book Location:**

**Row:**

**Section:**

**Shelf:**

**Position:**

**Map Case Location:**
**Series:**

Skinner, Sam, Files

**Box Number:**
**Folder Title:**

Publications

**OA/ID Number:**

05828

**Transferred by:**

Foulk

**Date of Transfer:**

7/26/1999

**Received by:**

Doug Campbell

**Date Received:**

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The following material was transferred to:

Audiovisual Collection

Book Collection

Museum Collection

Other

**Other (Specify):**

Yeses (1)

**DESCRIPTION:**

The President's National Urban Policy Report

When transferring material to the museum collection, complete the following.

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**Donor Org.:**

**Address:**

**Telephone:**

**Book Location:**

**Row:**

**Section:**

**Shelf:**

**Position:**

**Map Case Location:****Series:**

Sam Skinner Files

**Box Number:**

5

**Folder Title:**

Publications

**OA/ID Number:**

05828

**Transferred by:**

Foulk

**Date of Transfer:**

7/26/1999

**Received by:**

Doug Campbell

**Date Received:**

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# George Bush Presidential Library Transfer Sheet

**COLLECTION:**

Bush Presidential Records

**ACCESSION NUMBER:**

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FOIA/SYSTEMATIC  
PROCESSING CASE  
NUMBER (if app.):

The following material was transferred to:

Audiovisual Collection

Book Collection

Museum Collection

Other

**Other (Specify):**

Yeses (13)

**DESCRIPTION:**

Publications: America's Energy Choices - Investing in a Strong Economy and a Clean Environment

When transferring material to the museum collection, complete the following.

**Donor:**

**Donor Org.:**

**Address:**

**Telephone:**

**Book Location:**

**Row:**

**Section:**

**Shelf:**

**Position:**

**Map Case Location:****Series:**

Sam Skinner Files

**Box Number:****Folder Title:**

Publications

**OA/ID Number:**

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**Transferred by:**

Foulk

**Date of Transfer:**

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**Received by:**

Doug Campbell

**Date Received:**

8/14/2017

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

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**COMPREHENSIVE HEALTH REFORM:  
OBSERVATIONS ABOUT THE PROBLEM  
AND ALTERNATIVE APPROACHES TO  
SOLUTION**

PRESENTED TO  
THE HOUSE COMMITTEE ON WAYS AND MEANS

BY

**RICHARD DARMAN**  
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

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OCTOBER 10, 1991

**COMPREHENSIVE HEALTH REFORM:  
OBSERVATIONS ABOUT THE PROBLEM AND  
ALTERNATIVE APPROACHES TO SOLUTION**

Presented To  
THE HOUSE COMMITTEE ON WAYS AND MEANS

By

**RICHARD DARMAN**

DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

October 10, 1991

Chairman Rostenkowski, Ranking Republican Congressman Archer, and Members of the Committee:

Thank you for inviting me to testify. It is a pleasure, once again, to appear before the distinguished Ways and Means Committee.

The subject of health system reform is extremely important and highly complex. Most Americans are satisfied with the general quality of American health care. But they are nonetheless—and rightly—concerned about excessive costs and evident inequities in the American health system. There is a strong consensus that the system is in need of substantial reform. Proposals for comprehensive reform have proliferated. But there is, as yet, little (or no) consensus on the details (or even the general outlines) of a satisfactory solution.

The lack of consensus derives in part from the complexity of the problem and inherent practical difficulties associated with practical “solutions”. It also derives from a divergence of views about basic ideological issues.

The President has directed his Administration to develop recommendations for comprehensive reform. We are in the process of doing so, and look forward to presenting a comprehensive approach to the Congress when we are satisfied that it is right. In the interim, we have presented a series of incremental reform measures. The Congress has not yet acted on several of these (e.g., malpractice reform, cost control, reduced subsidies for the rich)—for reasons that some say involve a desire to act more comprehensively.

With that interest in view, I offer eighteen simple observations—half about the problem, half about solutions. In doing so, I should underline what is well-known to those who have struggled with these issues: while these observations may be simple, an acceptable solution probably is not. Nonetheless, I hope the observations may help frame a perspective that can guide us toward a sound and comprehensive solution.

## NINE SIMPLE OBSERVATIONS ABOUT "THE PROBLEM"

### SIMPLE OBSERVATION NUMBER (1):

*The growth of federal expenditures for health is part—an increasingly important part—of a more general budgetary problem: the explosion of "mandatory" programs.*

"Mandatory" programs are not subject to annual appropriation by the Congress. Once established, they spend—and typically grow—automatically. They have been steadily taking over the federal budget. (See charts 1 and 2.)

"Mandatories" include "entitlement" programs that grow automatically with population or demand for services. "Entitlements" also typically grow with automatic upward adjustments for inflation. In some cases (as with health) the upward adjusting mechanisms are tied to indexes that are greater than the general inflation rate. In all cases, such indexes can contribute either directly to further inflation, or indirectly to a weakening of the political will to limit inflation. Further, the eligible class of beneficiaries is often very broad. This renders such entitlements inefficient as anti-poverty programs. But the very eligibility breadth that thus renders them inefficient makes them politically attractive for further expansion—and highly unattractive for restraint. This has effectively become a *generic problem* for a wide range of "entitlement" programs.

Beyond "entitlements", "mandatory" programs also include subsidies that range from certain specialized credit programs to deposit insurance for a limitless number of hundred-thousand-dollar accounts. In my first Introduction to the President's Budget, I highlighted these "mandatory" programs and other hidden liabilities. I referred to them as "hidden PACMEN . . . each waiting to spring forward and consume another line of resource dots in the budget maze." At that time, I put "rising costs of health care" high on the list of hidden PACMEN. But I tried to emphasize then—as I again try to emphasize now—that the budgeting problem is broader than any particular case.

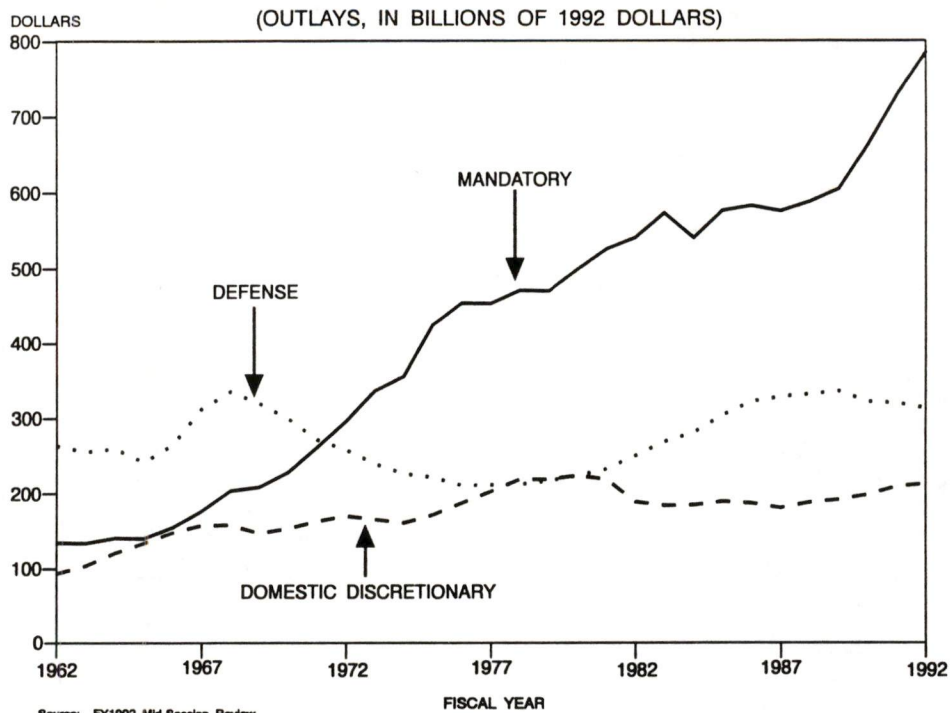
In the past two years, we have made significant progress in improving the government's ability to account for hidden PACMEN. But until the Congress develops an effective means to subject the *full range* of mandatory programs to routine systematic budgetary discipline and reform—above and beyond the valuable recent advances of credit reform and pay-as-you-go—cost control in one area is likely to be offset by further expansions in other areas.

Put another way: *The basic budgetary problem is not addressed by focusing on health costs alone.*

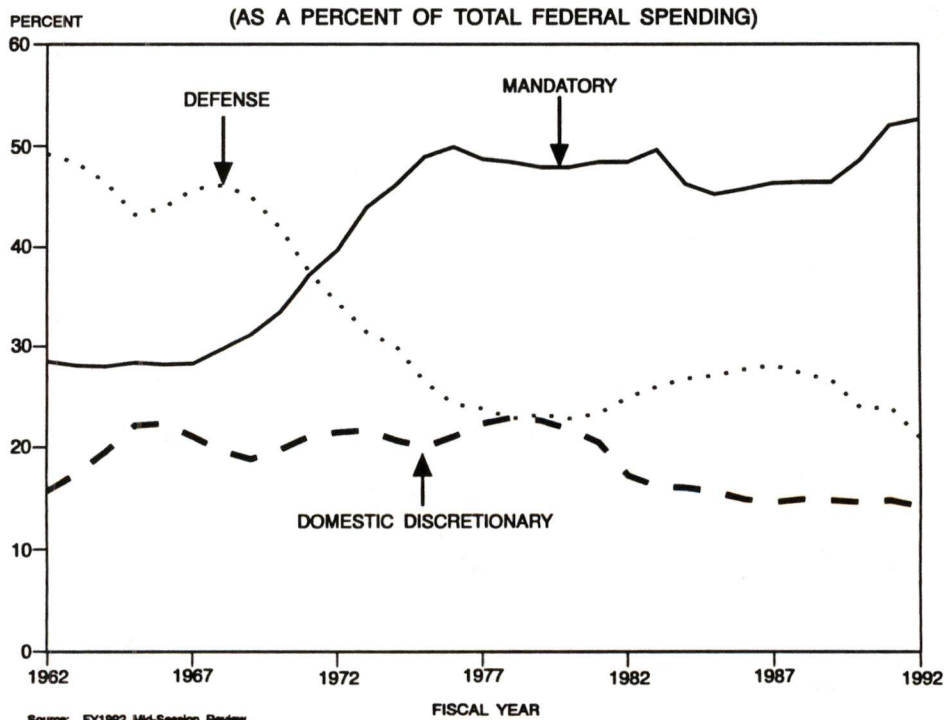
That said, it is noteworthy with regard to health that:

- (a) *Health outlays have become a highly significant portion of the exploding mandatory total.* (See charts 3 and 4.)
- (b) *Indeed, health entitlements will soon surpass Social Security as the single largest component of mandatory spending.* (See chart 5.)
- (c) *The problem of exploding federal health expenditures is exclusively in the "mandatory" programs—not in the discretionary health programs.* (See chart 6.)

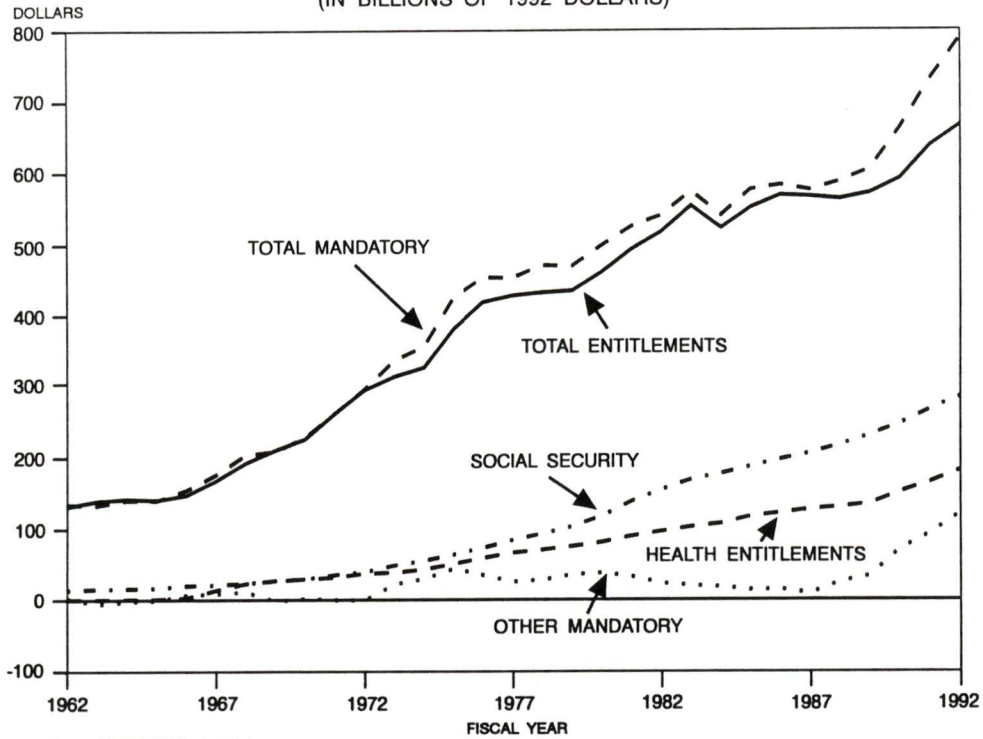
**CHART 1.**  
**"MANDATORY" PROGRAMS ARE TAKING OVER THE BUDGET**



**CHART 2.**  
**"MANDATORY" PROGRAMS ARE TAKING OVER THE BUDGET**

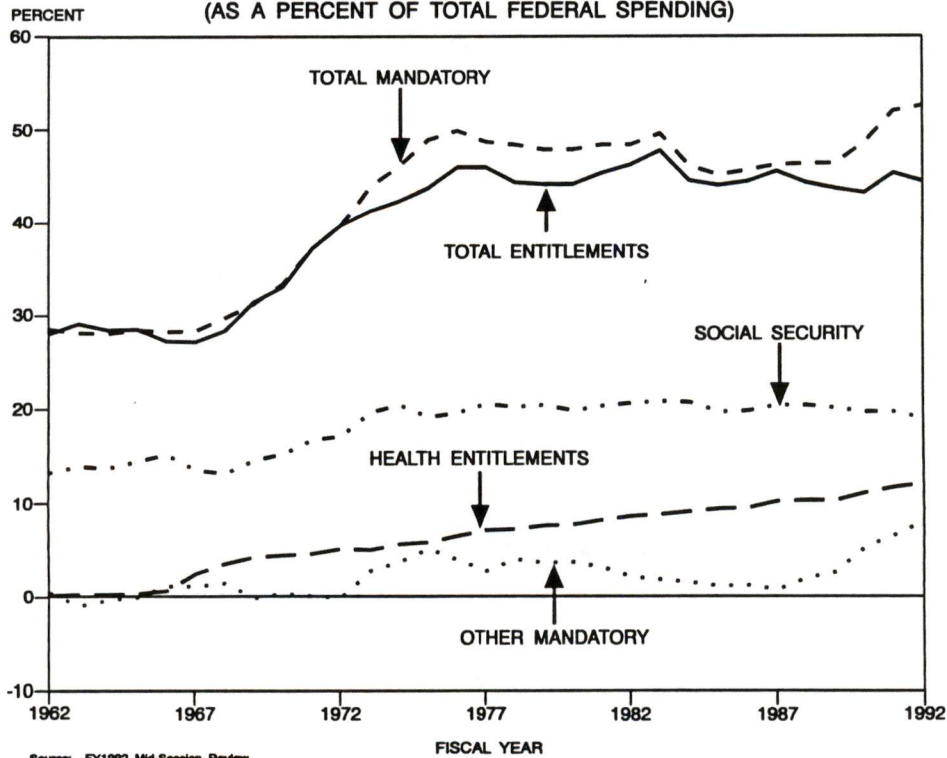


**CHART 3. OUTLAYS FOR MANDATORY PROGRAMS**  
(IN BILLIONS OF 1992 DOLLARS)



Source: FY1992 Mid-Session Review.

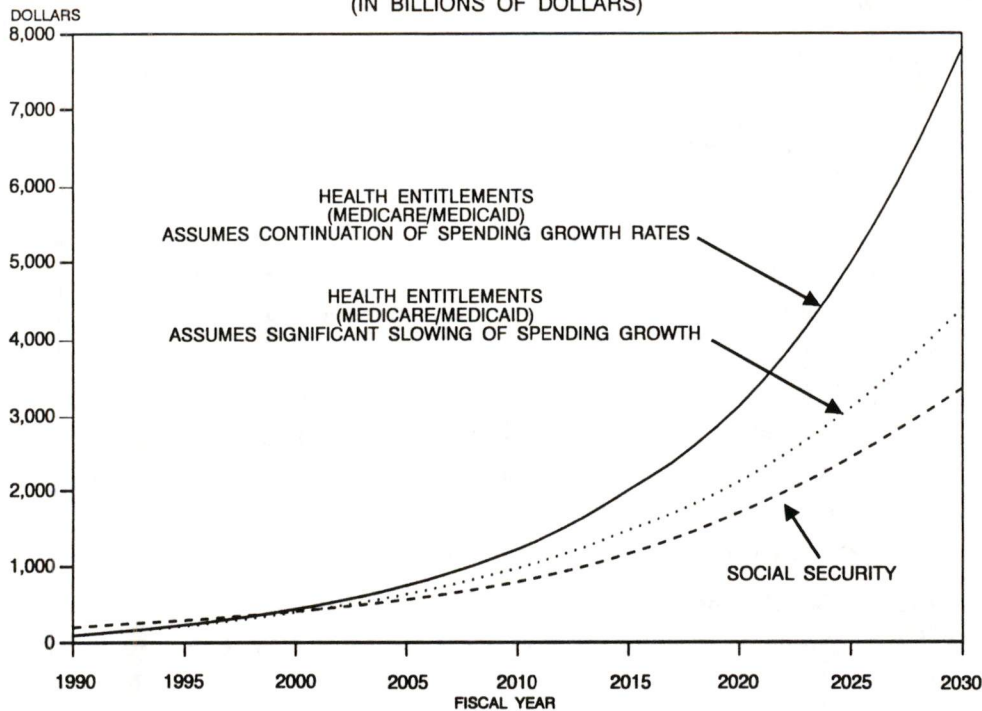
**CHART 4. OUTLAYS FOR MANDATORY PROGRAMS**  
(AS A PERCENT OF TOTAL FEDERAL SPENDING)



Source: FY1992 Mid-Session Review.

**CHART 5. PROJECTED SOCIAL SECURITY AND HEALTH ENTITLEMENTS FOR 1990-2030**

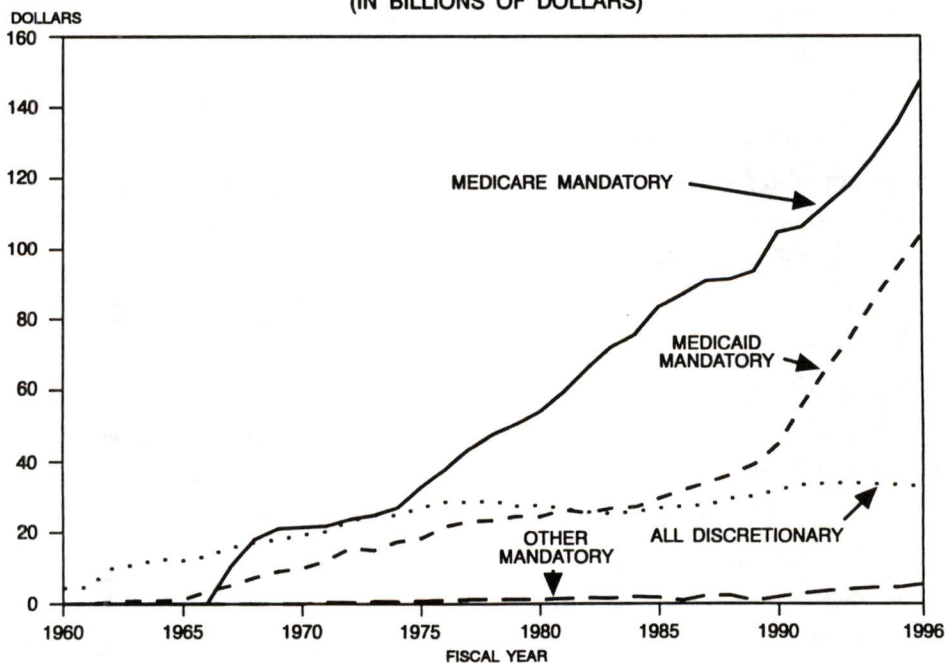
(IN BILLIONS OF DOLLARS)



Note: Health entitlement projections based on data provided by Health Care Financing Administration, Office of the Actuary, October, 1991.

**CHART 6. MANDATORY AND DISCRETIONARY FEDERAL OUTLAYS FOR HEALTH**

(IN BILLIONS OF DOLLARS)



Source: FY 1992 Mid-Session Review.

SIMPLE OBSERVATION NUMBER (2):

*Health expenditures are rising at a rate that is not only high, but also unsustainable.*

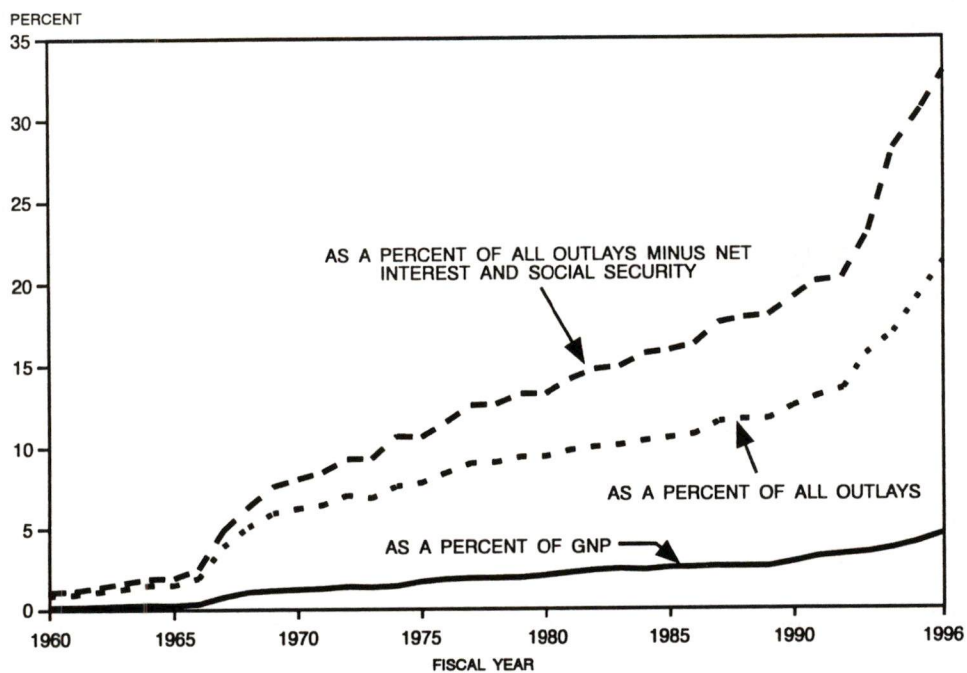
- (a) Federal health outlays are *growing rapidly by virtually all measures*—as a percent of all federal outlays; as a percent of all outlays except Social Security and interest; and as a percent of GNP. (See chart 7.)
- (b) Medicare Part B is now about 3 percent of the federal budget. But it alone is on a growth path that could exceed 11 percent of the federal budget by 2030 (assuming continuation of a 25 percent beneficiary premium contribution). It would be still higher if the beneficiary premium growth were limited. The combination of Medicare Parts A and B is now about 9 percent of the federal budget. Medicare is projected to exceed 27 percent of the federal budget by 2025 (assuming the federal budget is at 20 percent of GNP). This means that to support current Medicare projections alone, either the federal budget would have to grow far beyond 20 percent of GNP *or the rest of the budget would have to decline by more than 20 percent in real terms—in order to make room for Medicare.* (See chart 8.)
- (c) Total public and private health spending is on a growth path that would take over the Gross National Product—if that were not a *practical impossibility*. Total health spending has grown from less than 6 percent of GNP three decades ago to about 13 percent today. It is currently projected to reach 16 percent by the year 2000 and 26 percent of GNP by 2030 (assuming some slowing of recent growth). If, after the year 2000, projected health spending grew only for demographic reasons—but not for excess health inflation—it would still exceed 16 percent of GNP by 2030. (See chart 9.)

Even if it were possible to imagine a GNP and a federal budget that were each over 30 percent health—which is difficult—it is even more difficult to see how such levels would be satisfactorily financed. *Individuals* are already complaining that they are overburdened with health costs. And:

- (d) *Business* spending on health premiums has already risen substantially as a percent of compensation and wages—and is now in excess of 100 percent of after-tax profits. (See chart 10.)
- (e) Just to close the currently projected Medicare fiscal financing gap (for the year 2035) has been estimated to require the equivalent of *an additional 6 percent of OASDI payroll under intermediate economic assumptions (and 16 percent of OASDI payroll under more pessimistic assumptions)*. Putting aside whether this is desirable (which it is not), *it does not even seem plausible.* (See chart 11.)

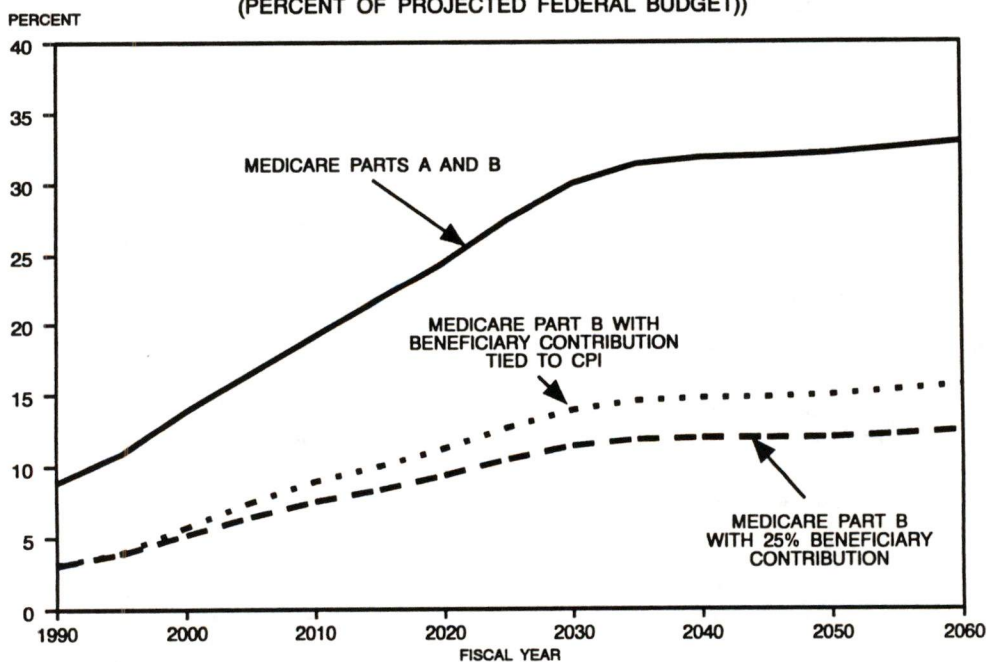
NOTE: This would be even less plausible if combined with the topical proposal to abandon the bipartisan Social Security agreement and adopt current-cost-financing for Social Security. Such a proposal would require a major Social Security tax increase in the future (and is strongly opposed by the Administration). *The combination of hypothetical large increases in both Social Security and Medicare taxes is surely prohibitive.*

**CHART 7. FEDERAL HEALTH OUTLAYS ARE GROWING RAPIDLY -- BY SEVERAL MEASURES**



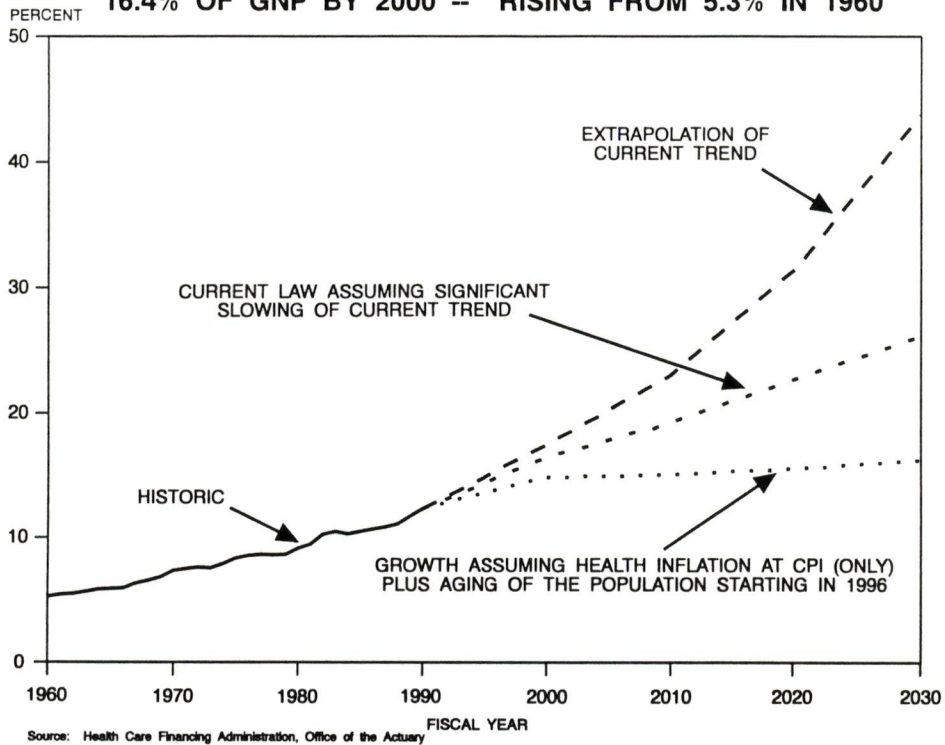
Source: FY 1992 Mid-Session Review.

**CHART 8. MEDICARE IS PROJECTED TO TAKE MORE AND MORE OF THE BUDGET (PERCENT OF PROJECTED FEDERAL BUDGET)**



Note: Assumes Federal Budget stays at 20% of GNP.  
Source: Health Care Financing Administration, Office of the Actuary.

**CHART 9. HEALTH SPENDING IS PROJECTED TO REACH 16.4% OF GNP BY 2000 -- RISING FROM 5.3% IN 1960**



**CHART 10. BUSINESS SPENDING ON HEALTH PREMIUMS**

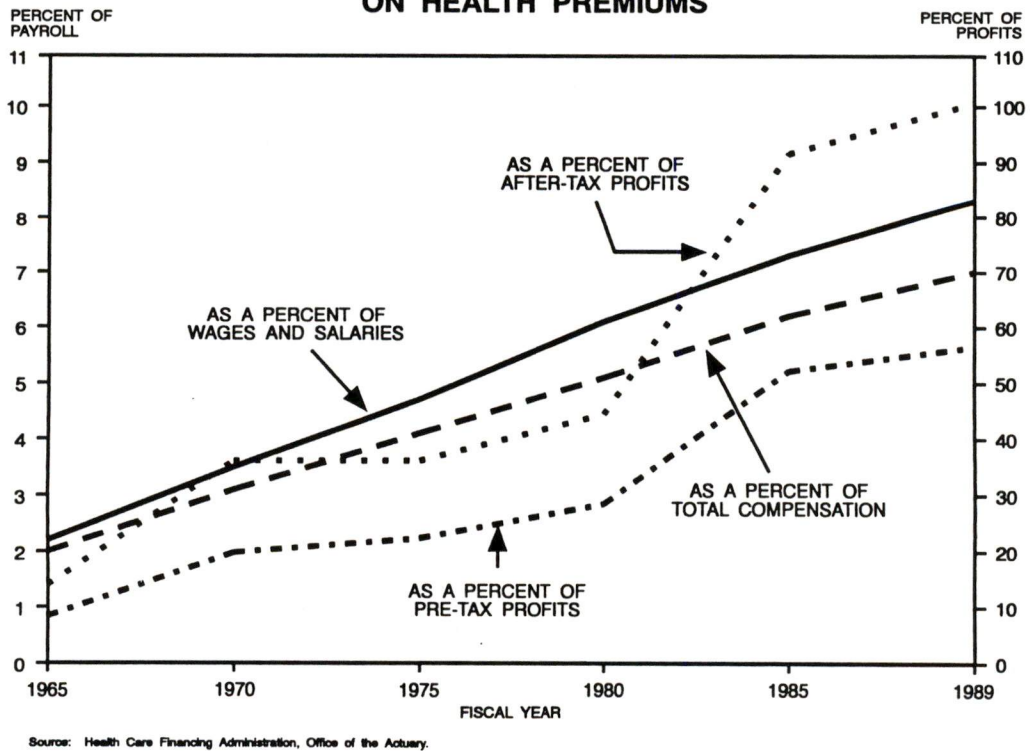
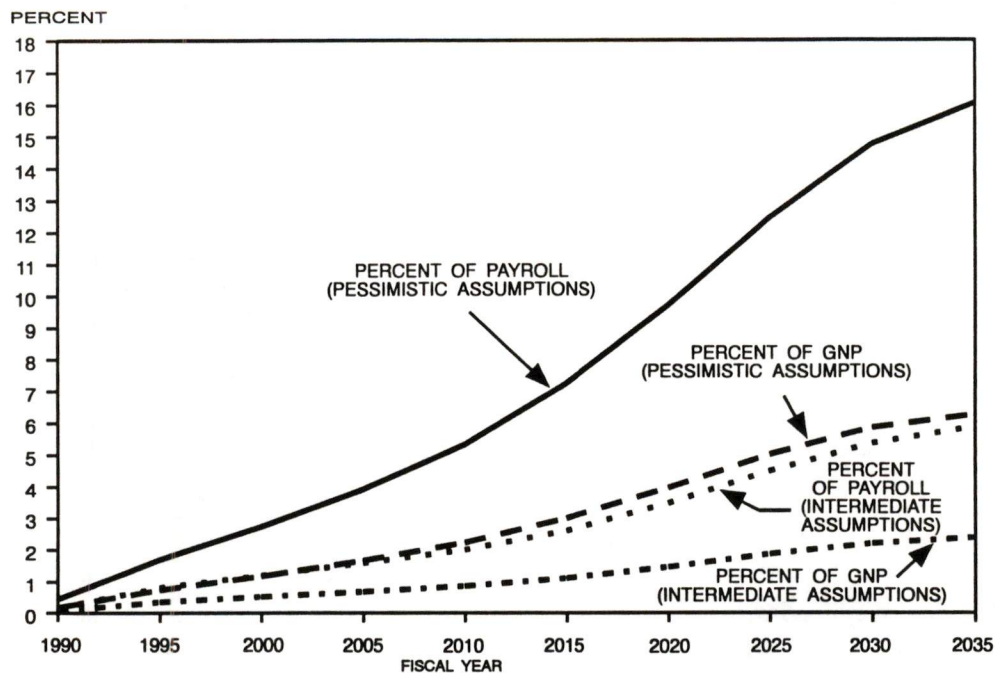


CHART 11. MEDICARE FISCAL FINANCING GAP



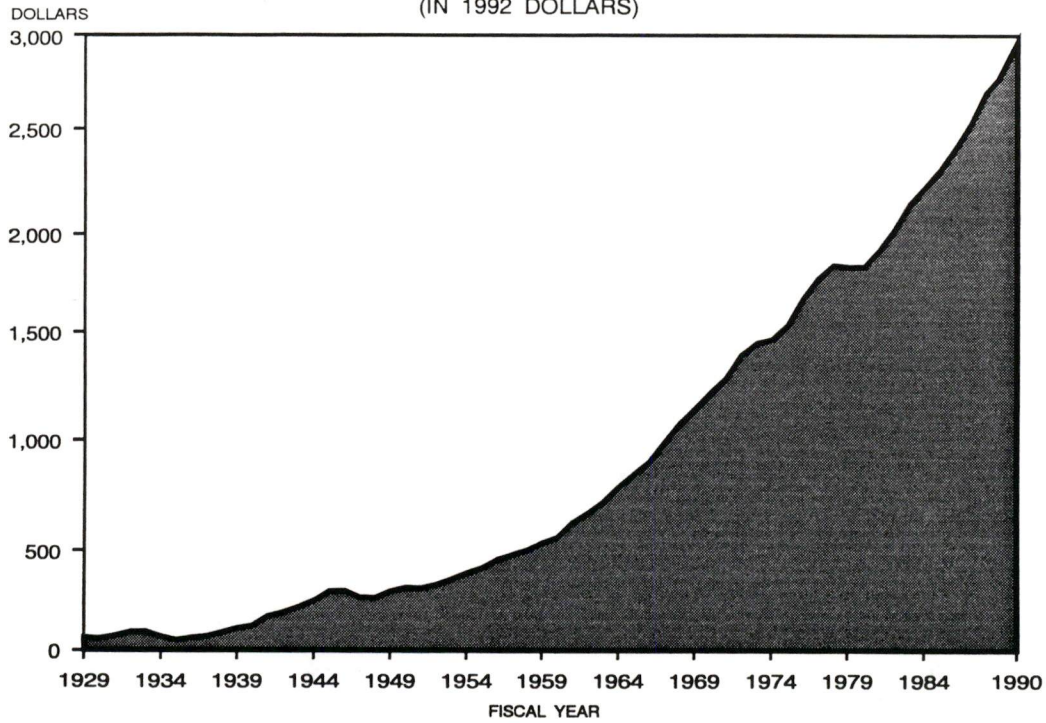
Note: The Medicare Fiscal Financing GAP is the projected HI trust fund deficit and SMI revenue requirements above 1987 levels.  
 Source: Holohan, J. and J. L. Palmer, *Journal of Health Politics, Policy and Law*, Spring 1988.

**SIMPLE OBSERVATION NUMBER (3):**

*Although real per capita health expenditures have been rising dramatically, there are reasons to be disturbed about both the adequacy and the distribution of the return on this increasing investment.*

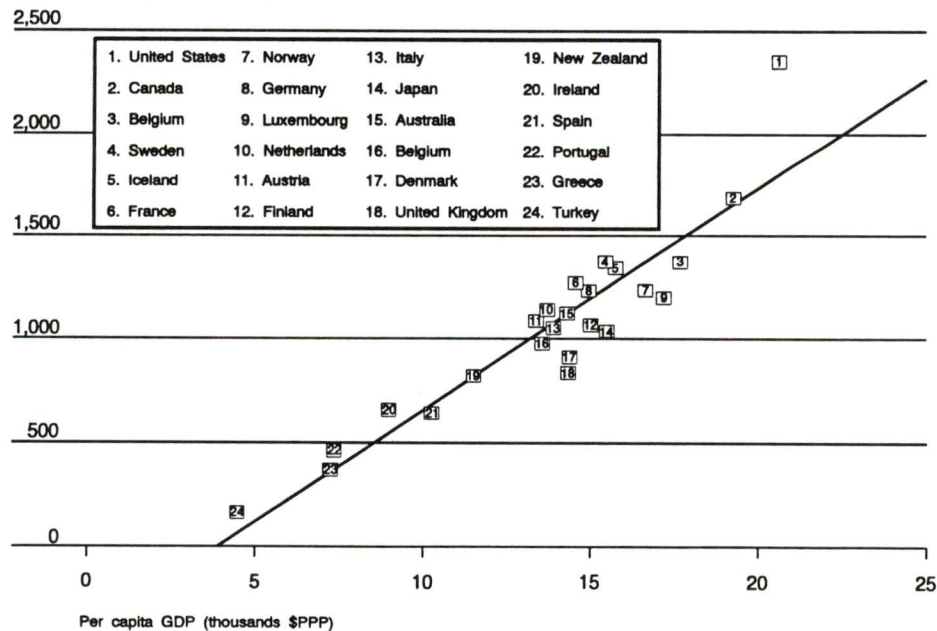
- (a) Real per capita health expenditures have not only risen dramatically in the United States (See chart 12). They have also *far out-paced the per capita expenditures of all other OECD countries*—even when adjusted for differences in per capita GDP. (See chart 13.)
- (b) *Yet, by several measures, U.S. health status is not conspicuously superior; and by some measures, it is inferior.* Our neighbor to the north, for example, spends a fraction of what we do on health per capita and as a percent of GNP—but nonetheless enjoys lower maternal and infant mortality rates, lower mortality for low-risk and moderate-risk surgery, and higher life expectancy for both men and women (accounted for partly by demographics).
- (c) *Further, there is the much-noted problem of uneven access to health insurance and health care.* Roughly 13 percent of Americans have been estimated to be completely *uninsured*—and as many as 28 percent may be uninsured for one month or more. (This is discussed further below.)

**CHART 12. REAL PER CAPITA NATIONAL HEALTH EXPENDITURES  
(IN 1992 DOLLARS)**



**CHART 13. HEALTH AND WEALTH IN OECD COUNTRIES, 1989**

Per capita health spending (\$PPP)



Sources: Exhibit 3 in Schieber, et al., *Health Affairs*, Page 26 (Fall 1991).

Note: PPP = purchasing power parity. PCH=per capita health spending. PCGDP = per capita gross domestic product.  $PCH = -419 + 0.107 \times PCGDP$ . Both the constant term and the regression coefficient are statistically significant at the .01 level.  $R^2 = .85$  (adjusted correlation coefficient squared).

**SIMPLE OBSERVATION NUMBER (4):**

*The problem of "the uninsured" is not quite as simple—in either its incidence or its effect—as some may naturally think.*

- (a) For the uninsured who are poor and unemployed, the problem is serious. But the general problem of "the uninsured" is *not principally a problem of those below the poverty level*. 70 percent of the uninsured are above the poverty level. *It is not principally a problem of the permanently unemployed*. Only 25 percent of the uninsured are out of work for a full year. And it is *not principally a problem of the young*. Only 26 percent of the uninsured are under 18; 54 percent are between the ages of 25 and 64. (See chart 14.)
- (b) *Being "uninsured" does not mean that one is unable to receive health care*. It means, rather, that one is more likely to use emergency room care and less likely to use office, clinic, or regular inpatient care. This is not to suggest that this is desirable. It is not. (Reliance on emergency care can be harmful for the individual and more costly for society.) The intent is simply to clarify that "uninsured" does not mean totally unable to receive care.
- (c) Because much care is in fact provided to the uninsured, and because only about half of this care is paid for out-of-pocket by the uninsured, there is a substantial residual cost that is, in a sense, "uncompensated." Such costs can be thought of as covered by subsidies of one sort or another. For example, insured employees are charged more to cover "uncompensated" costs of the uninsured. And hospitals may be thought of as covering "uncompensated" care through "disproportionate share" hospital payments, through tax subsidies for hospital finance, charitable contributions, and non-profit treatment, etc. A corollary of this point is that increased coverage of the uninsured does not necessarily translate into *fully proportional* increases in *system-wide* costs. Part of what may be involved is shifting the incidence of the burden (although there are obviously, also, increases to be expected from greater utilization). This complication makes efficient targeting of remedies difficult.

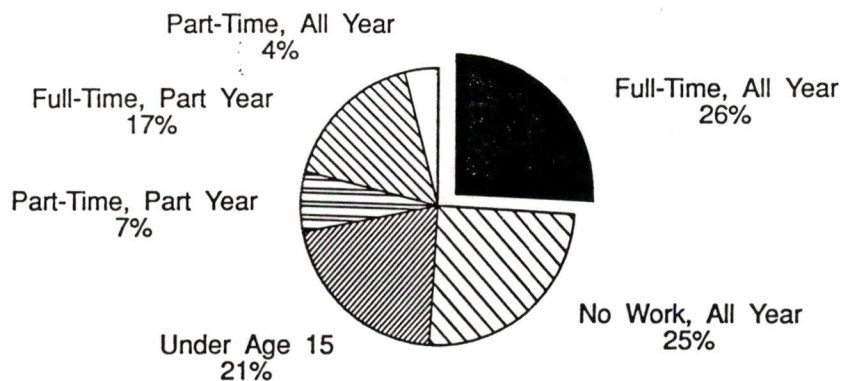
**SIMPLE OBSERVATION NUMBER (5):**

*Although one might think that the massive federal expenditures for health should go substantially to the poor, in fact they go overwhelmingly to the non-poor.*

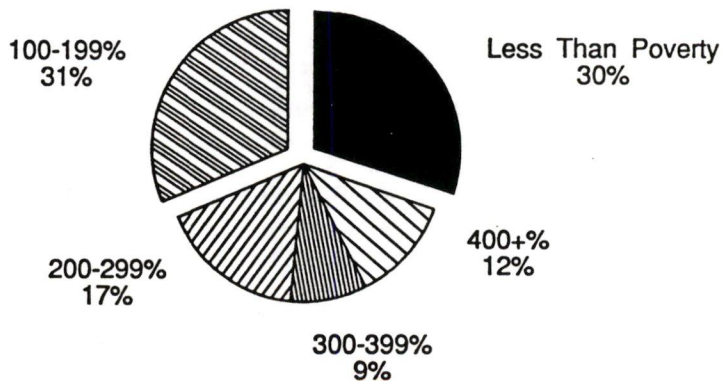
- (a) For fiscal year 1992, total federal health expenditures (tax and outlay) are estimated at over \$250 billion—of which only \$53 billion (21 percent) is estimated to go to the poor. (See chart 15.)
- (b) While less than half of Medicaid expenditures go to people above poverty, *almost 90 percent of Medicare expenditures go to people above the poverty level*. And *almost 100 percent of tax expenditures for employer-provided health plans go to people above the poverty line*. (See chart 16.)

## CHART 14. DISTRIBUTION OF UNINSURED (PERCENT OF UNINSURED)

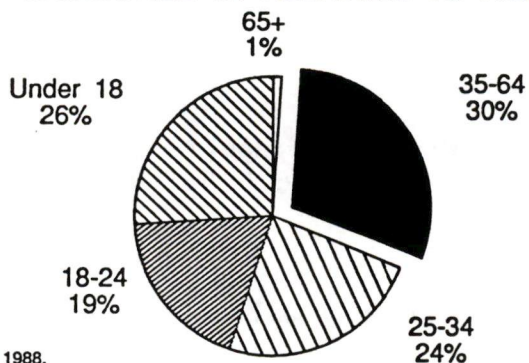
### UNINSURED IN RELATION TO WORK STATUS



### UNINSURED IN RELATION TO INCOME STATUS (INCOME AS A PERCENT OF POVERTY)

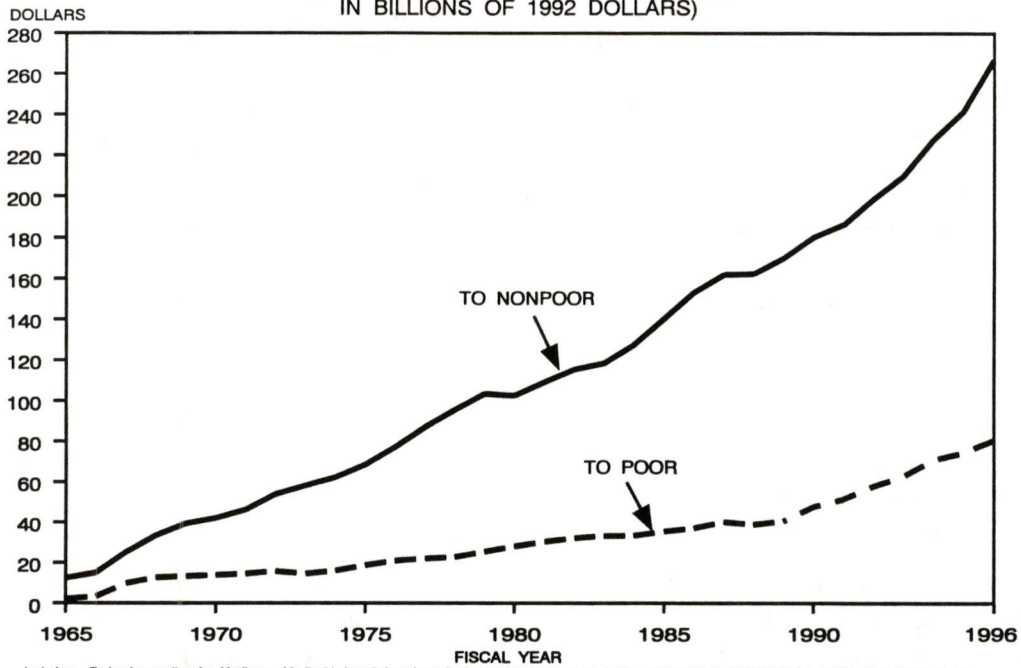


### UNINSURED IN RELATION TO AGE



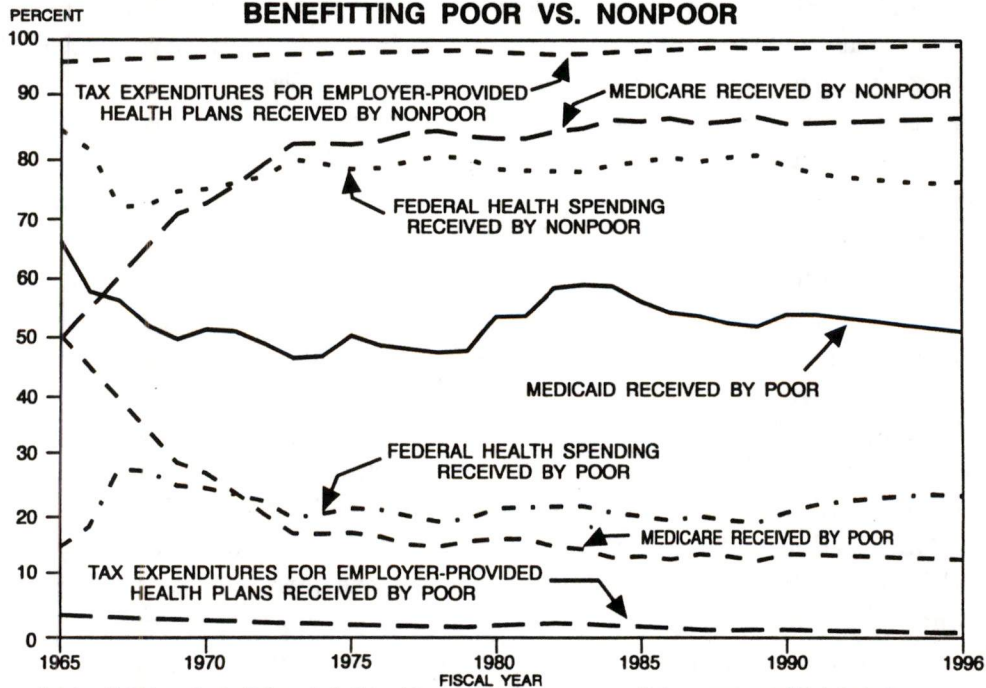
Source: CPS data for 1988.

**CHART 15. FEDERAL HEALTH SPENDING**  
(OUTLAYS AND TAX EXPENDITURES,  
IN BILLIONS OF 1992 DOLLARS)



Includes: Federal spending for Medicare, Medicaid, hospital and medical care for veterans, and other payments to individuals for health purposes; and tax expenditures for employer-provided health plans and for deductions of health expenses. Spending share to poor reflects percent of recipients with money incomes below poverty thresholds.  
Sources: FY1992 Mid-Session Review and various Census Bureau publications on receipt of noncash benefits.

**CHART 16. PERCENT OF FEDERAL HEALTH SPENDING  
BENEFITTING POOR VS. NONPOOR**



Includes: Federal spending for Medicare, Medicaid, hospital and medical care for veterans, and other payments to individuals for health purposes; and tax expenditures for employer-provided health plans and for deductions of health expenses. Spending share to poor reflects percent of recipients with money incomes below poverty thresholds.  
Sources: FY1992 Mid-Session Review and various Census Bureau publications on receipt of noncash benefits.

SIMPLE OBSERVATION NUMBER (6):

*Reducing public subsidies for the non-poor can help free limited public funds for other purposes (including expanded health benefits for the poor or the uninsured near-poor)—but this is a matter of public budgeting and equity, not system-wide cost control.*

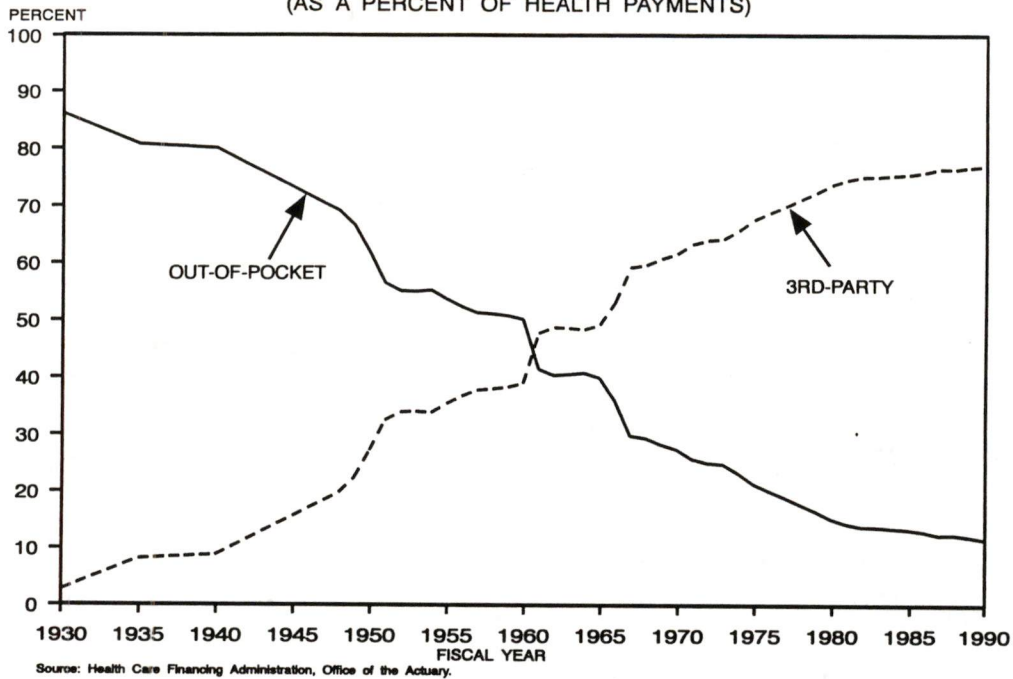
Because the projected future levels of federal health expenditures are not sustainable (as noted above), the political system is likely to be driven toward reduction of subsidies for the non-poor. (A start in this direction is proposed in the President's budget.) But from a system-wide perspective, budgetary savings from subsidy reduction would be largely offset by a shift of the payment burden to currently-subsidized, non-poor, private individuals. And if the budgetary "savings" were spent on increased health benefits for the poor, equity might be improved, but system-wide health expenditures would go up.

SIMPLE OBSERVATION NUMBER (7):

*The causes of the health cost explosion are multiple—and not easy to disentangle in a way that points reliably to a stable solution.*

- (a) It is clear that health costs have exploded as third-party payments have displaced individual out-of-pocket payments for health. (See chart 17.) Common sense suggests a causal connection. And some empirical evidence suggests that greater out-of-pocket cost-sharing by individuals could help reduce excess utilization. But, while desirable, there has been evident resistance to this. The trend toward third-party payment seems to be a long-term secular trend—influenced by a combination of public-spirited concerns for equity, tax incentives, and private desires (both rational and "irrational") for insurance coverage. Further, evidence suggests that while cost-sharing can usefully influence individuals' decisions whether or not to visit a doctor, once in the care of a doctor, individuals often defer to doctors. That is, health service suppliers—not consumers—tend to become the determinants of the quality and quantity of care.
- (b) Whatever the cost and regulatory strains on the system, *physicians' incomes do not seem to have suffered.* They averaged \$155,800 for 1989—widening their lead over physicians in all other countries.
- (c) *It is possible to distinguish several contributing elements of national health spending growth:* general inflation, population growth, relative aging of the population, growth of volume and intensity of care, and medical inflation in excess of the CPI. For the past three decades, total health spending has increased an average of 11.26 percent per year. After adjusting for general inflation and population, real per capita health spending has increased by 4.75 percent per year. Almost all of that has been accounted for by medical inflation in excess of the CPI (1.71 percent) and by growth in volume and intensity per capita (2.43 percent). (See chart 18.) Over the long term, medical visits and inpatient admissions per capita have been relatively stable; and average hospital length of stay has actually declined. *The increase in service intensity per capita seems to have been the most significant contributor to real per capita health expenditure growth.* (See chart 19.)

**CHART 17. 3RD-PARTY VS. OUT-OF-POCKET HEALTH PAYMENTS:**  
 THE INDIVIDUAL HAS BEEN DISPLACED IN THE HEALTH PAYMENT SYSTEM  
 (AS A PERCENT OF HEALTH PAYMENTS)

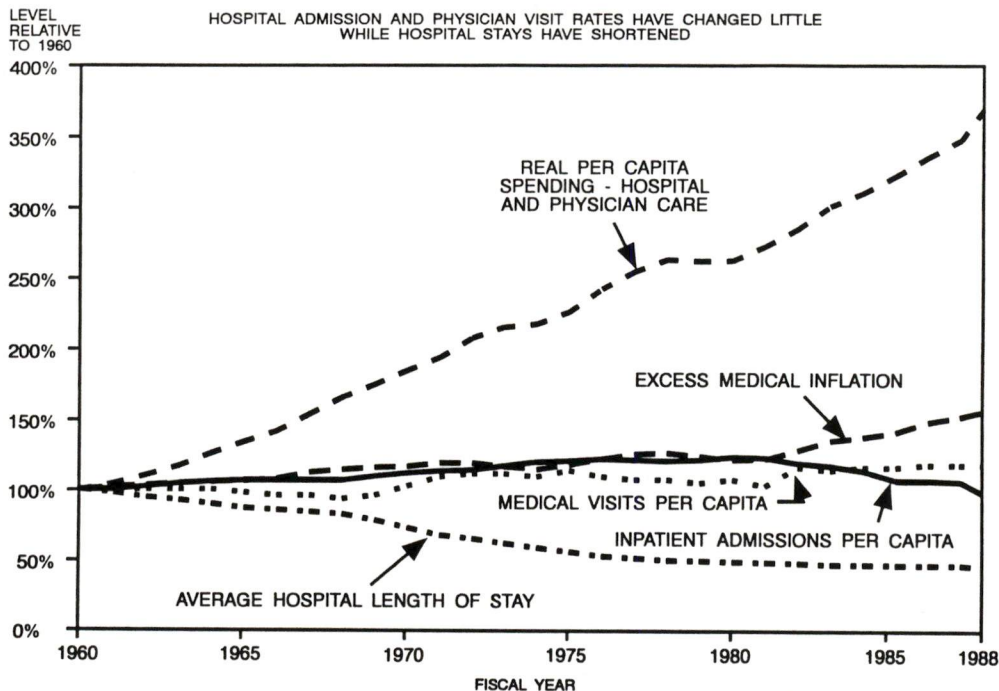


**CHART 18. ELEMENTS OF GROWTH IN NATIONAL HEALTH SPENDING**  
 (Average Annual Percent)

	1960-1970	1970-1980	1980-1990	1960-1990
Nominal National Health Spending _____	10.61	12.85	10.34	11.26
General Inflation _____	2.76	7.81	4.68	5.06
Population _____	1.27	1.06	0.95	1.09
Real Per Capita Health Spending _____	6.29	3.58	4.41	4.75
Real Per Capita Health Spending _____	6.29	3.58	4.41	4.75
Volume and Intensity Per Capita _____	4.54	2.09	0.71	2.43
Medical Inflation in Excess of CPI _____	1.52	0.39	3.24	1.71
Relative Aging of the Population _____	0.17	1.00	0.47	0.54
Real Per Capita Health Spending _____	6.29	3.58	4.41	4.75
Real Per Capita GNP _____	2.84	1.34	1.31	1.82
Health Spending in Excess of GNP _____	3.36	2.21	3.06	2.88

Source: Primary data from Health Care Financing Administration, Office of the Actuary.

**CHART 19. MOST OF THE GROWTH IN REAL PER CAPITA SPENDING IS DUE TO SERVICE INTENSITY—MORE TESTS AND SERVICES ARE BEING PROVIDED PER ENCOUNTER**



- (d) But while it is possible to make these interesting statistical observations, *it is difficult to go beyond them* and determine definitively how much of the volume and intensity growth is due to genuinely valuable *technological advance*, how much due to excessive “*defensive medicine*,” how much due to *managerial ineffectiveness*, and how much due to *gaming of a price-regulated system* in order to keep income rising.
- (e) Experience with many of the health system reforms tried to date provides a *substantial record of unintended (and often undesired) secondary effects*—as “simple” solutions have been applied to a complex system.

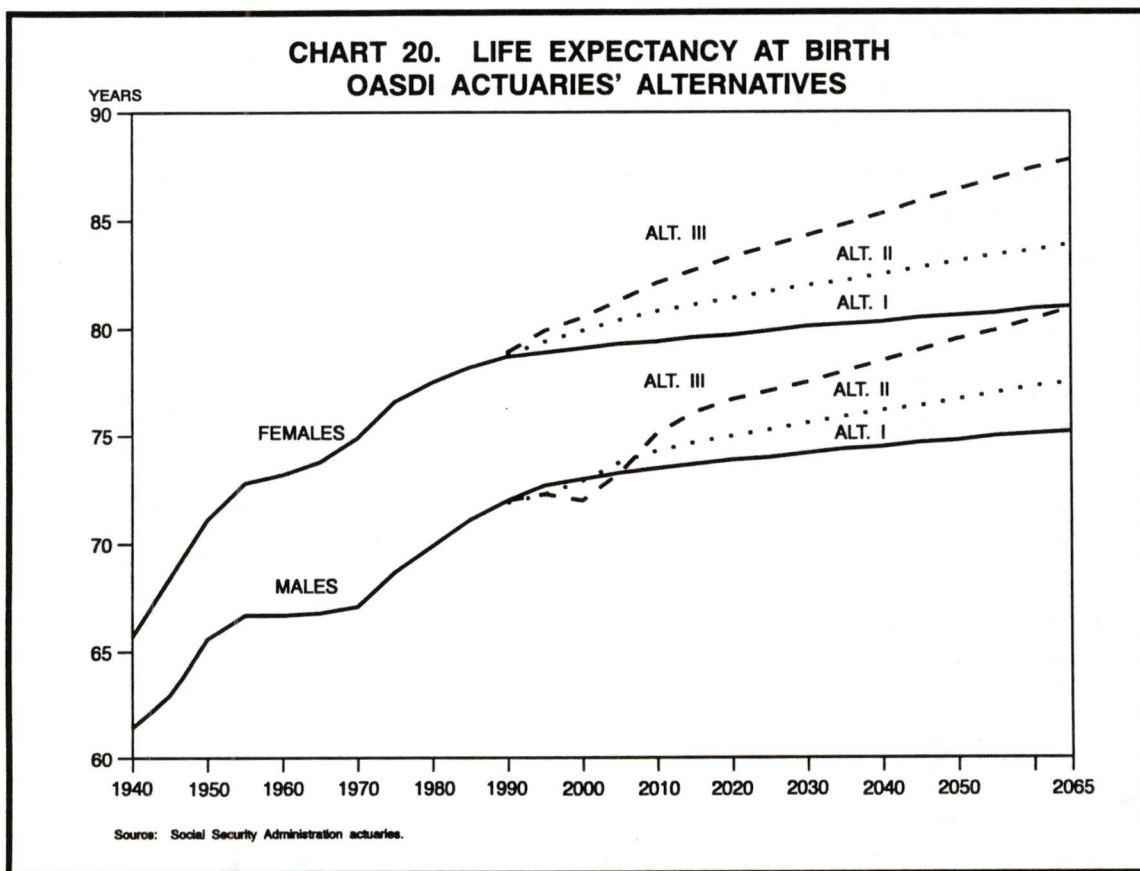
There seems to be an *inherent dilemma* in the area of health care. Because medical diagnosis and prescription have been largely in the hands of the professional provider, not the consumer, consumer-based market discipline has been weak. The problem is compounded by the apparent fact that consumers themselves tend to be risk-averse when it comes to health. That is, they are inclined to “overconsume” (relative to what economic optimization would dictate) in order to keep risk as close to zero as possible. Providers, of course, have incentives to over-provide or over-price—unless there are meaningful competitive restraints, or aggregate caps on available income. Meaningful, market-oriented competitive pressures have been difficult to establish for reasons of politics, consumer attitudes, and market structure and dynamics. Costs, and associated frustrations, have therefore mounted. And with them, have come increased tendencies

toward anti-market-oriented regulatory reactions. But partial regulatory “solutions” only lead to gaming. And comprehensive regulatory “solutions” tend, over time, to lead to inefficient resource allocation and/or rationing. A way out of this dilemma that is both politically viable and substantively sound is not immediately evident.

**SIMPLE OBSERVATION NUMBER (8):**

*Strategies to continue to improve life expectancy are desirable—but they do not necessarily reduce (and may substantially increase) system-wide costs.*

- (a) *Average life expectancy at birth has been rising steadily, and is projected to continue to do so. (See chart 20.) From the standpoint of those who value life (i.e., almost all of us), this is unquestionably a favorable development. But from the standpoint that is concerned about rising health expenditures, it may be a mixed blessing—as discussed below.*



- (b) *Net economic benefits to society can be positive if people who are enabled to live longer are also able to be productive. But there are several types of cases where this test is not met. For example:*
  - (i) *where infant mortality is reduced, but other factors influencing subsequent life chances—e.g., remediation of disability; provision of opportunity to escape a poverty environment—are not addressed;*

- (ii) where relatively sudden natural death (as, e.g., from heart attack) is avoided, only to substitute slower natural death (as, e.g., from Alzheimer's);
  - (iii) where natural death is prolonged by technological advances sufficient to prevent death, but not sufficient to restore healthy functioning; or
  - (iv) where the period of healthy functioning is extended (beyond age 65, say), but opportunities (or incentives) for productive activity are not.
- (c) This is not to suggest that life should not be extended in such cases. As a matter of political, socio-psychological, and ethical reality, it is likely that society will wish to invest in the extension of life without much regard to economics. This is a testament to the strength of the human spirit. But given this strength, the point is: *complementary policies need to be pursued to increase the likely productivity of lives that are extended—or else the net cost to society will continue to mount.*

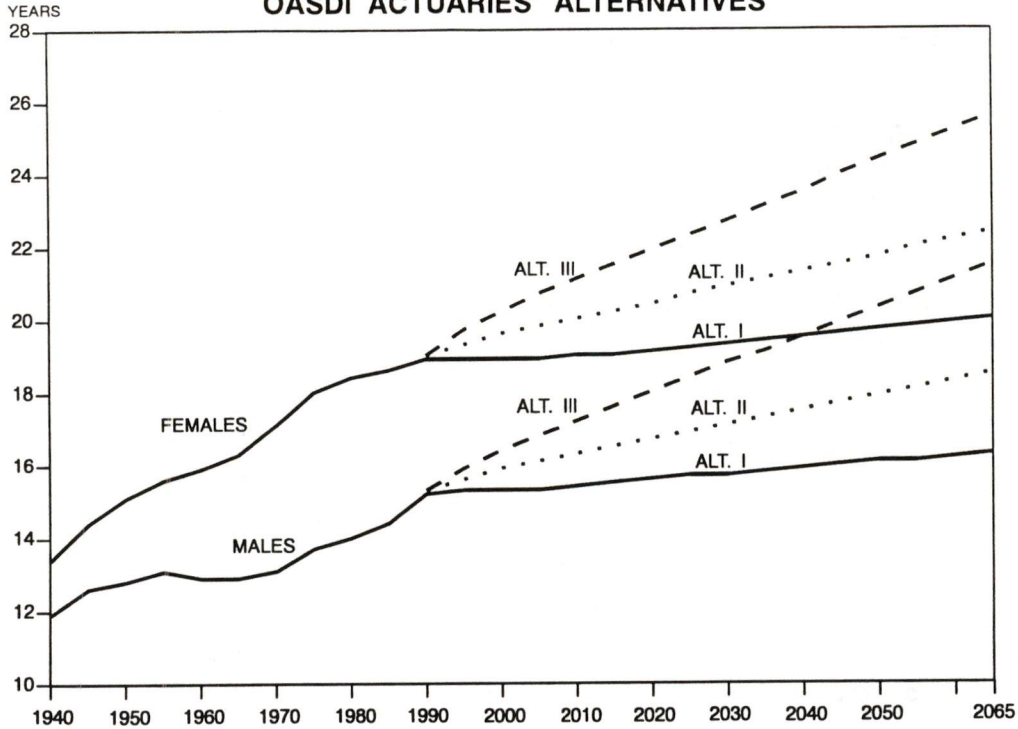
#### SIMPLE OBSERVATION NUMBER (9):

***If not only average life expectancy, but also maximum life span are likely to increase, costs will increase still more—and budgetary considerations will become an important additional justification for raising the retirement age and providing satisfactory work opportunities for healthy older Americans.***

- (a) Not only is life expectancy at birth increasing; but *life expectancy for those who reach age 65 is also steadily increasing.* (See chart 21.) Further, the *percentages of the population surviving to ages 65 and 85 have been steadily increasing.* (See chart 22.) And large percentages of those who are living longer are remaining healthy longer.
- (b) *But the retirement age has not been increasing.* As a result, the percent of the population that is healthy-but-retired is increasing. For those who benefit from longer, healthier retired lives, this is clearly desirable. But longer retired life for more people can become a growing economic burden for those who are working. Although not directly a matter of health policy, *this increasing economic burden is, in effect, a consequence of some of the successes of health policy* (and the associated failure to keep retirement in line with such successes).
- (c) While average life expectancy is rising, the natural upper limit on human life span may not be (or may not be rising much). How much this upper limit might rise is a matter of scientific dispute. But it is not inconceivable that the current investment in basic research, genetic research, and biotechnology may produce *breakthroughs that could significantly increase the upper "limit" of human life span.* If such breakthroughs were achieved—or were likely—the need to adjust retirement policies would be still greater.

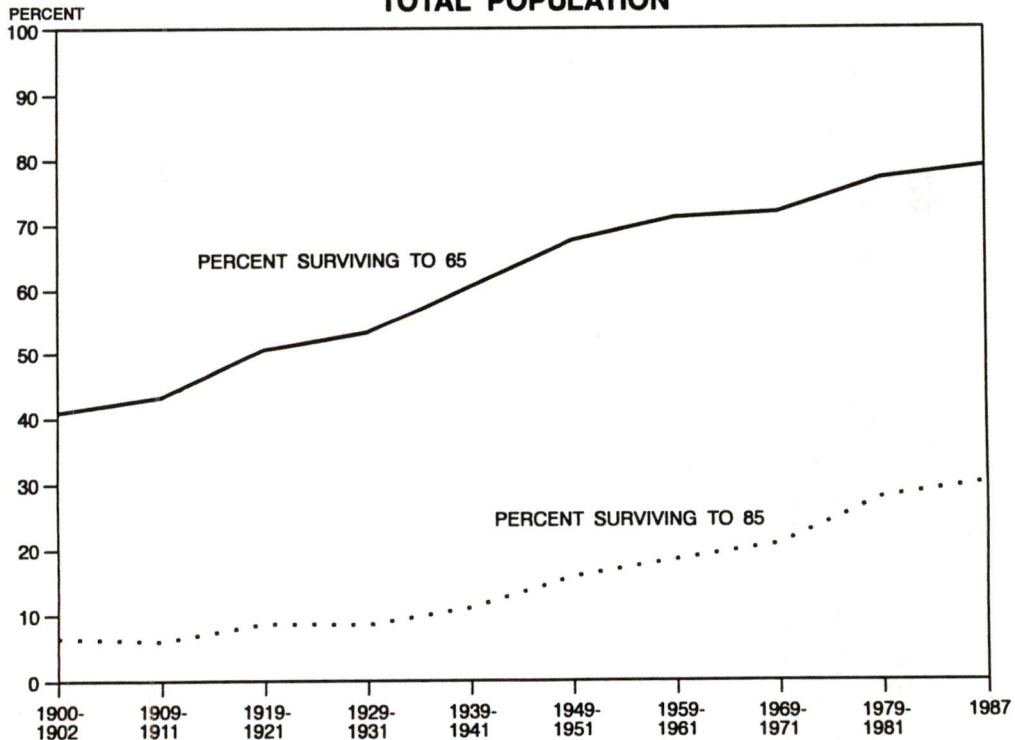
**NOTE:** Current Social Security and Medicare projections do *not* assume such breakthroughs. With current demographic assumptions, relatively modest changes in the retirement age translate into large budgetary savings. By way of illustration: If the normal retirement age were gradually raised to 69 by the year 2022 (starting in the year 2000), savings would be greater than \$25 billion (in 1992 dollars) per year.

**CHART 21. LIFE EXPECTANCY AT AGE 65  
OASDI ACTUARIES' ALTERNATIVES**



Source: Social Security Administration actuaries.

**CHART 22. SURVIVAL RATES TO 65 AND 85,  
TOTAL POPULATION**



Source: U.S. Vital Statistics, 1987.

## NINE SIMPLE OBSERVATIONS ABOUT “THE SOLUTION”

### SIMPLE OBSERVATION NUMBER (10):

*The Administration has advanced publicly a set of responsible initiatives, in which there is reason to have confidence—but these have not been viewed as “comprehensive”; and many, though worthy, have not been enacted.*

Among these initiatives are proposals to:

- increase investment in *health research and development*;
- target resources on *infant mortality reduction and maternal health improvement*;
- *reduce subsidies for the non-poor*;
- create incentives for more widespread adoption of *malpractice reform* by the States;
- limit the growth of selected *overpriced physicians’ fees*; and *end abuses* such as inappropriate Medicaid “donor”-and-“tax”-“match” schemes;
- encourage and evaluate *natural experimentation* among the States; and
- increase the focus on *prevention and personal responsibility*.

It is especially noteworthy that the last of these initiatives alone has the potential for genuinely *radical improvement* in American health. As Secretary Sullivan has noted, it has been estimated that responsible modification of ten behavioral risk factors—within the discretionary control of individuals—could reduce premature death and disability by about half. None of the so-called “comprehensive” reform proposals comes close to such favorable potential. Yet, ironically, proposals to encourage behavioral change seem to get relatively little attention in discussions of “reform”.

### SIMPLE OBSERVATION NUMBER (11):

*There are several pending proposals for small group market reforms, which could address a significant portion of the “access” problem—but these, too, are not deemed “comprehensive”.*

A summary description and assessment of small group market reforms is at *Appendix 1*.

### SIMPLE OBSERVATION NUMBER (12):

*To meet the political system’s current definition of “comprehensive”, a plan seems to have to: (a) provide access to affordable health insurance coverage for all (or almost all) Americans; and (b) control the growth of health costs—but the political system seems to be enforcing a political bargain upon itself: trading cost control for access and vice-versa.*

It is obvious that the problem of containing cost growth is more than serious enough to merit attention independently. (See the discussion of the problem, above.) But, as a practical political matter, virtually all current comprehensive plans seek to “buy” otherwise unpopular disciplinary measures with increased access, and to pay for increased access (at least partly) with increased disciplinary measures.

SIMPLE OBSERVATION NUMBER (13):

*In thinking about "comprehensive reform", there are literally thousands of complex technical issues—but larger than these are two rather basic philosophical issues that should be directly addressed, yet typically are not:*

- In financing increased "access", who should bear the burden of financial responsibility?
  - for the poor (now a combination of: charity, cross-subsidy, States, and the Federal government);
  - for those employed who are not now offered affordable insurance (now principally: charity and family resources);
  - for the aged (now principally insured by subsidized Medicare, regardless of income);
  - for those in need of long-term care (now principally: families and State-Federal Medicaid).

*NOTE:* Few of the current plans start from (or end up with) a particularly coherent set of answers to this question.

- In seeking to *control costs*, on what cost-control approach does one wish to rely?
  - governmental budgetary *caps* (Canada, Europe, Russo et al., Medicare physicians payment system);
  - expanded direct *regulation* (Canadian-type plans, most "play-or-pay" plans, many States);
  - incentives or requirements for "*managed care*" (HMOs, PPOs, etc.); and/or
  - increased *consumer choice* in the context of:
    - greater *cost-sharing*; and/or
    - greater involvement in *plan selection in a competitive marketplace*.

*NOTE:* The specific answers to these questions will tend to determine the character (or existence) of the role for private doctors, providers, and insurers. They will also determine what role the government has in "rationing".

SIMPLE OBSERVATION NUMBER (14):

*Addressing the "access" problem inescapably means shifting tens of billions of dollars (per year) of health care financing.*

It is important to note: the total cost to the government (or even to the system as a whole) does *not necessarily* have to go up. Under most plans, however, it would likely go up substantially. What happens to both the distribution of the financial burden—and to the total—depends upon answers to the philosophical questions noted above, and the selection of financing options from among the following *Generic Financing and Savings Options*:

- (a) *reduce defensive medicine* and malpractice insurance costs via enactment of malpractice reform;
- (b) *reduce utilization* via:
  - improved prevention strategies;
  - greater co-insurance; and/or
  - increased “managed care”; and/or
  - greater use of practice guidelines and more efficient protocols; and/or
  - aggregate expenditure caps (as in Canada/Russo-type plans);
- (c) *stop Medicaid abuses* by, e.g.:
  - ending States’ donor-and-tax “match” scams;
  - ending spend-down avoidance schemes;
- (d) *reduce prices* (or price growth) for service delivery by:
  - tightening reimbursement schedules/systems; and/or expanding aggregate expenditure caps;
  - encouraging superior operations research techniques (via incentives and/or requirements);
  - increasing competitive discipline; and/or
  - reducing administrative burdens and/or functions;
- (e) via small group market reforms, *reduce the cost of insurance* for (and thereby increase premium payments by) small business employees/employers who do not now have affordable options;
- (f) *cap or eliminate the tax deduction/exclusion* for premium payments;
- (g) *recapture windfalls* from any new access system that would otherwise accrue to:
  - State and local government;
  - insured low income workers and/or their employers;
  - hospitals and doctors;
- (h) *means test Medicare* (or “reduce subsidy for the rich”); and/or phase in eligibility-at-67 for Medicare—to parallel Social Security;
- (i) *increase taxes* as in several of the current plans to: raise employer taxes (for pay-or-play); raise the HI wage base and establish an individual and corporate “universal health coverage surtax” (as in the Rostenkowski plan); and/or increase corporate and personal income tax rates (as in the Russo plan).

*NOTE:* The above is simply a generic listing of options in one or another of the many competing current plans. Several of these options—for example the tax increase options—are, of course, not supported by the Administration.

SIMPLE OBSERVATION NUMBER (15):

*Because many financing options are unappealing, some people seem attracted to supposedly "painless" options such as "administrative" savings—but upon careful examination, proposals to finance universal access via savings in "administrative costs" generally come up way short.*

For a summary of the extent to which these proposals leave financing gaps, see Appendix 2, "Administrative Costs and Savings."

Beyond the problem of major financing gaps there is this further issue: The more substantial "administrative cost" saving proposals involve eliminating (or substantially displacing) the private insurance industry. They thus raise practical and ideological issues that go far beyond "administrative efficiency."

SIMPLE OBSERVATION NUMBER (16):

*There is an abundance of comprehensive reform plans (see Appendix 3)—but most current plans have serious problems even without taking basic ideological issues into account.*

For example:

- The *Russo* plan (by its own account) raises business taxes by \$23 billion per year; raises the top corporate rate from 34 to 38%; raises personal income taxes by \$12 billion per year; raises the top personal rate to 38%. At that, it still comes up short by more than \$100 billion per year (preliminary OMB estimate) unless one assumes equivalent savings from additional reductions in reimbursements to providers (beyond "administrative savings").
- The *Mitchell* plan relies on what might be termed an "RFK Stadium" approach to uniform rate-setting—a cumbersome, unworkable, approach to national price controls (achieved through complex negotiations among enough parties to fill a football stadium). It also involves an unpredictable, unstable, and therefore unworkable floating employer tax.
- The pure form of *refundable tax-credit* plans involve difficult problems of risk segmentation.
- And so on . . . (For further discussion of advantages and disadvantages of competing plans, see Appendix 3.)

SIMPLE OBSERVATION NUMBER (17):

*The problems with comprehensive reform proposals can seem so large, upon serious examination, that they become an argument for proceeding incrementally—but this, too, is problematic.*

Incrementalism has its normal virtues: prudence, manageability, walk-before-run-ness, etc. But it also has disadvantages: It tends to compound the complexity of the current system—thereby risking additional inefficiency, incoherence, and/or inequity.

**SIMPLE OBSERVATION NUMBER (18):**

*If the risks of incrementalism are deemed unacceptable at this stage, it is necessary to settle upon one of the three basic conceptual alternatives for comprehensive reform: "Canadian-style" vs. "play-or-pay" vs. "pro-competitive".*

These are fundamentally different alternatives. They do not lend themselves well to a mix-and-match approach. If we wish to have a coherent approach to reform, the political system will have to choose one of the conceptual alternatives. To facilitate such choice, *Attachment 1* attempts to simplify and clarify the basic differences in the three conceptual alternatives.

With these observations by way of introduction, please let me repeat: the Administration looks forward to continuing to work with the Committee in pursuit of a mutually agreeable approach to reform.

Thank you very much.

**Attachment 1: Comprehensive Health Plans: Major Conceptual Alternatives**

**Appendix 1: Summary of Small Group Market Reform Proposals**

**Appendix 2: Preliminary Estimates for Administrative Savings and Benefit Costs for Selected Comprehensive Reform Proposals**

**Appendix 3: Summary of Comprehensive Health Reform Proposals Now Being Debated**

**COMPREHENSIVE HEALTH PLANS: MAJOR CONCEPTUAL  
ALTERNATIVES**

<b>Plan/Characteristic</b>	<b>"Play-or-Pay"</b>	<b>"Canadian"</b>	<b>Pro-Competitive</b>
Access for <i>All</i> (including poor)	Yes	Yes	Yes (with individual mandate and sufficient financing)
Net New <i>Mandated</i> Employer Spending or Employer Tax	Yes	No (serious adaptation issues—Yes with Russo)	No
Comprehensive Governmental <i>Price Regulation</i>	Yes (in Mitchell and Rosty Plans)	Yes	No
Continued Major Role for <i>Private</i> <i>Insurance</i> Companies	Yes	No	Yes
Income Tax <i>Exclusion</i> for Employer-paid Premiums (or tax equivalent)	Unlimited	Unlimited	Capped or Eliminated
Refundable Tax <i>Credit</i> for Low Income (to cover health insurance)	No	No	Yes
Treatment of <i>Small</i> <i>Business</i>	Play-or-Pay (with credits)	Universal plan (some new pay)	Tax benefit equalization; [and regulatory reforms; market pooling]
Treatment of <i>Medicaid</i> [NOTE: Medicare is generally left alone.]	Replaced with new program (for all not in "play")	Replaced by single universal plan	Replaced, either immediately or over time
"States as Laboratories"	No	No	Possible
Consumer <i>Choice</i>	Medium	Low	Higher
Governmental <i>"Rationing"</i> Potential	Low (could grow)	High	Low

## Summary of Small Group Market Reform Proposals\*

	<b>1. H.R. 1565 (Johnson)</b>	<b>2. S. 700 (Durenberger)</b>	<b>3. S. 1227 (Mitchell)</b>	<b>(H.R. 3205) Rostenkowski</b>	<b>5. Enthoven</b>
<b>Implementation</b>	Federal preemption unless state meets Federal std. Federal regulation enforced thru tax code. NAIC to have opportunity to develop regulations.	Federal preemption unless state applies for waiver to operate its own program.	Federal preemption unless state meets Federal standard. Federal regulation enforced thru civil penalties and Federal excise tax.	Federal preemption unless state meets Federal stds. Fed. regulation enforced thru excise tax. Small employer carriers must register with the Secretary	Health benefit tax subsidy for small business workers, would be available <u>only</u> for coverage purchased thru an accredited Health Insurance Purchasing Corp.
<b>Guaranteed Issue (must cover all groups &amp; not exclude any member)</b>	Yes	Yes	Yes	Yes	Yes, for coverage purchased thru a HIPC.
<b>Guaranteed Renewability</b>	Yes	Yes	Yes	Yes	Yes, for coverage purchased thru a HIPC.
<b>Exclusions for Preexisting Conditions</b>	Limited	Limited	Limited	Limited	None allowed.
<b>Limits on Premiums</b>					
<b>Across blocks of business</b>	Premiums may not differ by more than 20%.	Same as (1)	Same as (1)	No variation allowed.	Not specifically addressed.
<b>Across demographic (age/sex) categories</b>	Unlimited variation permitted.	Same as (1)	Premiums may vary by up to 10%	Premiums may vary by up to 33%	Unlimited variation permitted.
<b>Within demographic categories</b>	Premiums may not vary by more than $\pm 25\%$ from midpoint.	Premiums may not vary by more than $\pm 20\%$ from midpoint.	After phase-in, no variation in premiums allowed	No variation allowed within demographic categories.	No variation allowed within demographic categories.
<b>Limit on premium increases</b>	To be established by NAIC	% increase for new business plus adjustment for change in benefits	Selective rate increases based on group experience would be prohibited.	Renewal rates must be the same as that for a new issue.	n/a
<b>Enforcement</b>	Actuarial certification. Monitoring by state insurance commissioner.	Same as (1).	Same as (1)	Actuarial certification.	HIPCs would monitor insurers compliance with contract terms.
<b>Reinsurance</b>	States can design their own system. Federal back-up provided.	Not addressed.	Encouraged, but not required.	Not addressed.	n/a
<b>Core Benefit Plan</b>	Covers hospital, physician & preventive services. Scope can be modified.	Covers hospital, physician, diagnostic, ambulance, prenatal & DME services.	Covers hospital, physician, diagnostic, preventive & mental health.	Covers all Medicare services including: hospital, physician, diagnostic, preventative & mental health.	Basic coverage
<b>Other</b>	Employers must offer basic coverage but needn't pay. Prohibits mandated benefits & restrictions on selective contracting.		After phase-in, employers must provide minimum benefits or pay tax. Subsidies provided to assist small business with costs.		A HIPC is a non-profit corporation controlled by small business members for group purchasing of health insurance. States would certify one (or more) per area.

\* The Heritage and AEI/Pauly proposals are not included in this table because of their different approach to market reform.

**Preliminary Estimates for Administrative Savings and Benefit Costs for Selected Comprehensive Reform Proposals**  
(Preliminary Staff Estimates, in billions of 1991 \$)

	U. S. Current		Adopt Canada		OMB Staff Estimates		
	GAO	OMB Staff Estimate	GAO	OMB Staff Estimate	Russo	Kerrey	Mitchell
<b>Current Administrative Costs</b>							
Insurance Administrative Costs	\$43	\$39	\$9	\$9 - \$22	\$9 - \$22	\$25 - \$30	\$30-\$35
% of National Health Expenditures	5.8%	5.3%	1.2%	1.2 - 3.0%	1.2 - 3.0%	3.4 - 4.1%	4.1 - 4.8%
Hospital Administrative Costs	\$43	\$37	\$25	\$23 - \$26	\$23 - \$26	\$28-\$33	\$30-\$35
% of National Health Expenditures	5.8%	5.0%	3.4%	3.1 - 3.5%	3.1 - 3.5%	3.8 - 4.5%	4.1 - 4.8%
% of Total Hospital Spending	15.1%	12.9%	8.7%	8.0%-9.1%	8.0%-9.1%	9.8 - 11.5%	10.5 - 12.2%
Physician Practice Expenses	\$70	\$75	\$55	\$70 - \$72	\$70 - \$72	\$70-\$72	\$71-73
% of National Health Expenditures	9.5%	10.2%	7.5%	9.5 - 9.8%	9.5 - 9.8%	9.5 - 9.8%	9.6% - 9.9%
% of Total Physician Spending	47.1%	50.5%	37.0%	47.1 - 48.5%	47.1 - 48.5%	47.1 - 48.5%	47.8 - 49.2%
<b>Total Administrative Costs</b>	<b>\$156</b>	<b>\$151</b>	<b>\$89</b>	<b>\$102 - \$120</b>	<b>\$102 - \$120</b>	<b>\$123 - \$135</b>	<b>\$131-\$143</b>
<b>Administrative Savings</b>	---	---	\$67	\$31 - \$49	\$31 - \$49	\$16 - \$28	\$8-\$20
<b>New Administrative and Benefit Costs</b>							
Administrative Costs for Newly Covered	---	---	(\$2)	(\$4)	(\$4)	(\$4)	(\$15)
Benefit Costs for Expanded Coverage							
Newly Insured	---	---	(\$17)	(\$12-\$20)	(\$12-\$20)	(\$12-\$20)	(\$12-\$20)
Currently Insured Utilization Adjustment	---	---	(\$45)	(\$40-\$90)	(\$100-\$160)	(\$40-\$70)	(\$0-\$5)
<b>Net Savings/(Costs)</b>	---	---	<b>\$3</b>	<b>(\$7-\$83)</b>	<b>(\$67-\$153)</b>	<b>(\$28-\$78)</b>	<b>(\$7-\$32)</b>
<b>Financing Costs and Gap</b>							
Financing Needed	---	---	\$0	(\$7-\$83)	(\$67-\$153)	(\$28-\$78)	(\$7-\$32)
Financing Provided	---	---	\$0	\$0	(\$40)	(\$29)	\$0
Loss of Tax Revenue from Insurers	---	---	\$0	(\$2-\$4)	(\$2-\$4)	\$0	\$0
<b>Financing Gap</b>	---	---	<b>\$0</b>	<b>(\$9-\$87)</b>	<b>(\$109-\$197)</b>	<b>(\$57-\$107)</b>	<b>(\$7-\$32)</b>

**Notes:**

- (1) Plans vary: only Mitchell and Kerrey retain patient cost sharing; only Russo and Kerrey cover long term care and prescription drugs; only Russo covers vision and dental care; and Canada has no cost sharing, does not cover long term care or prescription drugs, and provider payment rates are significantly lower than current U.S. rates.
- (2) To realize administrative savings, provider payments must be reduced by amounts identified.
- (3) Financing gap to be closed by additional reductions in provider payments, new or higher taxes, or increased premiums.

	<b>Heritage</b>	<b>AEI/Pauly</b>	<b>Enthoven (3/91 Draft)</b>	<b>H.R. 1565 (Johnson)</b>
<b>General Approach</b>	Pro-competitive	Pro-competitive	Tax cap with employer mandate	Tax cap w/ small group reform
<b>Cost Containment</b>				
Cost-Sharing	Higher cost sharing encouraged thru tax policy.	Higher cost sharing encouraged thru tax policy.	Higher cost sharing encouraged thru tax policy.	"Safe harbor" for 30% overall cost sharing.
Managed Care	Managed care encouraged thru tax policy.	Managed care encouraged thru tax policy.	Managed care encouraged thru tax policy.	"Safe harbor" for "managed care" plans.
Limit Tax Subsidy for Employer Paid Health Benefits	Replaces exclusion with refundable tax credit for individuals & families.	Replaces exclusion with refundable tax credit for individuals & families.	Caps exclusion for all workers at lowest priced plan provided thru small employer purchasing group. For small businesses, income exclusion is available only if coverage is obtained thru small employer group.	25% tax penalty for employer if employer share of premium is greater than \$160/\$300 a month <u>unless</u> (i) 30% cost sharing or (ii) managed care.
Price Regulation	No	No	No new regulation	No new regulation
Supply Regulation	No	No	No	No
Other	No	No	Preempt state mandates for insurance purchased thru small employer group.	Preempt state mandates for small business; insurers must offer a basic coverage plan. Preempts state "anti-managed care" laws.
<b>Access</b>				
Scope of Coverage	Universal	Universal	Near universal	Expands, not universal
Benefits	Catastrophic coverage w/ high deductible	Basic w/ income related out-of-pocket cap	Basic	Basic
Medicaid Expansion / Buy-In	Retains Medicaid with expansion and buy-in.	Replaces Medicaid with private coverage thru tax credit.	Thru small employer purchasing group w/ sliding scale premiums.	No
Tax Credits and Subsidies	Tax credit varies as percent of actual premium cost.	Tax credit varies by income and health risk.	Special tax credit for small employer premiums in excess of 8% of payroll.	Increases premium deduction for self employed to 100%.
Individual Mandate	Yes	Yes	No	No
Employer Mandate	No	No	Yes, play or pay mandate	Employer must offer coverage, but not required to pay.
Universal Public Insurance	No	No	No	No
<b>Who Pays</b>				
Government / Financing	Repeal of income exclusion for health benefits & other funding.	Repeal of income exclusion for health benefits & other funding.	Cap on income exclusion for health benefits & other funding.	Financing not specified
Employers	Voluntary	Voluntary	80% of tax cap amount	
Individuals	Difference between premium and credit.	Difference between premium and credit.	Excess above employer contribution.	
<b>Small Employer Market</b>	Not specifically addressed.	Replaces private insurance cross subsidies with health-risk adjusted tax credit.	Small employer purchasing groups & "community" rating.	State must implement "market reforms" or Federal preemption
<b>Quality</b>	Not specifically addressed.	Not specifically addressed.	Health plans must gather outcomes data.	Requires outcomes data for hospitals.

\*Basic" coverage generally includes hospital, physician, and diagnostic services. \$---/\$-- refers to individual/family coverage.

	<u>H.R. 1300 (Russo)</u>	<u>S. 1446 (Kerrey)</u>	<u>S. 1227 (Mitchell)</u>	<u>H.R. 3205 Rostenkowski</u>
<b>General Approach</b>	Canadian-style	Canadian-style	Play or pay w/ rate setting	Play or pay w/ rate setting
<b>Cost Containment</b>				
Cost-Sharing	None allowed.	Maximum: \$100 /\$300 deductible; \$5 co-pay first physician visit; coinsurance not to exceed 20%; \$1000 /\$2000 cap.	Maximum permitted: \$250/\$500 deductible; 20% coinsurance; \$3000 cap.	Maximum permitted: \$250/\$500 deductible; 20 %coinsurance; \$2500 /\$3000 cap.
Managed Care	HMO option	HMO option	Weak incentives	Weak incentives
Limit Tax Subsidy for Employer Paid Health Benefits	Not Applicable	Not Applicable	No	No
Price Regulation	Total health care spending limited by National Budget. Global budgets for hospitals, physicians and other services.	Total health care spending limited by State and National Budgets. Global budgets for hospitals. Negotiated Fee Schedules.	Federal Health Expenditure Board to set national spending goals. Provider/Payer negotiations to set payment rates consistent with Board's spending goals.	National health care spending limits. Health Care Cost Containment Comm. to negotiate prices with health care providers. Medicare-like ceilings for provider payment rates.
Supply Regulation	Separate capital budgets	Separate state capital accounts	State level capital budget option	National capital budget.
<b>Access</b>				
Scope of Coverage	Universal	Universal	Near-Universal	Near-Universal
Benefits	B, P, M, LTC, Rx, D, V	B, P, M, LTC, Rx	B, P, M	B, P, M, LTC
Medicaid Expansion / Buy-In	Replaces Medicaid with universal program.	Replace Medicaid with universal Health USA program.	Replaces Medicaid with AmeriCare; sliding-scale premium.	Replaces Medicaid with Public plan; sliding scale premium.
Tax Credits and Subsidies	LTC premium subsidized for low-income senior citizens.		Subsidy for low-income workers to help pay employee premium share.	Premium, coinsurance, and deductible subsidy for low-income individuals
Individual Mandate	No	No	No	No
Employer Mandate	No	No	Yes	Yes
Universal Public Insurance	Yes - Federal Program	Yes - State/Federal Program	No	No
<b>Who Pays</b>				
Government / Financing	Financing from new federal income and corporate taxes. Continued State participation.	Federal grant to each State -- ranges between 82% and 92% of State expenditures. New taxes.	"Play or pay" tax and continued state effort -- other financing needed but not specified.	"Play or pay" tax, income surtax, individual premiums/cost-sharing, and continued State effort.
Employers	HI payroll tax rate increased to 6%. Corporate taxes increased to 38%.	Employer payroll tax of 4% of wages > \$30K. Add'l tax equal to 50% of the amount employer paid for retiree health coverage. Corporate tax increased to 44%.	Play or pay payroll tax (delayed implementation for firms w/ < 25 workers). Credit of 25% of premiums for firms w/ < 60 workers.	Play or pay payroll tax. Phased-in corporate income surtax of 6% (1993) to 9% (1996).
Individuals	Marginal income taxes raised to 38%. OASDI taxable wage based increased to \$125K. 85% of OASDI benefits taxable. LTC premium of \$55/month for individuals 65 years and older.	Add'l 1% tax on wages and 2% on unearned income. Top marginal indiv. income tax rate of 33%. OASDI wage base to \$125K. 85% of OASDI benefits taxable. Cigarettes, liquor taxes.	Sliding-scale premiums for enrollment in public AmeriCare. Workers may be required to pay 20% of private premiums, w/ gov't subsidy for low-income workers.	Sliding-scale premiums for enrollment in public plan. HI tax base to \$200K, rate raised to 1.65% (1996). Self-employment tax to 3.30% (1996). Income surtax of 9% (1996).
<b>Small Employer Market</b>	Not Applicable	Not Applicable	Market Reform	Market Reform
<b>Quality</b>	Continued PRO review	Quality of care committee	No new regulation	Continued PRO review

B=Basic health care (hospital, physician, diagnostic); P=preventive services; M=mental health (inpatient /outpatient psychiatric); LTC=long term care; Rx=Prescription Drugs; D=Dental; V=Vision. \$--/\$-- refers to individual/family coverage.

	<u>UNY*Care</u>	<u>H.R. 2535 (Pepper Comm'n/Waxman)</u>	<u>H.R. 8 (Oakar)</u>	<u>Canada</u>
<b>General Approach</b>	Play or pay with rate setting	Play or pay	Canadian-style	
<b>Cost Containment</b>				
Cost-Sharing	Unspecified, but out-of-pocket costs would be capped on sliding scale.	Maximum permitted: 20% coinsurance, \$250/\$500 deductible; \$3000 cap.	Maximum permitted: 20% coinsurance, \$200/\$500 deduct; \$1000/\$2500 cap.	None allowed
Managed Care	Employer financing may encourage managed care	Limitation on State regulation, and favorable treatment	No incentives are provided.	Little utilization review. Few HMOs; no PPOs.
Limit Tax Subsidy for Employer Paid Health Benefits	No	No	No	n/a
Price Regulation	All-payer rate setting	Medicare-like payment. Possible State uniform payment rates.	All-payer rate setting	Gov't monopsony
Supply Regulation	Certificate of need regulation.	No	Capital budgets	Capital budgets Limits on manpower
Other	Lower billing costs thru single payer.	Malpractice reform. Practice guidelines.	Comm'n to assess technology and set coverage standards.	Strong regional management by provincial governments.
<b>Access</b>				
Scope of Coverage	Near universal	Near universal	Universal	Universal
Benefits	B	B, P, M	B,P,M	B, P, M - others variable
Medicaid Expansion / Buy-in	Yes, but few specifics are provided.	Federalized program with expansion and buy-in.	Replaces Medicaid with universal program: public/private hybrid.	n/a
Tax Credits and Subsidies	For low-income families.	Premium, coinsurance and copayment subsidy for low-income individuals.	No	n/a
Individual Mandate	No	No	No	No
Employer Mandate	Play or pay mandate	Play or pay mandate with phase-in for small business	No	n/a
Universal Public Insurance	\$25,000 stop loss would be provided by state	Hybrid - Public and Private Insurance	Hybrid - public finance with private insurance	yes
<b>Who Pays</b>				
Government / Financing	Redirects gov't charity care/bad debt pay. Other-unspecified	Public Health Plan financed through Employer "Pay" tax and additional surtaxes	Financing not specified	Fed. income tax and provincial payroll tax
Employers	Responsible for most	Employer "Pay" tax or 80% of premiums. Corp. surtax.		Provincial payroll tax
Individuals	At employer option: workers responsible for up to \$250/ \$500 a year. Sliding scale for others.	At employer option: workers responsible for up to 20% of premiums. Premiums to buy-in to Public Health Plan, Add'l. Surtax (amt unspecified)		
<b>Small Employer Market</b>	Market reform	Market reform	Community rating	n/a
<b>Quality</b>		Practice guidelines, Outcomes research, Peer Review	Commission to establish standards w/ enforcement	

B=Basic health care (hospital, physician, diagnostic); P=preventive services; M=mental health (inpatient /outpatient psychiatric); LTC=long term care; Rx=Prescription Drugs; D=Dental; V=Vision. \$---/\$-- refers to individual/family coverage.

## Preliminary Descriptive Analysis of Cost Containment Options

	<b>1. Incentives for Cost Sharing</b>	<b>2. Incentives for Managed Care</b>	<b>3. Limit Tax Subsidy for Employer-Paid Benefits</b>	<b>4. Government Monopsony</b>	<b>5. All-Payer Rate Setting</b>	<b>6. Supply Controls</b>
<b>Where proposed?</b>	Johnson (directly). Enthoven, Pauly, Heritage (indirectly).	Johnson (directly). Enthoven, AEI/Pauly, Heritage (indirectly).	Enthoven, AEI/Pauly, Heritage*	Canada, Russo, Kerrey	Mitchell (modified), Rostenkowski, UNY*Care	Canada, Russo, Kerrey, Mitchell (optional), Rostenkowski, UNY*Care,
<b>Potential Advantages</b>	Cost sharing has been shown to reduce health spending with little impact on health outcomes. Little overhead cost.	Provides framework and incentives for cost-effective care delivery. Selective contracting may strengthen price competition. May reduce unneeded care.	Strengthens competition encouraging increased cost sharing & managed care. Could improve equity if revenues used to fund expanded access.	Used with apparent success by other nations. Substantial administrative savings may be possible.	Similar to (4) but leaves private insurance somewhat intact. Retains some incentive for managed care.	Has had modest effect on health spending growth. Market forces alone may be insufficient to correct imbalance in physician supply.
<b>Potential Disadvantages</b>	Some consumer resistance likely. Little impact on service intensity. Little effect likely on price competition.	Some consumer resistance likely. Difficulty of defining managed care. Savings from provider price competition may be limited.	Impact on cost is indirect. Potential for inequitable impact (depending on detailed design).	Would disrupt U.S. health system. Major increase in taxes and role of government. Weak incentives for efficiency. Price competition eliminated.	Could limit access. Major increase in regulation & role of gov't. Could weaken incentives for managed care.	Could limit access and create shortages that US public may not accept. Potential adverse impact on quality & innovation.
<b>Impact on Costs</b>	Depends on degree of cost-sharing.	Substantial savings possible, but lag time needed to develop effective managed care plans & build enrollment.	Similar to (1) and (2), but indirect.	May not work in U.S. Admin. cost savings. Could have rapid cost control effect, after initial start-up.	Comparable to (4), except less potential for administrative savings.	More likely to limit spending for "high tech" care.
<b>Impact on Unnecessary Care</b>	Could reduce "needed" as well as "unneeded" care; little evidence.	Has potential for reducing unneeded care.	Similar to (1) and (2), but indirect.	Little direct effect.	Little direct effect.	Could reduce some unneeded care
<b>Impact on Health Care System</b>	Little impact.	Major change, but consistent with trends.	Could trigger shift to managed care & competition.	Expands regulation. Increased oppor'ty for political intervention. Could slow movement toward managed care.	Similar effects as (4), but less extensive.	Little disruption over short run. Major potential for disruption over long run.
<b>Impact on Quality and Innovation</b>	Concern about quality impact, but little evidence to support. Little innovation impact.	Concern about quality, but little evidence. Concern about limiting choice.	Similar to (1) and (2).	Little short run effect. Potential for underfunding could have adverse effect.	Same as (4).	Potential adverse effect.
<b>Impact on Role of Government</b>	Little impact.	Defining managed care may increase gov't role.	Little impact.	Major increase in gov't role.	Similar effect as (4), but less extensive.	Similar to (4).
<b>Implementation and Other Issues</b>	Could have adverse effect on equity if low-income protections not included.	Monitoring required to determine compliance with managed care standard.	Tax cap could have inequitable impact due to variation in premium costs.	Minimum of 2 yrs lead time needed.	Same as (4).	Would likely require hospital-level capital budgeting to have impact.

\* Enthoven limits the income exclusion for employer paid health benefits with a dollar cap. AEI and Heritage totally replace the income exclusion with a new health insurance tax credit. Distinctive implications of the Heritage and AEI approach are discussed more fully in the analysis of access options.

**Summary of Comprehensive Health Reform Proposals:  
Preliminary Descriptive Analysis of Access Options**

	<b>1. Medicaid Expansion With Buy-In</b>	<b>2. Individual Mandate &amp; Tax Credit Based on Income &amp; Health Risk</b>	<b>3. Individual Mandate &amp; Tax Credit Based on % of Premium Cost</b>	<b>4. Employer Pay or Pay Mandate</b>	<b>5. Universal Public Insurance</b>
<b>Where Proposed?</b>	Mitchell, Rostenkowski, Pepper Comm'n, UNY*Care (w/ modifications)	AEI/Pauly	Heritage	Mitchell, Rostenkowski, Pepper Comm'n, UNY*Care, Enthoven	Canada, Russo, Kerrey
<b>Potential Advantages</b>	Builds on current program. Matching of Fed.& State funds.	Universal coverage. Blends individual rights and responsibilities. Targets subsidies based on need.	Similar to (2) but tax credits are not targeted based on need.	Retains private insurance system. Relatively low cost to gov't.	Perceived equity. Potential for cost control.
<b>Potential Disadvantages</b>	Expands gov't reach with associated problems. May be perceived as "second class care" for beneficiaries. Burdens States with more costs.	Potentially high gov't cost due to transfers to employers and low-risk workers. Disrupts risk pooling in private insurance that keeps premiums low for high risk individuals.	Only catastrophic coverage required -- may be inadequate for many ( but tax credits available for broader coverage). Disrupts risk pooling as (2).	Passes cost to private sector. Will reduce employment and economic growth. Could depress wages for low-income workers.	Major increase in gov't role and cost. Political system in U.S. may fail to control costs. May limit diversity & innovation.
<b>Impact on Access</b>	Covers half the uninsured.	Universal basic coverage.	Universal catastrophic cost coverage.	Covers about half of the uninsured.	Provides universal coverage.
<b>Approx. Annual Cost for Gov't</b>	>\$30 billion in Federal/state costs.	Difficult to estimate.	Difficult to estimate.	Could lowers Federal/state Medicaid & indigent care cost	\$200-300 billion.
<b>Transfers</b>	\$5-10 billion to providers. \$7-10 billion to households. Compared with (2) & (3) less potential for transfers to employers.	\$10-15 billion to providers. Substantial transfers to young, healthier workers, and to employers (if employers reduce premium contributions for low-wage workers to take advantage of the tax credit).	Similar to (2).	\$5-10 billion to providers. \$10-15 billion to households.	\$10-15 billion to providers. \$25-30 billion to households. \$150 billion to employers.
<b>Impact on Insurance &amp; Delivery System</b>	Substantially expands gov't reach.	Could reduce gov't role by replacing Medicare/Medicaid w/ credit & private insurance	Could reduce gov't role by replacing Medicare with voucher.	Builds on current private insurance system. Substantially expands gov't reach.	Eliminates most private insurance.
<b>Implications for Cost Containment</b>	No significant effect likely.	Could result in less employer involvement which could weaken pressure for cost containment.	Similar to (2), except sets tax credit based on percent of actual premium costs.	Concern that political system will be overly generous with employers' money. Retains employer incentive for cost containment.	Depends on politics.

### Medicaid Reform Proposal

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>93 - 97</u>
(\$ in billions)							
Current Fed. Medi- caid	65.5	77.1	90.8	104.7	118.9	133.3	524.8
Current Fed. acute care	39.2	46.1	54.3	62.6	71.1	79.7	313.8
Indexed at CPI-W + Savings	n/a 0	6% 0.8	5% 3.5	4% 6.5	3% 9.8	2% 13.4	n/a 34.1
Proposed Program Growth		15.64%	12.04%	10.55%	9.27%	8.11%	
Per Enrollee Spending Growth		10.03%	8.78%	7.64%	6.50%	5.37%	

#### Program Operation:

- **Federal payment for acute care Medicaid would be shifted from an open-ended entitlement to a capped per capita amount.**
  - This would apply equally to the under 65 population as well as to Medicare/Medicaid dual eligibles and to Qualified Medicare Beneficiaries.
- **States would have two options with regard to operation of the acute care portion of Medicaid.**
  - Under either option, states would receive Federal payments for individuals who meet Medicaid eligibility standards. Under the first option, Medicaid would remain generally intact.
  - However, under the second option, Medicaid would be folded into a broader low income health insurance program and states would receive an additional Federal payment for individuals who are not eligible for Medicaid but would otherwise be eligible for refundable health credits. States would use the entire Federal contribution as a block grant to design its own universal access program.
- **The long-term care portion of Medicaid would remain intact.**

**State Option 1: Retain Medicaid with Mandatory Managed Care; Supplement with Refundable Tax Credit**

- The state would have the option of retaining its current Medicaid program. In this case, current Federal Medicaid requirements regarding eligibility, coverage, and program administration would be retained. However, certain new requirements would apply to states selecting this option.
- Over a 3 year phase-in period, States would be required to cover all Medicaid enrollees including Medicare/Medicaid dual eligibles and Qualified Medicare Beneficiaries through managed care.
  - State would define managed care, based on standards including efficiency and cost savings. Managed care options would include an HMO or possibly a PPO.
- The Federal government would provide an advance refundable health credit for poor and low income individuals and families not eligible for Medicaid. States would be required to help administer this credit, but would not be required to make any financial contribution or assume any financial risk. (Additional details regarding the tax credit will be provided elsewhere.)
  - States would verify eligibility and process credit payments for unemployed individuals. This would be handled through local welfare offices. (Employed individuals would receive their credits through the tax system in the same manner as the EITC.)
  - States also would be required to contract with one or more health plans to provide "core benefits" at a cost no greater than the amount of the refundable credit. (Plans would charge a "pure community" rate assuming that the credit was not adjusted for age/sex differences.)

**State Option 2: Replace Medicaid with a State-Designed Program**

- Under this option, the state could phase-out its current acute care Medicaid program and replace this program with a single unified program to provide universal access health coverage to individuals and families with incomes below poverty (or up to the phased-in limit of the Federal health credit).

States would be required maintain existing benefits for Medicare/Medicaid dual eligibles and for Qualified Medicare Beneficiaries (QMBs) but would be required to provide these benefits through managed care.

- States electing this option would be required to maintain coverage of the existing Medicaid population while phasing-in coverage for the poor over a five year period according to the same schedule used to phase-in the refundable tax credit.
- States would have flexibility in designing benefit packages. States could be subject to review of their "core" benefits package. Minimum requirements could be limited to inpatient and outpatient hospital care, physician services.
- Federal payments would be made to the state on a capitated basis as under option (1) with an additional payment for the non-categorical poor on a phased-in basis.
- States would be required to provide the current Medicaid minimum benefits (inpatient and outpatient hospital, physician, lab/X-ray, home health, screening and diagnostics).

Option -- Inclusion of Prescription drugs: Prescription drugs are currently covered by all states. Discontinuation of coverage may present a hardship to some individuals. Coverage of prescription drugs, however, would pose an additional benefit cost.

#### Financing:

- Federal payments for acute care would be made on a per capita matched basis.
  - Federal Match: The Federal government would match a percentage of actual state per capita costs up to a cap based on the Federal matching assistance percentage of FMAP. The FMAP is intended to account for the states' relative ability to shoulder the costs.<sup>1</sup>
  - Cap: The cap would be based on 1992 state per capita costs, increased annually by an inflation index, with no blending with national per capita costs. In each year, the cap would be calculated as the FMAP multiplied by the inflation indexed base year (1992) per capita costs. The inflation index would be CPI-W + 6% for 1993, + 5% for 1994, +4% for 1995, +3% for 1996, and +2% for 1997 and subsequent years.
- Payments would be made to States on a quarterly basis, based on caseload estimates. An end of the year, reconciliation would adjust for any over- or underpayments.

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<sup>1</sup> The Federal matching assistance percentage (FMAP) =  $1.00 - .45 \times [(state\ per\ capita\ income) / (U.S.\ per\ capita\ income)]$ <sup>2</sup> GAO has proposed an alternative formula:  $FMAP = 1.00 - 0.452 \times [(state\ share\ of\ total\ taxable\ resources) / (state\ share\ of\ poverty)]$ .

**Future Evaluation:**

- After 5 years, the Secretary of Health and Human Services would conduct a study to recommend ways to integrate the Medicaid with other health insurance mechanisms under which individuals receive subsidies based on need.

FOR DISCUSSION  
HEALTH -- FILLING THE GAP (CONT'D)

I. PRINCIPLES FOR A COMPREHENSIVE HEALTH STRATEGY

The following are principles that might be used publicly to frame a "comprehensive strategy for health." We would say that a strategy must meet these tests:

(A) Affirmative tests

(things a comprehensive strategy must do):

(1) Emphasize Prevention. The strategy must put greater emphasis on prevention of accidents and illnesses that can be avoided with preventive health measures and responsible individual behavior. [NOTE: Controlling ten behavioral risk factors could cut premature death and disability by a third to a half. This is relatively non-controversial.]

(2) Increase "Access" and Fairness. The strategy must assure access to affordable basic health insurance coverage for all Americans -- while reducing excessive subsidies for the rich. [NOTE: The former is, for all practical purposes, part of the definition of "comprehensive."]

(3) Reduce Abuse and Excess. If health care coverage is to be expanded on an affordable basis and without a tax increase, the strategy must first reform existing financial abuses. The excesses of defensive medicine must be reduced by incentives for malpractice reform. Regulatory and legislative reforms must eliminate Medicaid scams by the States. Administrative reforms must prevent unjustifiable overcharges by insurers and providers. [NOTE: This is controversial only among those who are hit. Dems would go further: reducing administrative costs and/or controlling all prices.]

(4) Build on American Strengths. While advancing reforms, the strategy must build on the strengths of America's health system -- preserving the private practice of medicine, investing in R&D, expanding options for consumer choice, and increasing incentives for innovation. [NOTE: The Canadian system and "all-payer" price controls fail the latter two tests.]

(5) Strengthen Consumer Choice and Incentives for Cost Control. On an orderly basis, the strategy must move away from the current provider-dominated, highly inflationary, fee-for-service, third-party-payment system toward a system in which providers have greater incentives for efficiency, and consumers play a greater role in the choices of health care and of health insurance plans. [NOTE: The Canadian system and price-controlled fee-for-service system fail this test.]

(B) Negative tests

(things a comprehensive strategy must not do):

(1) **No "Rationing."** The strategy must not depend upon (or lead to) rationing of health care service delivery by government. [NOTE: A Canadian-type system fails this test.]

(2) **No Comprehensive Governmental Price Controls.** The strategy must not require comprehensive government price-setting and control for the health care sector. [NOTE: Since health accounts for 12% of GNP, a move to comprehensive price control amounts to a move of our economy in the exact direction that the Soviet system has had to abandon. This is what Canadian and NY-style "all-payer" systems would do.]

(3) **No Threat to Older Americans.** The strategy must not threaten those who are dependent on Medicare. [NOTE: A pure form of tax-credit system could displace Medicare.]

(4) **No New Spending Mandates for States or Employers.** The strategy should not require employers to "play-or-pay" [as the Dukakis plan did and most Democratic plans do]. It should have States continue to meet the financial obligations of current Medicaid law (or the equivalent); but no new federal financial mandates for health care should be placed upon the States. [NOTE: Small business would welcome this -- although most plans mitigate small business burdens with credits. States would welcome this; but also want to unload responsibility for long-term care.]

(5) **No Net Increase in Taxes.** The strategy should finance expanded coverage by a combination of reduced abuse, increased efficiency, and improved tax incentives -- without a net increase in taxes. [NOTE: Democratic plans fail this test.]

In simpler (more politically salient) form, these principles could be said to be consistent with a plan that would:

- o assure access to affordable basic health insurance coverage for all Americans;
- o restrain the growing cost of health care;
- o preserve the best of the private, innovative American health system; and
- o avoid a turn toward foreign-style government-managed health systems.

A more detailed programmatic framework for such a plan follows.

- (1) Problem
- (2) Principles guiding solution
- (3) Basic elements of solution:
  - (a) To reduce costs, increase quality, emphasize prevention, reform malpractice, etc., repropose relevant initiatives. In addition, add (b), (c), (d), and (e) below.
  - (b) For the working poor, Health Insurance Market Reforms - especially:
    - o pooling;
    - o portability; guaranteed issue; guaranteed renewability;
    - o HINs (Health Insurance Networks) to reduce administrative costs and increase bargaining power for small employers; and
    - o override of anti-managed care and mandated benefit laws.
  - (c) For the poor and working poor, Transferrable Tax Credits for the purchase of health insurance:
    - o [\$1250]/individual and [\$3125]/joint for the poor (whether employed or not); and
    - o [\$350 minimum credit for those up to 30K income (single) and 60K (joint).
  - (d) To control rising Medicaid costs, major restructuring of the Medicaid program:
    - o switch away from open-ended fee-for-service toward capitated managed care (and other more cost-effective systems); and
    - o provide much broader authority for innovation by States.
  - (e) To fill the financing gap (from (c)), while also advancing sound policy measures:
    - o reduce the Medicare SMI subsidy for those over 100K/year income;
    - o cap the exclusion of health premium costs for those over 100K/year income (with cap at \$1920/individual and \$4800/family);
    - o adopt other Medicare cost control measures -- without adversely affecting beneficiaries.

## Health Insurance Market Reform Proposal

### I Introduction:

Workers at small firms are much more likely to be uninsured than workers at medium and large size firms. [see table below] This reflects a number of problems. A key problem is that the market for health insurance for small business is in turmoil due to intense competition based on risk selection.

A single small business cannot serve as a stable risk pool. One or two sick workers can greatly increase average per employee health benefit costs. As a result, insurers traditionally have combined many small businesses into a single risk pool and charge all members of the insured group a uniform (or age-adjusted) premium that does not vary based on health risk.

While this type of pooling helps to make coverage affordable for individuals with chronic illness, traditional pooling methods provide an opportunity for aggressive insurers to make a quick profit by (i) offering low premiums to attract healthy groups and (ii) discontinuing coverage (or increasing premiums to a prohibitive level) once a group becomes more costly. An aggressive insurer can also use medical information to exclude coverage groups, individuals, or preexisting conditions. As the aggressive insurer succeeds in attracting low-risk groups and avoiding high-risk groups, traditional insurers face a premium spiral, making coverage even more difficult to afford.

While there is no definitive information concerning the extent of current problems, the market for small business appears to be unstable. The insurance industry has reached this understanding and is now supporting corrective legislation. A number of bills have been introduced on Capital Hill. These bills follow the general outlines of model state legislation developed by the National Association of Insurance Commissioners (NAIC). They include bills introduced by Durenberger, Chafee, Mitchell in the Senate and by Nancy Johnson and Rostenkowski in the House. The Health Insurance Association of America (HIAA) and Blue Cross Blue Shield (BCBS) have similar proposals.

The proposal described below also follows the NAIC model, but has a number of unique features.

### II Implementation:

To be more than a symbolic gesture, the Administration's proposal for reform of the health insurance market must include some implementation mechanism. Because

health insurance traditionally has been regulated by the states,<sup>1</sup> the implementation mechanism must affect state laws in some way. Options could range from modest incentives for states to enact appropriate reforms to outright federal preemption. Four options are presented. Others are possible as well.

**Option A:** State must certify insurance as in compliance with state standard. If state standards do not meet Federal minimum standard, then insurance must be certified through Federal back-up mechanism with Federal penalty for non-complying insurance plans. [Similar to Bentsen, Mitchell, Johnson, Rostenkowski]

Pros: Avoids outright Federal preemption.

Parallels current Federal/state system for regulating Medicare supplemental (Medigap) regulation mechanism.

Cons: The federal government would need to directly regulate health insurance if a state fails to enact appropriate laws.

**Option B:** State must certify insurance as in compliance with state standard as a condition of the [income exclusion for employees]/[business deduction for employers] and applicable state law must meet minimum federal standards. Federal back-up for approval of insurance plans for insurance sold within states that do not have laws in compliance with the minimum Federal standard. [Similar to Chafee]

Pros: Generally same as option A, but has link to tax code which may fit better with overall package. (With completed reform package, there may be other requirements for health insurance to qualify for exclusion/deductibility.)

Cons: May overburden tax code.

**Option C:** State must enact laws meeting minimum Federal standard. If a state fails to do so, Medicaid administrative grant funding will be frozen at base year level.

Pros: Similar to Option A, but arguably involves a lesser degree of Federal intrusion.

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<sup>1</sup> In recent years, the Federal government has assumed a greater role. Self-insured health benefit plans are subject to Federal regulation through ERISA with a total preemption of state law, and Medicare supplemental (Medigap) coverage is subject to a joint federal-state regulatory system.

Cons: Incentive may be inadequate to secure state action.

May be criticized for holding benefits for poor people "hostage".  
(Counter argument -- penalty only applies to administrative funding).

**Option D:** Direct preemption. Health insurance would be directly regulated by a Federal agency. All applicable state laws would be preempted. [Similar to Durenberger]

Pros: Most direct and assured route to small group reform.

Cons: Sets a bad precedent in terms of Federalism.

**III. Scope/Definition of Small Group Coverage:**

- Certain reforms would apply to all employment-based coverage whether purchased insurance or self-insured coverage, regardless of firm size. These reforms relate to guaranteed issue, pre-existing conditions/portability, and access to group coverage.
- Other reforms could be limited just to the small group market. These reforms relate to guaranteed renewability, fair premium standards, risk spreading among insurers, and health insurance networks.

Number of Uninsured Workers and Dependents By Firm Size -- 1987					
Firm Size	Number of Workers & Dependents	Percent of Workers & Dependents	Number Uninsured	Percent Uninsured	Percent of All Uninsured
<25	74.2 m	44%	17.2m	23.1%	47%
26 - 100	34.6 m	21%	4.3 m	12.3%	11.7%
>100	59.2 m	35%	3.9 m	6.6%	10.7%
Totals	168.0 m	100%	25.4	15.1%	69.4%

**Option A:** Limited to 25 or fewer employees. [Similar to NAIC, HIAA, BCBS, and Johnson]

**Option B:** Limited to 50 or fewer employees. [Similar to Chafee, Durenberger, Bentsen, Rostenkowski].

Pros: Does not impose unnecessary burden on industry and on state regulators. Focuses reforms on firms where risk selection problems are

most severe. (Empirical studies show that there is little potential for favorable risk selection and cream skimming with firms with more than 50 employees.)

Reduces risk that reforms could put undue financial strain on insurers with an older sicker client base. (Premium limits would force these insurers to increase premiums for younger healthier groups; these groups in turn, might opt to switch to another insurer with a younger, healthier client base.)

Extending reforms above group size 50 is unlikely to have any appreciable effect on encouraging insurance coverage -- since risk selection problems are unlikely to affect premiums for these workers.

Cons: Extending reforms to include all firms, regardless of size, may be a political selling point.

**Option C: Limited to 100 or fewer employees. [Similar to Mitchell]**

**Option D: Not limited by firm size.**

#### IV. Proposed Minimum Standards Regarding Availability of Coverage:

##### 1. Guaranteed Issue

(A) Insurers wishing to sell small group insurance in a state would be required as a condition of doing business to (i) accept every small employer group in the state that applies for coverage and (ii) provide coverage to all members of the small employer group. [Similar to NAIC, HIAA, BCBS, Johnson, Rostenkowski, Chafee, Durenberger, Mitchell, Bentsen]

(B) All employers (regardless of size) would be prohibited from excluding any individual from coverage for reason of health status.<sup>2</sup> [Similar to Bentsen and Rostenkowski]

##### 2. Guaranteed Renewability -- Insurers wishing to sell to the small group market would be required to renew coverage (though not necessarily at on

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<sup>2</sup> **Open Issue:** Should this requirement for all employers be imposed as a Federal requirement by amending ERISA or the Fair Labor Standards Act, or as a condition of tax deductibility of health benefits, or as a tax penalty (e.g. Bentsen, Rostenkowski)? Alternatively, should states be required to enact such laws for employers doing business in the state? Under this approach ERISA would need to be amended to permit states to impose such a requirement on self-insured employers.

the same terms) for a small business except in the case of nonpayment of premiums, fraud or misrepresentation by the insured, and certain other exceptions following the NAIC model. [Similar to NAIC, HIAA, BCBS, Johnson, Rostenkowski, Chafee, Durenberger, Mitchell, Bentsen]

3. Pre-existing Conditions /Portability-- Use of preexisting conditions exclusions would be limited for all insurers and employers. In 1993, the maximum duration for a preexisting condition exclusion would be 5 months. This would phase down by one month a year to zero by 1997. During the phase-down period, for any individual who has had continuous coverage from any source, any preexisting condition exclusion would be reduced by one month for every month in the period of continuous coverage. In effect, individuals would only satisfy preexisting conditions during their first incidence of coverage. [Similar to Bentsen and Rostenkowski; NAIC, HIAA, BCBS, Durenberger, Chafee, Mitchell, Johnson would not extend beyond small market]

4. Access to Group Coverage

- [All employers]/[All employers with more than xx employees] would be required to offer health insurance with [individual/[individual and family coverage] to [all full time employees]/ [all employees]/[all employees working more than 17.5 hours a week].
- The coverage offered must cover at least a core benefit package equal in value to the refundable health credit.
- The employer need not make any contribution towards the cost of coverage under such a plan [but would be required to arrange for enrollment and deduction of premiums from paychecks]. A penalty would be imposed for non-compliance.<sup>2</sup>

[Similar to Johnson]

V. **Fair Premium Standards**

1. In General -- These standards would limit variation in premiums within each insurance company's overall set of offerings. The standards would not, constrain premium variation between insurers. An independent actuary would certify compliance. Failure to have a valid certification would trigger a violation. The appropriate government agency would, however, have the right to conduct a look-behind investigation even if the insurance company presents a facially valid certification.

2. Fair Premium Standards Between "Blocks of Business"<sup>3</sup>

- After a five-year transition with phasing, a carrier would be prohibited from varying premiums between an existing block of business and the acquired block after acquiring a new block of business from another carrier. States would establish an appropriate phasing schedule.
- Separate blocks of business would not be permitted based on the marketing method used (e.g., broker vs. association) -- variation in premiums would not be permitted on this basis.
- Carriers [would]/[would not] be permitted to establish different blocks of business for different [associations]/[health insurance networks (HINs)] and 20% variation in premiums would be allowed. See below for further discussion of HINs.

3. Fair Premium Standard Across and Within Demographic (Age/Sex) Categories

Maximim Allowed Variation in Premiums Across and Within Demographic Categories (highest premium allowed to be xx% above lowest)								
	NAIC	HIAA	Duren-berger	Chafee	Bentsen	Mitchell	Johnson	Rosten-kowski
Across Age/Sex	No limit	No limit	No limit	No limit	No limit	10% phased-in	No limit	70%
Within Age/Sex	70%	110%	50%	50%	50% phased to 35%	50% phased to 0%	70%	0%

Option A: Allow  $\pm 30$  % premium variation within a block of business (encompasses variation across and within demographic categories). [ A

<sup>3</sup> Under the NAIC proposal, premiums could vary by up to 20% across different blocks of business. A carrier may establish different blocks of business: (i) for business acquired from another carrier, (ii) for business obtained through a distinct system of marketing (e.g., brokers vs. associations), and (iii) for business obtained through a different associations. Carriers could establish three different blocks of business for each of the three reasons, for a total of nine different blocks of business. The NAIC proposal itself reflects a political compromise within the insurance industry. Permitting premium differentials for business obtained through brokers may facilitate gaming, and therefore is not permitted under the proposal described in the text.

band of  $\pm 30\%$  is equivalent to permitting the highest premium to be 86% higher than the lowest premium.]

- Option B:** (i) Allow unlimited variation in premiums between demographic categories and (ii) after five-year phase-in, allow no variation within demographic categories (allow 50% variation in 1993, 40% in 1994, 30% in 1995, 20% in 1996, 10% in 1997, 0%, in 1998 and thereafter.
- Option C:** (i) Allow unlimited variation in premiums between demographic categories and (ii) allow limited variation of 50 to 100 percent within demographic categories.
- Option D:** (i) Allow limited variation of 10 to 15 percent between demographic categories and (ii) allow no variation within demographic categories.

Generally, these options involve tradeoffs between the following goals: (i) reducing premiums for older/sicker individuals by an offsetting increase for younger/healthy individuals, (ii) intergenerational equity (young families should not subsidize older families, and (iii) maintaining stability in the insurance market (reducing incentives for cream skinning). [more detailed discussion of pros and cons to follow]

## VI. Spreading Risks Among Insurers (applies only to small group market)

1. Generally, legislation introduced on Capital Hill has simply specified that states should have some appropriate system with details to be specified by the Secretary of Health and Human Services or by the NAIC. The NAIC has proposed two models for spreading risk among insurers: (i) prospective reinsurance and (ii) risk allocation. Other models are possible as well: (iii) retrospective reinsurance and (iv) health risk adjustments.

Model 1: Prospective Reinsurance [NAIC, HIAA] Each state would establish a reinsurance program administered by a board. An insurer could obtain optional reinsurance for any employer group (within 60 days of initial coverage) or for any newly eligible group member.

- If an individual is covered by reinsurance (either as a member of a reinsured group or separately), the primary insurer would be liable for costs up to \$5000. Above \$5000, the primary insurer would be responsible for 10% while the reinsurance program would be responsible for 90% of costs. Above \$10,000 the reinsurance program would be fully responsible for costs.

- Group reinsurance premiums would be set at 5 times a base rate set by the board, while individual reinsurance premiums would be set at 1.5 times the base rate.
- The program would be funded by (i) a reinsurance premium paid by the primary insurer for each group or individual ceded to the reinsurance pool and (ii) a mandatory assessment on all small group insurers set at a maximum of 5% of overall premium revenue for the insurer. Other broad based funding would be used in the event of a shortfall.

[summary of advantages and disadvantages to follow]

Model 2: Risk Allocation [NAIC, BCBS] If a state adopts this model, all small group market insurers would be required to participate in a small employer allocation program.

- Under this model, insurers could refuse to provide coverage to a group or individual based on health risk (e.g., guaranteed issue would not apply). However, if the insurer refused to provide coverage, then the rejected group or individual would have a right to receive coverage from an insurer pursuant to an allocation system.
- Under this system, the program would maintain a list with quotas of assigned risks for each insurer. Each carrier's quota would generally reflect the carriers market share. A rejected group or individual could select one of the insurers on the list, provided that the insurer had not already received a disproportionate share of allocated risks.
- Each carrier's quota would be readjusted on an annual basis if the actual cost of the allocated risks to the insurer differ significantly from the norm.

Model 3: Retrospective Reinsurance Under this model, states would establish a mandatory reinsurance system.

- Small group carriers would be required to pay a reinsurance premium set as a fixed amount for each enrollee.
- The reinsurance pool would cover a percentage (e.g., 80 to 100%) of actual costs for an individual above some stop loss threshold (e.g., \$5000).

- The reinsurance premium could be set to cover all reinsurance payments or other broad-based revenues could be used to subsidize the pool.

Model 4 Health Risk Adjustment/Risk Equalization Pool. Under this model, states would establish a mandatory risk equalization pool for small group carriers. When fully implemented, premium rating bands could be phased-out.

- All participating small group carriers would pay a fixed per enrollee premium to cover the risk of enrolling a disproportionate share of high risks.
- At the beginning of each year, each insurer would assign each individual insured through the plan to a unique health risk category.<sup>4</sup> This would be done by running the insurer's previous year claims data basis through a computer algorithm that makes health risk category assignments based on routinely collected diagnostic codes.
- Each health risk category would have a weight that corresponds to a different level of expected health care use on a per capita, per annum basis. A weight of 1.000 would correspond to average health risk/average expected health service utilization (e.g., a weight of 2.000 would reflect an expected resource use of two times average).
- The insurer would then calculate an average health risk weight for the entire insured group. Carriers with an average weight of more than 1.000 would receive net transfers from the pool while carriers with an average below 1.000 would be net losers.
- A random sample audit of claims and medical records would be used to verify the accuracy of health risk assignments.

Option A: Permit states to use any of the four models.

Option B: Permit states to use Models 1 - 3 during an initial four-year transition period and require phased-in implementation of Model 4 starting in

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<sup>4</sup> Two health risk adjusters are available today – the Diagnostic Cost Groups (DCGs) which reflect inpatient hospital diagnoses and the Ambulatory Cost Groups which reflect ambulatory diagnoses. Both systems can be run at minimal cost using claims data routinely available to insurers. The DCGs alone explain about 4% of the variation in per capita use of health care, while the ACGs explain about 20% of the variation. The two approaches can be combined and would likely explain about 22% of the variation. This is about as good a predictive ability as prior use (e.g., individual experience rating).

1997. The Federal government would initiate a program of research and pilot testing to assure that the program was ready for implementation in 1997. Pilot tests could be conducted either through FEHBP or Medicare.

Pros: Model 4 is the only approach that would permit eventual phase-out of premium bands -- a form of price regulation.

Model 4 can help reduce premium costs for individuals with chronic illness while (i) reducing the risk of cream skimming, (ii) maintaining incentives for cost containment (which extensive reliance on reinsurance would weaken) and (iii) freedom of choice (which is compromised by the risk allocation model).

Implementing Model 4, in the near term, is crucial for a future move to broad application of the individual tax credit approach.

Cons: Provides maximum flexibility.

Does not commit states to Model 4, which is untested.

## VII. Reducing Administrative Costs and Increasing Bargaining Power For Small Employers:

1. Overview Administrative costs for small groups are very high -- up to 40% of benefit costs for groups with fewer than 6 employees compared with less than 10% for very large firms. Much of this cost is due to marketing, specifically to agents. Also small groups have little market power and therefore have little ability to get discounts from insurers.

Advocates believe that group purchasing arrangements for small firms could help with both problems. Moreover, Enthoven believes that purchasing groups could serve as a vehicle for "private sector" regulation of insurance industry practices related to risk selection in lieu of public regulation through state insurance commissioners. In this document, these arrangements are referred to as "health insurance networks" (HINs)

2. How HINs Would Work

-- Modest incentives would be provided to encourage small employers to purchase insurance through a HIN. Specifically, Federal law would preempt state mandated benefit laws, state health insurance premium

taxes.]/[ and state anti-managed care laws.] State insurance solvency standards would still apply.

- HINs would contract with insurers to provide coverage to members. [HINs would purchase insurance, and [would not]/[could] self-insure.] All HINs would be required to offer at least one managed care/HMO option, and at least one fee-for-service or other alternative option. Managed care and fee-for-service alternatives would include a "core" package priced at the amount of the refundable health credit.
- Small employers would have the option to form independent HINs. Independent HINs would be registered and qualified by the State. The independent HIN must have a "significant" share of the small employment market in the State. Independent HINs [could]/[would] be established along the lines of professional societies, industry or trade associations and would be subject to the small market reforms listed above.
- Each State would establish a HIN, which would serve as a fall-back for small businesses who do not belong to an independent HIN. The State HIN could also serve as a conduit for coverage for the poor and the uninsured unemployed.

Option A: Additional Element Unnecessary -- No HIN Proposal.

Option B: Encourage HINs through limited preemption of state law. [Similar to Chandler bill]

Pros: HINs could help to reduce costs for small business.

Provides a margin of safety -- the other elements of the regulatory structure might not work as intended. If HINs are successful, HINs could supplant heavy reliance on state insurance commissioners.

Provides a highly visible and innovative approach to cost containment -- especially in an area of interest to the middle class.

Cons: Guaranteed issue and elimination of preexisting condition exclusions will eliminate need for medical underwriting. Therefore brokers will no longer be needed and the administrative savings claimed for HINs will occur automatically as the market readjusts.

The purchasing group duplicates the state regulatory structure and creates a new structure with overhead costs of its own.

Employers that do buy coverage through a HIN would be unprotected from burdensome state regulations. These regulations should be preempted for all coverage as an important cost control initiative.

## VII. Preemption of State Mandated Benefit and Anti-Managed Care Laws:

The following provisions of State law would be preempted for all health insurance:

1. Requirements for State mandated benefits.
2. Restrictions on reimbursement rates or selective contracting: Would preempt an law that restricts the ability of a carrier to negotiate reimbursement rates with providers, or to contract selectively with one provider or a limited number of providers.
3. Restrictions on differential financial incentives: Would preempt any law that limits the financial incentives that a health benefit plan may require a beneficiary to pay when a non-plan provider is used on a non-emergency basis.
4. Restrictions on utilization review: Would preempt any law that prohibits:
  - (a) utilization review of any or all treatments and conditions,
  - (b) requires that such review be made by a resident of the State in which the treatment is to be offered or by an individual licensed in such State, or by a physician in a particular specialty.
  - (c) requires the use of specified standards of health care practice in such reviews, or requires the disclosure of the specific criteria used in such reviews,
  - (d) requires payment to providers for the expense of responding to utilization review requests,
  - (e) imposes liability for delays in performing such review.

[Similar to Johnson, Mitchell, Chafee]

Note: This element is interrelated with the HIN proposal.]



# Bottom-up reform from the top down



by John E. Chubb

**P**resident Bush's America 2000 plan is the most encouraging education proposal to emerge from the federal government in a very long time.

It is coherent, comprehensive and — in part because of these qualities — different. It's not perfect. In particular, there are lots of crucial "details" that could make or break its implementation. But it's not everyday that the federal government truly gets serious about a problem. And it's not like the federal government to seriously reconsider its role. America 2000 does both.

Although the plan could be more explicit, it is based on a sound understanding of why America's schools have become confused about their objectives, unappreciative of their teachers and principals, alienated from their communities, overburdened by their political and bureaucratic authorities, and (as compensation for these difficulties?) left unaccountable for their results. Not everyone would agree with this diagnosis. Some would say it is incomplete — where are the problems of financial inequity or family breakdown, for example? But few would deny that the ills addressed by America 2000 are not fundamental elements of the education problem.

Scholars agree, for example, that "effective schools" exhibit clear objectives, strong educational leadership by principals, professionalism and team-

work on the part of teachers, and high academic expectations for all students. They widely acknowledge that schools have become too bureaucratized, lack professionalism, and tolerate mediocrity, which is characteristic of many ineffective schools. Few scholars believe that parents and local communities are as involved in and supportive of schools as they once were or need to be.

Many scholars also say that education reform has tried for too long and with too little success to regulate the educational process — curriculum, textbooks, instructional methods, facilities, class time, requirements. It is time to leave more of the educational process to the people in the schools and those closest to the problems — teachers, principals, parents and other ordinary members of the local community — and to hold these people accountable for educational results.

This is precisely what the administration is proposing. It aims to push control over the educational progress downward through competition and choice. And, it intends to assert control

*The federal government is finally  
placing education high on its list of priorities*



over educational results through standards and testing.

Coming from Washington, these are bold, new ideas. For years, the government in Washington has underestimated the education problem and overestimated its ability to directly effect a solution. Federal education policy has long been based on the assumption that there is nothing wrong with America's schools that a special program cannot remedy.

If poor children are trapped in schools with low expectations, uninspired teaching, apathetic leadership and a weak curriculum, then provide the schools with extra funds to

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More....

hire a few extra teachers (who may also be uninspiring) to teach a few special classes (which are often remedial and plagued by low expectations). At best, such an approach provides poor children a couple of hours of weekly respite from an educational experience that is otherwise bleak.

Of course, a brief respite is better than no respite at all. But if the federal government is serious about education reform, it must find ways to transform or replace the schools that are chronically failing America's young people. The temporary pain relievers that the federal government has been offering to America's schools are doing little or nothing to heal them.

**I**n an important way, federal programs may also be making the schools' ailments worse. The scores of elementary and secondary education statutes now on the books have become longer and progressively more detailed (Chapter 1 is 15 times lengthier today than when enacted in 1965), and their implementation has stimulated impressive growth in education bureaucracy at the state and local levels. This growth has further weakened the organizational coherence and vitality of schools, and the bonds among schools, parents and communities. Young people's educational experience has become fragmented, and the lines of accountability for school performance have become further complicated.

Although it is difficult to justify the federal government's long-standing approach to education reform on educational grounds, it is easy to do so on political grounds. Members of Congress cannot claim nearly the credit from constituents or gain nearly the support of special interest groups for educational aid that is not narrowly targeted but is allocated according to local decisions and priorities.

Wisely, America 2000 rejects the traditional federal focus on special programs and new national legislation. It recognizes that if the plan is going to

succeed, it will require the long-term cooperation of state and local officials — not the short-term cooperation of Congress and the president. Ultimately, it is state and local authority, not federal, that structures the schools and school systems. The big changes that need to be made can only be made if subnational institutions decide to make them. In recent years, the national government has never really acknowledged this. It has never undertaken a cooperative effort with state and local authorities to spur fundamental structural change at the school level, and it has frequently fallen into conflict with these authorities over the implementation of special programs that can never improve schools substantially.

**F**or nearly two years, beginning with the planning of the "Education Summit" in Charlottesville, Va., in September 1989, the administration has been working with the governors of the 50 states to develop a set of national education goals, and more importantly, to build a bipartisan consensus at the state level for far-reaching education reform. This quiet effort seems to be paying off. The president's America 2000 strategy was endorsed by prominent Democratic as well as Republican governors. Many states are already debating or implementing the kinds of ambitious reforms proposed in the president's strategy. And, after much negotiation, the governors and the president finally have, in America 2000, a coherent and aggressive strategy for pursuing their lofty but, heretofore, unattainable national goals.

The Congress can and should become a partner in the process of restructuring American education to achieve these educational goals. The president's strategy requests new legislative authority — most importantly, to pay part of the start-up costs for the "New American Schools" and to provide incentive grants to educational systems implementing educational choice. The Congress should support

these requests. But whether Congress becomes a partner or not, the American 2000 strategy will proceed. The America 2000 strategy, unlike virtually all federal education initiatives before it, depends primarily on the cooperation of the states — not the Congress — and for good financial measure, relies on new contributions from business (whose stake in education reform is huge) rather than on additional revenues from taxpayers. If the administration is willing to maintain the lead, the America 2000 strategy will proceed.

**W**ill it succeed? The strategy is based on a good understanding of the nature and magnitude of the problem. It is backed by a bipartisan coalition of the subnational decision-makers who authority most influences the structure of schools and school systems. And it depends on the federal government for something that it is actually able to provide — namely, strong leadership, especially now that a seasoned "educational governor," Alexander, is at the helm of the U.S. Education Department.

Substantively, the strategy also makes sense. It includes a number of limited, yet worthy, initiatives that address specific weaknesses in the schools — for example, academies for school leaders and teachers to promote leadership and professionalism. But the great promise of the strategy lies in the four major objectives designed to meet those objectives.

First, to help clarify school objectives and to provide a means for holding schools accountable for results, the strategy proposes to develop "New World Standards" — in broad outline, a national curriculum in five core subjects — and an "American Achievement Test" to measure progress toward these new standards. Both the standards and the test raise important issues — the danger of even greater central control over schooling, the potential unfairness of tests, the en-

couragement of crass "teaching to the test."

But the basic logic of the proposal is sound. If schools are to be certain of their purpose and to be judged for fulfilling it, basic standards and appropriate tests are necessary.

Second, to discourage bureaucratization, empower teachers and principals, strengthen the bonds between schools and families, and provide a still measure of school accountability, the strategy calls for an expansion of educational choice.

The current educational system, based on top-down political and bureaucratic control of the schools, is unlikely, of its own accord, to relinquish authority, empower people in the schools, or develop accountability mechanisms that don't involve stifling bureaucracy.

The competitive pressures of a system of real education choice will promote the kind of restructuring that the

current system ordinarily cannot promote.

Again, there are many issues raised by choice such as financial equity, parent information, admissions procedures, religious school participation and others. But, if school autonomy and accountability are key elements of restructuring, educational choice offers clear advantages over the political and bureaucratic organizing principles of today's education systems.

Third, to spur the transformation of schools and to demonstrate that education in the United States can provide real choice, the strategy proposes to create a number of Research and Development Centers to develop wholly new schools, and to open hundreds of New American Schools based on the ideas generated

**Wisely, America  
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at these R&D Centers.

One of the most frustrating things about school reform is that many proven ideas for school reorganization already exist — for example, those of Comer,Sizer, Levin and others — but such good ideas are very seldom adopted.

Established schools and school systems naturally resist change. Standards, testing and choice are meant to break down this resistance and to encourage and reward change.

But schools and school systems also need to know how to change. Currently, there is abundant research, but that research is not focused on the creation of new schools. If schools had existing models throughout the country to emulate, schools would innovate more rapidly.

The proposal for New American Schools can encourage this creative change. Critics will legitimately worry about who will operate and attend the new schools and what schools may be driven out of business by the new competition. These issues deserve debate, but the crying need for innovation does not.

Finally, the strategy seeks to inspire renewed community commitment to schools. Partially this will be done through the creation of New American Schools in hundreds of neighborhoods and communities.

Choice will also foster movement in this direction. Mostly, however, the president's plan is vague about how communities will become better integrated with their schools.

Perhaps this is best. There is a danger in the federal government (or state governments for that matter) telling local communities how to get involved with their schools.

It threatens to further imbed schools in the very cumbersome system from which the president's strategy at long last seeks to free them. ■

# *AMERICA 2000:* **A STATUS REPORT**



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• DOMESTIC POLICY COUNCIL MEETING •

DECEMBER 19, 1991

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## **I. The National Education Goals**

- 1. All Children Ready for School**
- 2. 90% Graduation Rate**
- 3. All Children Proficient in at Least English, Math, Science, History and Geography**
- 4. First in the World in Math and Science**
- 5. Every Adult Literate and Able to Compete in the Work Force**
- 6. Drugs and Violence Out of Schools**

## II. *AMERICA 2000*

- ▲ World Class Standards
- ▲ American Achievement Tests
- ▲ New American Schools
- ▲ Choice
- ▲ *AMERICA 2000* Communities

## World Class Standards and the American Achievement Tests

### 1991 :

- First September Report Card.
- National Council on Standards and Testing Report.
- World Class Curriculum Standards in Mathematics, Science and History.

### 1992 :

- Second September Report Card.
- Implement Recommendations of National Council on Standards and Testing.
- World Class Curriculum Standards in English and Geography.
- Develop Phase I of the American Achievement Tests.
- Work With States:
  - ▶ To Set State Standards and Curriculum Frameworks.
  - ▶ To Develop Regional and State Assessments.
  - ▶ To Train and Retrain Teachers and School Leaders.

## **New American Schools**

### **1991:**

- Establish New American Schools Development Corporation.
- \$40 Million.
- Introduce Legislation.
- Draft and Release Request for Proposals.
- Conduct Design and Bidders Conferences.

### **1992:**

- \$100+ Million.
- Select 20 to 30 Design Teams.
- Federal Funding
- 100's of Communities

## Choice

### 1991:

- Introduce Legislation.
- Work With States to Enact Choice Plans.
- Evaluate Choice Initiatives Underway in States.

### 1992:

- Reintroduce Legislation.
- Work With States to Enact Choice Plans.
- Evaluate Choice Initiatives Underway in States.

## ***AMERICA 2000* Communities**

### **1991:**

- President Leading the Movement.
- "State of American Education" Address.
- 30 States Kick-off.
- 500 Communities.
- Bipartisan.
- Communications Strategy.
- Education Cabinet.

### **1992:**

- President Leading the Movement.
- Second "State of American Education" Address.
- 40+ States Kicked-off.
- 2,000 Communities.
- *AMERICA 2000 Coalition*.
- At-risk and Big City Emphasis.
- Bipartisan.
- Communications Strategy.
- Education Cabinet.

### **III. Education President?**

#### **FIRST TIME EVER:**

- ▲ **Six National Goals**
  
- ▲ **AMERICA 2000** (end of 1992)
  - 40+ States, 2000 Communities
  - World Class Standards
    - English, Math, Science, History and Geography
  - American Achievement Tests
    - Grades 4, 8, and 12
  - G.I. Bill for Children
    - Middle and Low Income Parents Choose Any School
  - New American Schools
    - 30 Design Teams
    - \$100 Million Private
    - Half-Billion Federal
    - 100's of Communities

## **IV. Education President?**

### **ALSO:**

- ▲ **Head Start**
  - Doubled Spending
  - Fully Funded
- ▲ **Flexibility**
  - Less Federal, More State and Local Control
- ▲ **Jobs: Lifetime Education and Training**
  - Lifelong Learning Line of Credit
- ▲ **College Loans and Scholarships**
  - More Money (Up 37%)
  - More Students (Up 32%)
  - Bigger Grants (Up 67%)
  - Bigger Loans (Up 11%)
- ▲ **Math and Science**
  - \$2 Billion Focused on Teacher Training, National Standards, and State Curriculum Frameworks
- ▲ **Teacher Retraining**
  - 250+ Governor's Academies for Teachers
- ▲ **University R and D**
  - Up 29%

## CNN COVERAGE FOLLOWING PRESIDENT'S NEWS CONFERENCE

Note: ABC, CBS and NBC did not carry the news conference.

REID COLLINS comments immediately following: ...The subject was the presage to his upcoming trip to Asia and to the South Pacific, which is to deal mainly with jobs and with getting a fair and freer trade.

As far as the [Middle East] peace talks are concerned...he's disappointed in their lack of progress. He did say that these settlements...in the occupied territories have been an obstacle to peace. And so have been some of the policies of the Arab nations' boycotts.

The Soviets and what to do about the emerging republics: Mr. Bush said that they are still sorting that out and obviously so are he and Secretary Baker. The U.S. role, he says, is going to depend on exactly what evolves there, and the recognition question is one that still is on a back burner for now as far as the republics are concerned.

As for the United States policy with respect to Korea and the withdrawal of tactical nuclear weapons, he said that's something he never talks about in public but said he wouldn't argue with South Korea's Prime Minister Roh Tae Woo, who made a public declaration today that all nuclear weapons have been removed from South Korea.

The major business, though, was his opening remark in that he said he would press relentlessly on the jobs mission which he is taking mainly to Japan, as well as to some other nations that are involving trade imbalances with the United States. He said if the playing field is fair and equal and even, then the United States worker and its business can compete with anybody. That, he said, is one of his primary missions and will be one of the prime topics when he discusses it with Japan's prime minister. As you know, he's taking along a gaggle of high-powered American businessmen with him who will try to pursue the matter with their various counterparts in Japan.

The trade discussion comes on the very eve of the first Toys R Us store in Japan, so perhaps what T. Boone Pickens and Lee Iacocca could not do, Ken and Barbie might.

---

CHERYL ATKISSON later comments: President Bush is still holding off on recognition of Mr. Yeltsin's New Commonwealth. In an interview with international correspondents within the past hour, Mr. Bush said the U.S. will wait and see how the political power shapes up.

(PRESIDENT BUSH: "Our view has been engage with democratic reformers, those two key words, those who favor democracy and those who favor reform. And Jim Baker on his trip has been doing that. I have been doing that over the months. And so they will sort all this out. He has talked to them. They've talked to him about recognition. He has made clear that certain steps have to be taken, particularly on this nuclear question, which is vital and where the United States is uniquely qualified to lead, in my view. And so that one has to be done. Peaceful borders is another one. The CFCE principles, which include human rights and respect for minorities in each of these republics, that's another one. So they're sorting all this out now.

-more-

Cute

PRESIDENT BUSH continues: "It's in the process of being worked out. And then we will treat, as Jim has told them, with this whole question of what the role of the United States is when whatever evolves has evolved.")

ATKISSON: Earlier, President Bush gathered steam for a trade conversation with Japan by gathering a group of business leaders at the White House. The business execs will go along on the President's 10-day Asian tour next month. Among those present, GM Chairman Robert Stempel, who announced only yesterday that the automaker will slash 70,000 jobs. President Bush assured the business leaders he plans tough talk on trade with Japan. After the nearly one-hour meeting, Chrysler Chairman Lee Iacocca said Japan shares part of the blame for the stall in the U.S. auto industry.

(IACOCCA: "All we're doing is trying to sit down government to government now, and business to business, and say there's something basically unfair because we're doing so well in Europe, and the trade balance there is getting in balance more every day, but in Japan it doesn't seem to move at all. So we have to discuss what are the fundamental structural issues keeping us from getting a fair shake. It's that simple.")

President Bush skirted questions about the huge cutbacks at GM.

###

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**IV. AMERICA 2000  
Communities — Where  
Learning Can Happen**

---

**Designate AMERICA 2000 Communities** — *The President* is challenging every city, town, and neighborhood in the nation to become an AMERICA 2000 Community by:

1. **Adopting** the six national education goals.
2. **Establishing** a community-wide strategy for achieving the goals.
3. **Developing** a report card to measure progress.
4. **Demonstrating** readiness to create and support a New American School.

Each of the nation's governors will designate the AMERICA 2000 Communities.

535+ AMERICA 2000 Communities will receive up to \$1 million to create a New American School.

**AMERICA 2000  
Commitment to Excellence**

AMERICA 2000 depends upon the strong and long-term commitment of all Americans:

- **The President** to keep the focus on this four-part strategy;
- **The Congress** to pass the AMERICA 2000 Excellence in Education Act;
- **The Governors** to designate AMERICA 2000 Communities and establish Academies for Teachers and School Leaders;
- **The Business Community** to become leaders in the AMERICA 2000 Community competition, and provide people and resources, including the support of R&D Teams, to help design the New American Schools;
- **The Community** to plan and follow through on efforts to become an AMERICA 2000 Community;
- **All Parents** to be partners, teachers, leaders, and shareholders of our schools in the journey to make this land all it should be.

---

For further information, contact  
U.S. Department of Education  
1-800-USA-LEARN  
(1-800-872-5327)  
In D.C. Metropolitan Area,  
call (202)401-2000

---

**AMERICA 2000**

*An Education Strategy*



“...making this land all  
that it should be.”

George Bush

## **AMERICA 2000** *A National Strategy*

---

**AMERICA 2000** is a long-term strategy to help make this land all that it should be — a 9-year crusade to move us toward the **six ambitious national education goals** that the president and the governors adopted in 1990 to close our skills-and-knowledge gap.

### ***In the year 2000...***

1. All children in America will start school ready to learn.
2. The high school graduation rate will increase to at least 90 percent.
3. American students will be competent in the core subjects.
4. U.S. students will be first in the world in science and mathematics achievement.
5. Every adult American will be literate and possess the skills necessary to compete in a world economy.
6. Every school in America will be safe and free of drugs.

To achieve these goals, the president has announced a broad education strategy made up of **four key elements**.

## ***I. For Today's Students: Better and More Accountable Schools***

---

1. **Establish World Class Standards** in the five core subjects: English, mathematics, science, history, and geography.

2. **Develop a system of voluntary national examinations**, known as the **American Achievement Tests**, based on the five core subjects to be given in the fourth, eighth, and twelfth grades.

3. **Prepare Report Cards that report student performance** at the school, local, state, and national levels.

4. **Promote school choice** for parents and students.

5. **Encourage outstanding teaching and leadership** in our schools by honoring and training teachers and school leaders.

6. **Promote parents' role in their children's learning**, both in the home and in the school.

## ***II. For Tomorrow's Students: A New Generation of American Schools***

---

1. **Establish the New American Schools Development Corporation**, a new nonprofit organization set up by America's business leaders with private resources, to finance three to seven research and development teams for the purpose of designing a New Generation of American Schools.

2. **Create 535+ New American Schools** that "break the mold" of existing school designs and that will help all the students meet the new World Class Standards. At least one New American School for every congressional district will be up and running by 1996.

3. **Bring America on-line** by designing electronic networks that New American Schools can tap into. These networks will give teachers and students access to the best available information, research, instructional materials, and educational expertise.

## ***III. For the Rest of Us: A Nation of Students***

---

1. **Strengthen the nation's education effort for yesterday's students, today's workforce**, promoting literacy and life-long learning.

2. **Encourage the establishment of standards for job skills** in every industry through a public-private partnership spearheaded by the secretaries of labor and education.

3. **Create business and community skill clinics** where adults can get job skill diagnosis and referral services.

4. **Convene a national conference on education for adult Americans** to improve the quality, accessibility, and convenience of all adult education and training programs.

5. **Mobilize all grown-ups to become a "Nation of Students,"** transforming Americans into life-long learners.

---

**DESIGNS FOR A NEW GENERATION  
OF AMERICAN SCHOOLS**

**Request for Proposals**

*“Imagine a new generation of American schools  
that are light years beyond those of today....”*

**New American Schools Development Corporation**

---

**New American Schools Development Corporation**  
1000 Wilson Boulevard  
Suite 2710  
Arlington, VA 22204

POSTAGE AND FEES PAID  
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BOOK RATE

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**DESIGNS FOR A NEW GENERATION  
OF AMERICAN SCHOOLS**

**A Request for Proposals**

issued by the

**New American Schools Development Corporation**  
Arlington, Virginia

October, 1991

**Appendix C  
Budget Format**

Please Show Budget by Task and Year for Each Phase

<b>Cost Element</b>	<b>Days if Applicable</b>	<b>Total Costs</b>	<b>Donated Costs</b>
<b>A. Staff</b> (List Individually Within Category)			
1. Design Team Personnel			
Project Director			
Key Non-School Personnel			
Key School Personnel			
Other Senior Staff			
Total Senior Personnel			
2. Other Personnel			
Technical Support			
Secretarial/Clerical			
Others			
Total Salaries (1 + 2)			
3. Fringe Benefits (if charged as direct costs)			
<b>Total salaries, wages and fringe benefits (1 + 2 + 3)</b>			
<b>B. Travel Expenses</b>			
<b>C. Computer Services Costs</b>			
<b>D. Subcontract Costs</b> (provide detail for each)			
<b>E. Consultant Services</b>			
<b>F. Other Direct Costs</b>			
Materials and Supplies			
Equipment			
Instructional Materials			
Software			
Other			
<b>Total Other Direct Costs</b>			
<b>G. Payments to Schools</b>			
Released Time			
Staff Development			
Other			
<b>H. Construction/Renovation</b>			
<b>I. Overhead</b>			
<b>J. G&amp;A</b>			
<b>Total estimated costs (A through J)</b>			
<b>K. Fee or Profit</b>			
<b>TOTAL ESTIMATED COSTS AND PROFIT</b>			

**TABLE OF CONTENTS**

- 5. School-based staff have a major role in making instructional decisions.
- 6. Major emphasis is placed on staff development.
- 7. A high-quality pre-kindergarten program is established, at least for all disadvantaged students.
- 8. Health and other social services are sufficient to reduce significant barriers to learning.
- 9. Technology is used to raise student and teacher productivity and to expand access to learning.

- I. **Preface** ..... 5
- II. **Call for Proposals** ..... 7
- III. **Introduction** ..... 13
- IV. **Statement of Work** ..... 17
  - Background ..... 17
  - Objective of the RFP ..... 19
  - Proposal Requirements ..... 22
  - Expected Approach and Costs ..... 25
  - Project Duration ..... 27
  - Products ..... 28
- V. **Selection** ..... 31
  - Process ..... 31
  - Criteria ..... 32
- VI. **Requirements and Conditions** ..... 37
  - Non-governmental Contract ..... 37
  - Governing Law ..... 37
  - Decision of NASDC ..... 37
  - Key Personnel ..... 37
  - Liaison With NASDC ..... 38
  - Termination for Default ..... 38
  - Intellectual Property ..... 38
  - Funding ..... 40
- VII. **Instructions to Bidders** ..... 41
  - General Proposal Submission Information ..... 41
  - Timetable ..... 41
  - Inquiries ..... 42
  - Proposals ..... 42

**Appendices**

- A Issues Raised at Design Conferences ..... 47
- B. Business Roundtable Principles ..... 57
- C. Budget Format ..... 59

From: *Essential Components of a Successful Education System: The Business Roundtable Education Public Policy Agenda*

## Appendix B

### Business Roundtable Principles

The Business Roundtable, representing some 200 corporations, supports the national education goals developed by President Bush and the nation's governors. The achievement of those goals is vital to the nation's well-being.

The Roundtable believes the following characteristics are needed to provoke the degree of systemic change that will achieve the national goals through successful schools:

1. The new system is committed to four operating assumptions:
  - all students can learn at significantly higher levels;
  - we know how to teach all students successfully;
  - curriculum content must reflect high expectations for all students, but instructional time and strategies may vary to assure success; and
  - every child must have an advocate.
2. The new system is performance or outcome based.
3. Assessment strategies must be as strong and rich as the outcomes.
4. School success is rewarded and school failure penalized.

## I. PREFACE

This Request for Proposals (RFP) calls for designs for a "New Generation of American Schools" and is issued by the New American Schools Development Corporation (NASDC). Proposals, postmarked no later than February 14, 1992, should be submitted to:

New American Schools Development Corporation  
1000 Wilson Boulevard, Suite 2710  
Arlington, Virginia 22209

A "bidders conference" to discuss this RFP will be held at the Capital Hilton Hotel, 16th & K Streets, N.W., Washington, D.C. on November 14, 1991. Individuals and organizations interested in submitting proposals are invited to attend the conference at which all bidders will be offered the opportunity to ask questions about the requirements of this solicitation. NASDC intends to make all information explaining or interpreting the RFP available in identical form to all potential bidders so that none will be at a disadvantage. To that end, NASDC will supply a transcript of the discussion at the bidders conference to all potential bidders who request it.

The bidders conference will also provide an opportunity for individuals and organizations to familiarize themselves with the capabilities and plans of potential partners. Interested bidders who wish to share information about their proposals for purposes of networking or creating alliances should submit a one-page summary of their capabilities and interests to NASDC by November 8, 1991. As a service to potential bidders, NASDC will distribute these summaries at the bidders

conference and in a public access data base. Bidders are not required to submit such a summary.

Individuals or organizations interested in responding to this RFP are asked to assist NASDC in planning its selection process by submitting a letter announcing their intent to the address above by December 15. Bidders may submit proposals as late as the February 14 deadline even if they have not submitted a letter of intent.

Teams are encouraged to design distinctive schools and need not cater to all tastes or instructional preferences. Designs may contemplate voluntary student enrollment, involving random or unbiased selection of students from among the whole pool of applicants to a school. Designs may also entail enrollment contracts, in which students and parents agree in advance to codes of conduct, levels of student effort, and extracurricular participation. But designs may not require a hand-picked student body or enrollment practices that discriminate on the basis of income, race, sex, ethnicity, country of origin, or handicapping condition.

NASDC assumes that every student can learn and that good schools can work for all of them. Designs focused on at-risk students are fully acceptable; however, such proposals should clearly explain why they are so targeted and how they address the unique needs of the disadvantaged.

Once design team contracts are established, NASDC will assess design teams' enrollment practices and student attrition experience. These assessments will be considered in the decisions to re-negotiate teams' contracts after the first and third years.

responsibilities that are necessary for schools to operate as contemplated by its design.

Teams whose designs require variances in public policies, regulations, or contracts, should identify the necessary waivers in their proposals. Teams need not obtain those waivers until after Phase 1 contracts with NASDC are established, but the proposal should suggest a strategy for obtaining such waivers. Teams may, of course, arrange local cooperation in advance. In subsequent years of the contract, the design team must identify any permanent changes in applicable laws, regulations, or contracts necessary for widespread implementation of its design. NASDC may also assist design teams by advocating necessary changes in educational governance, regulation, finance, and the roles of other institutions.

Teams may, if they find it essential, suggest re-definitions of the responsibilities of adult groups that traditionally operate outside the school itself: parent groups, businesses, school boards, superintendents, and teachers' unions; colleges, libraries, and community cultural institutions; churches, civic groups, and charitable organizations; and other public service agencies such as hospitals, health clinics, welfare departments, and counseling centers.

### TARGET POPULATIONS

NASDC's goal is to develop designs that work for all students, particularly those who are not served well by today's schools. Most designs should contemplate serving a cross-section of all the students in a racially, ethnically, and economically diverse community.

## II. CALL FOR PROPOSALS

*Think about every problem, every challenge we face. The solution to each starts with education. For the sake of the future—of our children and the nation—we must transform America's schools. The days of the status quo are over.*

With those words on April 18, 1991, the President of the United States unveiled an ambitious new education strategy, AMERICA 2000. The strategy is the linchpin of a nine-year effort to close the gap between where we are today and benchmarks established by six national education goals. At the heart of AMERICA 2000 lies a bold challenge: Reinvent American education by designing new schools for a new century. This request for proposals launches that design effort so that communities across the country can re-create their own schools.

At the request of President Bush, leaders in American business have created the New American Schools Development Corporation (NASDC), an independent, non-profit organization, as a catalyst for educational change. The mission is straightforward: NASDC intends to underwrite the design of new high-performance educational environments to jump-start learning in America.

Business, education, and political leaders have come to understand that fundamental institutional change depends on the existence of four conditions:

- **Dissatisfaction with the Status Quo.** The institutional culture in an organization cannot be uprooted if most people are satisfied with the familiar and the comfortable.

- **A New Shared Vision.** Of critical importance is the need to create a new shared vision of where to go and strategies to get there. Without both, frustration triumphs.
- **The Capacity for Change.** Visions and strategies are fragile. The capacity to change an organization is critical, particularly the ability to reshape what people do, how they do it, and how they are rewarded for performance.
- **Concrete Practical First Steps.** Revolutions begin in fits and starts. The important thing is that they begin. Practical, measurable first steps are essential to overcoming institutional inertia. They build a sense that fundamental change is in the wind.

American education is caught in the flux and flow of these conditions. Dissatisfaction, building for a decade, is profound and growing. A new vision is embedded in the national education goals. AMERICA 2000 outlines the strategy. The capacity for change is being built every day as reformers shed new light on systemic school barriers blocking performance. With this RFP, the New American Schools Development Corporation takes one concrete first step. Subsequent steps will be taken by the designers who answer this RFP and the communities that adopt new ideas for schooling.

This document represents a call to all who care about the nation's educational future to become architects of a new generation of schools—schools that set the pace for the nation and the world. Dreamers and doers from all walks of life—educators, analysts, community leaders, legislators, business executives, inventors, professionals, and entrepreneurs—are invited to submit their vision of a new generation school. NASDC intends to help make the best of these visions a reality.

The design may entail major changes in community governance structures and the functions of other institutions such as public health agencies and welfare departments. Alternatively, designs may adopt conventional arrangements for any of the above.

Some issues are definitively resolved by the RFP. Designs must involve instructional services in at least the core group of five subjects. Designs should also enhance students' higher-order thinking skills, ability to take initiative and use judgment, and ability to work productively with others. But designs may not focus on only one subgroup of students within a school or on only one subject, even a broadly defined subject such as science.

#### **“Systemic” Dimension of Design**

Designs that make education a community enterprise and break the boundaries between schools and other institutions are encouraged. Design teams may consider the implications of their ideas about schooling for educational governance and finance and for the roles of other institutions that serve students and their families. However, designs that include changes in finance, regulations, governance, structures, and the roles of other institutions must explicitly demonstrate how those changes are linked to improvements in student instruction and outcomes.

A design team's first focus must be on students: What instructional experiences should they have, what outcomes can be expected, and how can the work of teachers, staff, parents, and other adults be organized to provide the experiences and ensure the outcomes? Once these features of the design are established, a team should identify any changes in extra-school actors' roles and

- designs that sweep aside school buildings in favor of distance-learning techniques in homes or community centers;
- suggestions to integrate parent education, child care, and adult literacy services with educational services for children and youth;
- residential programs for the children of the poor and the middle class that rival the best available to the children of the well-to-do;
- employment preparation programs integrating education, vocational programs, apprenticeship training, and workplace skill development; or
- schools run by all manner of community and institutional and entrepreneurial entities, including public-private hybrids.

The answer is that NASDC is willing to consider these and other proposals that call for bold and dramatic changes in schooling. What is required is that proposals embody a strategy for integrating all facets of a school's life—instruction, curriculum, social climate, opportunity for artistic expression, extracurricular activities, staff development, and administration—in pursuit of high levels of student learning.

Design teams should define the scope and focus of their own work. Student age-grouping may be unconventional, and designs may serve students younger than five years of age and older than 18; students need not all be assembled in a single building or at a particular time of day; the school day and school year may be redefined. The duties of administrators, teachers, volunteers, parents, and all other adults may be changed.

The best proposals will start from scratch to respond to the following challenge: Assume that the schools we have inherited did not exist, and design an educational environment to bring every child in this community up to world class standards in English, mathematics, science, history, and geography, prepared for responsible citizenship, further learning, and productive employment. No question about schooling should be off-limits; no answer assumed.

NASDC's interest lies in the comprehensive re-formation of entire schools or sets of schools. NASDC believes that all aspects of the school need to be integrated into a coherent, high-performance learning environment, a new American school.

De Tocqueville once described the United States as a "land of wonders" in which "what is not yet done is only what [we have] not yet attempted to do." That description was a prophecy. Over the generations, American creativity has helped erase natural boundaries and push back the frontiers of technology. Bidders are invited to breathe new life into that prophecy by imagining a new kind of American school—public or private—in which:

- assumptions, about how students learn and what students should know and be able to do, are completely re-examined;
- visions of the nature and locations of school are reconsidered; and
- the manner in which communities create, govern, and hold their schools accountable is redesigned.

The RFP that follows provides the detail of what NASDC has in mind. NASDC intends to fund proposals

in three successive stages: (1) a one-year planning and design phase for approximately 30 “design teams;” (2) a two-year testing and implementation phase for the most promising of the original design efforts; and (3) a two-year technical assistance effort to help communities across the nation adapt the best of the implemented designs to meet their own needs for new schools serving their purposes. Each phase will be funded by contract.

The general requirements can be stated simply and directly:

- Explain what you hope to accomplish.
- Describe your basic concept and how you will develop it.
- Identify who will be involved.
- Explain what research or experience supports your design.
- Provide a credible budget for your work.
- Indicate how you (and NASDC) will know if it works.
- Explain how you will persuade others to put your design in place.

We impose only two constraints: Your design must help all students meet world class standards in at least five core subjects and help these students leave school prepared for responsible citizenship, further learning, and productive employment. Second, putting aside initial costs of development, the design should operate on a budget comparable to conventional schools.

When all is said and done, the success of the American adventure in every generation can be attributed to the skills, talents, and invention of our people.

establish the manner in which the schools and sets of schools using its design will assess whether or not the objectives are being met. The assessments may be based upon existing or new tests or may use quite different forms of assessment. Whatever is chosen, the designer must make it possible for NASDC to audit and understand the basis on which the team assesses the performance of its design.

As noted above, NASDC’s goal is that the designs enable all students to acquire the skills and knowledge necessary to be effective members of American society. NASDC recognizes, however, that in the short time that it is in existence, the designs may not be able to demonstrate that they have fully met this goal. Moreover, the time in which this goal can be achieved will differ for populations starting from different baselines. The design team is asked to specify interim goals or benchmarks it expects to meet as it works toward the achievement of the performance standards. Its assessments should be keyed to these benchmarks.

### **FOCUS OF THE DESIGN EFFORT**

A major topic of discussion in the design conferences concerned the nature of what is to be designed. Above all, there appeared to be widespread agreement with a comment from one participant who observed, “NASDC is itself uncomfortable with the risk of its own request.” With respect to the extent to which NASDC is willing to consider high-risk, break-the-mold thinking, in the course of the design conferences participants asked if NASDC would consider:

- proposals to abandon the conception that mandatory schooling starts at age 5 or 6 and ends at age 17 or 18;

Rather, NASDC feels that it is likely that many designers will choose to start with existing standards frameworks created by various national or professional organizations, modifying them if necessary. The designers may wish to investigate these proposed standards to see if they have been created by processes that are likely to make them demanding in the spirit of the term “world class.”

A number of efforts are now underway to develop national consensus standards in the core subject areas. The National Council on Education Standards and Testing, created by an act of Congress, is to report on the desirability and feasibility of establishing voluntary national standards and tests. The National Assessment of Educational Progress is developing tests that are based on a national consensus process sponsored by the National Assessment Governing Board. Similarly, a number of professional organizations have sought to establish frameworks that might be the basis for national standards. These include such groups as the National Council of Teachers of Mathematics, the National Council of Teachers of English, the Bradley Commission (*Building a History Curriculum*), the Joint Committee on Geographic Education, the American Association for the Advancement of Science (Project 2061), and the National Science Teachers’ Association.

The establishment of standards for the designs is the responsibility of the designers and schools implementing the designs. NASDC has prepared a brief listing of such standards efforts, which is available upon request; bidders may want to review their suggestions and recommendations. The list constitutes an aid to design teams, not an endorsement of the various proposed standards.

In addition to establishing performance objectives for students in its programs, the design team is expected to

Americans invented the idea of a common school, freely available to all. The schoolhouse door has been the portal to prosperity for our society and for millions of its citizens. That invention is over one-hundred years old. Born in the last century, it has served us well in this one. But now a new century beckons. We should enter it with A New Generation of American Schools.



W. Frank Blount  
President and CEO



Thomas H. Kean  
Chairman of the Board

of the central office functions is one of the systemic changes required to implement the design.

The burden of demonstrating that the costs of a design are roughly equivalent to conventional schools lies with the bidder. In the later phases of the program, NASDC expects to develop cost models that will assist it and its contractors to determine the costs of the developed designs and help potential users of the designs to judge their cost-feasibility in their own settings.

### WORLD CLASS STANDARDS

Many participants at the design conferences raised questions concerning the meaning of “world class standards” in the RFP. What subjects are involved? How should we assess performance? What standard has NASDC set?

The intent of the RFP should be clear: When fully implemented, a design should enable virtually all students to acquire the skills and knowledge that they need to function and compete effectively in a world that is becoming more complex and demanding. Moreover, designers should recognize that world class standards are dynamic and can be expected to change through time. Designs should be capable of accommodating such changes.

In terms of this competition, the RFP requires that designers set high performance objectives (standards) for their designs and that these objectives include—*but not be limited to*—the five core subject areas of English, mathematics, science, history, and geography. It is not required that each design team should define these performance objectives themselves or provide an empirically based justification that they are “world class.”

design should be attractive, from a cost standpoint, to schools in many jurisdictions. But costs also reflect other differences including the student/teacher ratio, the level of supporting staff in a school (e.g., counselors and aides), the size and function of central office staff, the levels of funding for students with special needs, and specialized equipment in schools with a heavy emphasis on science or on vocational education.

Bidders should justify their expected costs in light of the spirit of the requirement—that the designs be capable of implementation in the real world. This would mean, for example, that designs feasible *only* in districts with a high-SES population *and* expenditure levels of \$8,000 or more per pupil are unlikely to be judged to be attractive for widespread implementation. On the other hand, designs involving such cost levels, but capable of being implemented in urban schools with high levels of special needs students, might be deemed feasible and attractive since school expenditure levels in urban schools often approach such levels. Designers may also want to create designs adaptable to a variety of settings with costs that vary from one setting to another because of changes in the pedagogy and services required by the students in those settings. Other designers might choose to focus on the problems of poorly funded schools. For example, given the large numbers of rural schools funded at low levels, a designer might want to work on designs that are particularly appropriate to such settings.

Treatment of costs of the central offices poses other problems. Some designs may require that some functions traditionally funded and performed at the district level (e.g., staff development) be performed at the school level. In justifying the costs of such designs, the designer could take credit for the portion of the central office costs devoted to that function, while noting that a restructuring

### III. INTRODUCTION

This is a request for proposals for designs of new American schools—public and private—that will help our people and the nation grow and prosper in the 21st century. Successful proposals will contain a strategy for integrating all facets of a school's life, including teaching, curriculum, and administration. Proposals must deal with all five core subjects, not just one or two subjects; all grades within a school, not just one grade. The design must be for the whole school environment and not for a single program or aspect of that school.

The New American Schools Development Corporation, a limited-lifetime, non-profit corporation funded by American businesses, intends to support a number of design teams organized to: (1) create and test designs for schools that achieve national education goals and meet world class standards for all students and help these students leave school prepared for responsible citizenship, further learning, and productive employment; and (2) assist communities across the nation adopt and re-create these designs for their own purposes.

This request for proposals was developed over the past five months by staff of NASDC with assistance from a number of consultants and advice from the Education Advisory Panel, a committee of outstanding educators and education policymakers from across the country. A draft of this RFP was presented at three conferences, and on television in over fifty cities, in August and September, 1991. Suggestions offered during these events are reflected in this document, and major issues raised in these meetings are discussed in Appendix A.

NASDC envisions a three-phase program:

### **Phase 1**

**Spring 1992-Spring 1993**

#### **Develop Design**

NASDC selects approximately 20-30 successful bidders who receive contracts for a 12-month effort to develop their designs.

### **Phase 2**

**Spring 1993-Spring 1995**

#### **Implement, Test, and Refine Design**

NASDC evaluates design efforts and selects the most promising for a two-year contract to test and implement the design in school settings.

### **Phase 3**

**Spring 1995-Spring 1997**

#### **Assist Many Communities to Adapt and Use Design**

Following evaluation of testing and initial implementation, NASDC supports technical assistance efforts to help communities across the nation adapt, re-create, and put the new designs in place. NASDC anticipates that this effort will begin with the AMERICA 2000 communities identified by the AMERICA 2000 strategy.

## **Appendix A**

### **Issues Raised at the Design Conferences**

During August and September 1991, thousands of educators, business leaders, and citizens commented on an initial draft of this RFP at three design conferences (two in Washington, D.C. and one in Los Angeles, California) and a nationwide television presentation carried on the Public Broadcasting Service in over 50 cities.

In the course of these meetings, participants raised a number of questions about specific issues treated in the RFP. Additional comments on several of these major concerns follow. These include:

- treatment of costs;
- world class standards;
- focus of the design effort; and
- target populations.

### **TREATMENT OF COSTS**

The designs are to involve recurring costs approximately equivalent to the costs of conventional schooling. The reason is straightforward. The designs should be useful to a large number of schools; if the designs involve costs significantly higher than current levels, it is unlikely that most schools will seriously consider them.

The recurring costs of current schooling vary widely. In part this variation is associated with differing prices or salary levels across jurisdictions. To the extent that cost differences are due largely to prices and salaries, a given

At the end of the five-year period, NASDC anticipates that a proven capacity will be in place to support communities as they seek to develop the high-performance educational systems that America needs.

**APPENDICES**

## IV. STATEMENT OF WORK

### BACKGROUND

In 1990, the President and the governors of the 50 states established six national education goals. They agreed that by the year 2000:

1. All children in America will start school ready to learn.
2. The high school graduation rate will increase to at least 90%.
3. American students will leave grades four, eight and twelve having demonstrated competency in challenging subject matter including English, mathematics, science, history, and geography; and every school in America will ensure that all students learn to use their minds well, so that they may be prepared for responsible citizenship, further learning, and productive employment in our modern economy.
4. U.S. students will be first in the world in science and mathematics achievement.
5. Every adult in America will be literate and will possess the knowledge and skills necessary to compete in a global economy and exercise the rights and responsibilities of citizenship.

6. Every school in America will be free of drugs and violence and will offer a disciplined environment conducive to learning.

The six goals are broad statements of national purpose. Each goal includes several objectives to clarify how progress toward the goal can be measured.

In April 1991, the President and the Secretary of Education announced AMERICA 2000, a nine-year strategy to achieve the six goals. The strategy was developed to honor local school control, create partnerships between local government and the private sector, and build on the conviction that improvements in American education should develop community by community.

AMERICA 2000 consists of four tracks, pursued simultaneously: (1) better and more accountable schools; (2) a new generation of American schools; (3) a nation of students, learning throughout their lives; and (4) communities where learning can happen.

This RFP focuses on the second track of the America 2000 reform effort. The private sector has created the New American Schools Development Corporation to launch, support, and monitor the design work that will lead to a New Generation of American Schools. NASDC proposes to contract in 1992 for the development of designs for new schools and sets of schools. Once the design work (Phase 1) is completed, NASDC will support testing and implementation of the designs for two years (Phase 2), followed by a two-year effort (Phase 3) to promote widespread adoption of the designs by communities across the country.

4. The proposal must contain the names, titles, addresses, and phone numbers of all principals.
5. The proposal must contain the resumes and/or description of qualifications of key personnel who will be responsible for the work, and an integrated description of the design team.
6. If applicable, the proposal must name one lead contractor who bears primary responsibility for managing the team's work and executing its contract with the NASDC.
7. The proposal must provide the bidder's name and complete address, including street, city, county, state, zip code, and telephone and facsimile numbers. It must also identify a principal contact.

Application materials will not be returned.

On or before May 31, 1992, NASDC intends to begin announcing design teams with which it will commence negotiations toward mutually agreeable final contracts within the scope of this RFP.

### **INQUIRIES**

Inquiries concerning any areas which, in the bidder's opinion, require clarification or correction should be directed to NASDC as soon as possible at the address above. Inquiries should be in writing, and, on major matters of substance or process, identical written responses will be supplied to all prospective bidders.

### **PROPOSALS**

Proposals must meet the following description:

1. A one-page abstract, including name, address, and telephone number of bidder.
2. An executive summary of not more than five (5) pages, double-spaced (approximately 1,250 - 1,500 words).
3. The main body of the proposal itself should be no longer than fifty (50), numbered, double-spaced pages (approximately 12,500 - 15,000 words). Supporting materials, if desired, may be added; these materials may be reviewed if necessary to clarify the proposal, but judgments about the proposal will depend largely on the quality of the main body of the proposal itself. Ten (10) complete copies of the proposal and all supporting materials (including the abstract and the executive summary) must be provided.

NASDC anticipates that many proposals will relate to a single school, either an existing school or a plan for an entirely new school. NASDC, however, is also interested in considering proposals to redesign sets of schools (e.g., entire local education agencies, groups of schools serving a particular neighborhood, or feeder patterns of schools serving students of different ages). Bidders concentrating on individual schools must address how they propose to deal with problems of governance, finance, teacher preparation, and accountability likely to affect their design. Bidders interested in sets of schools must address the means by which individual schools re-create themselves. All bidders must address the relationship of the design to student achievement of world class standards and the preparation of students for responsible citizenship, further learning, and productive employment.

### **OBJECTIVE OF THE RFP**

The objective of this RFP is to create and support design teams capable of designing new schools or sets of schools. The design teams will do two things: (1) design new educational institutions that provide superb learning environments for all students; and (2) help communities adapt and use these designs across the country.

NASDC defines a "learning environment" as the entire set of instructional and social experiences students encounter in the course of a defined period of formal education (e.g., a day, a week, or a year). A school is the institution that provides these experiences by organizing the work and time of students, teachers, and administrators and designing space, instructional materials, and technology to support that work. Under these definitions, a school need not be a single building. It may include an extended learning environment (e.g., a

school without walls), or feature distance-learning or other novel institutional arrangements.

Schools obviously do not operate in a vacuum. Throughout this RFP, NASDC refers to “systemic” issues in education, i.e., the school’s relationships with other entities and institutions, including other schools, governing boards, community groups, and social welfare organizations.

**The design teams should understand that NASDC’s intentions go far beyond the expectations of prior education reform efforts.**

*This is an effort to integrate all elements of a school’s life.* Proposals to explore teaching and learning in limited settings will not satisfy the requirements of this RFP. NASDC expects bidders to outline designs for schooling that promise to accelerate learning dramatically. The designs must be for whole schools, not for a single grade or program within a school; they should integrate all facets of the school’s life (including instruction, curriculum, and social climate) in pursuit of high levels of student achievement.

*This is a design effort, not a research program.* Although designs should be based on research or cutting-edge practice, the objective of this effort is the creation of highly effective schools, not the development of new knowledge.

*The designs will be “benchmarked” against demanding goals and achievement standards.* NASDC is not interested in incremental changes that promise, at best, modest improvements in student achievement compared to conventional classrooms or schools. The achievement of students in the New Generation of American Schools will be measured against world class standards.

## VII. INSTRUCTIONS TO BIDDERS

### GENERAL PROPOSAL SUBMISSION INFORMATION

The New American Schools Development Corporation, a private non-profit corporation formed at the request of President Bush, issues this RFP to contract for the design, development, and implementation/testing of new high-performance learning environments. The work is in three phases as defined under Call for Proposals and Statement of Work above.

Proposals are invited from organizations (both profit-making and non-profit) and individuals. Individuals might include teachers, administrators, and others interested in creating design teams. Organizations might include research and development institutions, businesses, community organizations, state and local education agencies, schools of education, or others.

NASDC is the only point of contact for this solicitation. Proposals and inquiries concerning this solicitation should be directed to:

New American Schools Development Corporation  
1000 Wilson Boulevard, Suite 2710  
Arlington, Virginia 22209

(703) 908-9500

### TIMETABLE

To be considered, proposals must be submitted to NASDC no later than February 14, 1992. Proposals will be deemed to be submitted when deposited with the U.S. mail or other delivery service or otherwise transmitted.

owner of such intellectual property to license its use by schools or sets of schools at variable fees based upon ability to pay.

## FUNDING

Unless otherwise agreed, NASDC will advance funds to the contractor according to the milestones specified in the contract, providing funds for the succeeding milestone as one milestone is accomplished. Payments shall be made in response to invoices from the contractor and in accordance with the agreed project budget.

*This is not a request to establish “model” schools.* NASDC does not seek to develop “cookie cutter” designs. The designs must be adaptable so that they can be used by many communities to create their own new schools. A design team must have an effective plan to generate the energy required for local communities to create their own high-performance, break-the-mold schools. The important thing is that long after NASDC has disappeared from the scene, its legacy of new designs will remain.

*The designs must be for all students, not merely for those students most likely to succeed.* NASDC’s goals will not be met if the designs it helps create produce high-performance learning environments only for the well-motivated or children of the middle class and the well-to-do. Perhaps as many as 40 percent of American youngsters under the age of 18 can be considered “at risk,” including children from low-income or single-parent families, children with disabilities, and children with limited ability to speak and use the English language. Design teams must be explicit about the student populations they intend to serve and about how they propose to raise achievement levels of “at risk” students to world class standards.

*This is a request for break-the-mold designs, not for fixing up the design already in place.* Many exemplary reform efforts are already at work improving selected aspects of existing schools—innovations in curriculum, teacher training, calendar modifications, “one-stop” centers for social services, and accountability mechanisms. Although some of these considerations will, of necessity, be a part of bold new designs, most belong more appropriately in Track 1 of AMERICA 2000 (Better, More Accountable Schools) than in the new generation schools contemplated under Track 2. This request is for comprehensive designs for very different

schools or sets of schools that (1) provide learning experiences not now generally available to students; and (2) produce dramatically better outcomes.

### PROPOSAL REQUIREMENTS

Each proposal must include specific attention to several fundamental requirements. Proposals should:

*1. Explain what you hope to accomplish.* The description of the preliminary design in each proposal should include a definition of what graduates of the school should know and be able to do. Whatever the design's focus, it should specify the outcomes which its students are expected to attain. Bidders are reminded that the national education goals call for students to leave grades four, eight, and twelve having demonstrated their competence in challenging subject matter, capable of using their minds well, and prepared for responsible citizenship, further learning, and productive employment. NASDC expects that designs will explicitly address how the competencies expected of graduates relate to the national goals and world class standards.

*2. Describe your basic concept and how you will develop it.* Here, NASDC is interested in a detailed description of what the bidder's break-the-mold school will look like and how it will operate. Substantively, NASDC expects bidders to both describe the learning environment they propose to create and consider any changes necessary in school organization, governance, finance, administration, and the use of other community resources.<sup>1</sup>

<sup>1</sup> The Business Roundtable's nine principles, reproduced in Appendix B, illustrate the community strategies and resources relevant to systemic reform.

to this RFP. Proposals will not be released by NASDC to the public, to other bidders, or to persons not directly involved in the process of selection and/or contract negotiation unless such release is authorized by the bidder. Proposals will be duplicated and circulated only to the extent considered necessary by NASDC to evaluate and compare offers and to negotiate agreements. Proposals which do not lead to an agreement between NASDC and the bidder will be destroyed.

As a tax exempt organization, NASDC must act in the public interest. In addition, it is central to NASDC's purpose that designs developed pursuant to this RFP be widely disseminated and used. These principles will govern contract terms related to intellectual property. Accordingly, intellectual property developed with NASDC funds will be the property of NASDC, and design teams will agree that they will assert no common law, equitable, or statutory rights in such property. NASDC will not itself market property or services to end-users, but will encourage the widespread dissemination and use of designs through licensing or other arrangements with schools, and school systems, design teams, consultants, and others.

With respect to intellectual property not developed with NASDC funds but incorporated in the material furnished under the contract or in the design that is the subject matter of the contract, NASDC, in making awards for Phases 2 and 3, will consider the following: (1) whether, in application of the design, such intellectual property is interchangeable with other property with different ownership; (2) the importance of such intellectual property in the overall design; (3) the extent to which the owner of such intellectual property agrees to license such property at no or nominal cost for the use of schools or sets of schools; and (4) the agreement of the

sufficient detail to permit evaluation of the impact of such substitution on the program. No such reduction shall be made without written consent of NASDC.

### LIAISON WITH NASDC

In addition to the work products specified in Section IV, the contractor will provide status reports on the work in progress as requested by NASDC, provided that such requests will normally be made no more frequently than twice a year. Such progress reports shall include a quantitative description of overall progress; an indication of any current problems which may impede performance, and proposed corrective action; and a statement of cumulative dollar expenditure and cumulative effort expended. The contractor will make its personnel available as reasonably required to permit NASDC, and its research and analysis contractor, to both remain informed as to the status of work and obtain information for comparison across teams.

### TERMINATION FOR DEFAULT

If the contractor refuses or fails to prosecute the work, or any separable part of the work (including failure to attain any specified milestone) with such diligence as will ensure completion according to the established schedule, NASDC may, by written notice, terminate the contractor's right to proceed with the work or such part of the work as to which there has been a delay. In such event, NASDC may take over the work and take possession of and use such materials as may be on the site of the work and necessary therefor.

### INTELLECTUAL PROPERTY

Bidders will not waive any rights to intellectual property incorporated in proposals submitted in response

With respect to learning environments, NASDC wants to encourage design teams to focus on both the experiences they propose to provide to students and on how all aspects of the school's life will be integrated to support learning. With respect to governance issues, design teams should explicitly address federal, state, and local regulations, contractual agreements, and how the design team proposes to proceed in the face of existing constraints. NASDC encourages bidders to consider the teaching implications of the changes they propose, and to address issues related to teacher preparation and training.

Specification of the proposed learning environment is an important aspect of the proposal and of Phase 1. Bidders are expected to specify the main elements of the proposed learning environment in the proposal, along with a detailed plan for proceeding with Phase 1 of the design effort. The proposal should also incorporate a plan for proceeding with governance issues in Phase 2, along with a preliminary concept for the Phase 3 effort to encourage widespread use of the design.

**3. Identify who will be involved.** Proposals will not be considered unless members of the design team, and the leader or coordinator of the effort, are clearly identified. Their experience, background, qualifications, contributions to the design effort, and ability to implement the proposal successfully should be explicitly described. Similarly, the proposal should describe the institutional qualifications of organizations involved.

**4. Explain what research or experience supports your design.** Despite the corporation's interest in encouraging bold thinking, it will not support wildly speculative ideas with little grounding in reality or convincing evidence. Here bidders should support their vision of new learning environments with research, analyses, lessons drawn from prior or existing reform

efforts, or solidly reasoned “think pieces.” The proposal, in short, must contain a justification for the bidder’s belief that the proposed learning environment will lead to desired student outcomes.

**5. Provide a credible budget for your work.**

NASDC understands that definitive cost justifications for Phases 2 and 3 of the design effort, are at the outset, difficult. Nevertheless, each proposal should incorporate: (1) detailed costs for Phase 1; and (2) preliminary cost estimates for Phases 2 and 3.

**6. Define how you (and NASDC) will know if it works.** NASDC will be concerned with the quality of the bidder’s plans for self-assessment. The design effort must be outcome-oriented and the design teams are expected to establish benchmark measures by which they will assess their progress toward those outcomes.

With respect to “world class standards,” NASDC wants to stress that they represent a dynamic, moving target. Bidders should be able to define plausible, short-term benchmarks for such standards as well as ultimate goals for student achievement. In the proposal, bidders should describe what they hope to measure, and establish benchmarks against which to assess student progress through a variety of assessment techniques such as local tests, portfolio evaluations, national examinations, or international assessments.

**7. Explain how you will persuade others to put your design in place.** One of the key distinctions between this effort and previous reform strategies is the commitment of NASDC to help many communities combine their unique perspectives with these designs in order to create their own outstanding schools. These designs are commissioned not to sit on the shelf but to be put in place with real students, teachers, and administrators.

## VI. REQUIREMENTS AND CONDITIONS

### NON-GOVERNMENTAL CONTRACT

Awards under this RFP will constitute agreements between private parties. Therefore, the provisions of the Federal Acquisition Regulation (“FAR”) are not applicable. In particular, FAR provisions relating to bid protests, changes, and contract disputes do not apply.

### GOVERNING LAW

Agreements formed as a result of this RFP will be interpreted according to the law of Virginia.

### DECISION OF NASDC

The selection of successful proposals will be at the sole discretion of NASDC, based upon considerations set forth in Section V. Decisions of NASDC will be final. NASDC has no obligation to negotiate a specific number of contracts or to award contracts totalling any specific sum of money under this RFP. If all contemplated awards have not been made, NASDC may, in its discretion, permit unsuccessful bidders to revise and re-submit proposals, or it may issue a new solicitation.

### KEY PERSONNEL

The personnel identified in the proposal as “key personnel” are considered essential to the work to be performed. All key personnel need not be full-time employees/members of the design team; however, the amount of their time or energy devoted to the work of the design team must be stated. Prior to reducing the commitment to the project of any specified individuals, the design team shall notify NASDC in advance and shall submit justification (including proposed substitutions) in

#### 4. Appropriateness and Realism of the Proposed Costs to NASDC.

NASDC expects to fund a wide spectrum of design efforts with a range of costs. This range promises to make choices among proposals difficult. In reviewing the proposals, NASDC will judge them in terms of their costs for the five-year design effort including:

1. the prudence and reasonableness of costs;
2. the appropriateness of proposed expenditures for capital equipment or building renovation; and
3. whether or not costs are justifiable in light of the promise of the design for achieving the national goals.

Nobody can design a school for someone else. Bidders will be expected to demonstrate their understanding of the complexities of implementing their design, outline initial strategies for proceeding, and provide at least a general idea of how they plan to encourage adaptation and use of the design following initial testing and implementation. In this regard, design teams may, from the first day, begin to work with schools and communities interested in their efforts.

#### EXPECTED APPROACH AND COSTS

NASDC anticipates that contractors will wish to undertake a wide variety of activities in support of the design, development, and implementation of New American Schools, and has no desire to be overly prescriptive. NASDC encourages designs involving imaginative use of time, space, resources, and instructional organization. Design teams may develop new curricula or rely upon existing frameworks and materials. They may develop software and make extensive use of communications and computer technology. They may design completely new approaches to organizing instructional time and to the location of instruction. The only constraints on the designs will be that they help all students reach world class standards, and that they operate on a budget comparable to conventional schools.

Most designs will undoubtedly require schools or school systems to make “front end” investments in areas such as materials and staff development. The funds provided by NASDC are appropriately used for these investments both in the development and testing of the designs, and in schools participating in the design effort.

Bidders should recognize that in selecting contractors, NASDC will make judgments concerning the promise of the design compared with the cost of developing and testing that design. All other things equal, a proposed design that costs more to develop and test will be less likely to be funded than a less expensive effort. In this regard, NASDC is more inclined to support the innovative use of existing facilities than to fund new construction.

Bidders should describe their proposed activities for a five-year effort, divided into the three phases described earlier. NASDC anticipates awarding up to 30 contracts for the Phase 1 design effort with costs ranging from \$500,000 (or less) up to \$3 million. NASDC then will negotiate new contracts with the most promising design efforts (or possibly combinations of the most promising) for the second phase of work. At the end of the three years, further contracts will be negotiated with the design teams whose work demonstrates the greatest promise. The final contracts will support fostering the adaptation and use of the designs in additional communities across the nation. In no case should the total amount requested from NASDC for the five-year effort exceed \$20 million.

In general, NASDC expects that each proposal will include:

- a well developed and supported preliminary design concept;
- a detailed plan (with milestones and budget) for Phase 1; and
- preliminary plans and budgets for Phases 2 and 3.

## **2. Quality of the plans to assess the design's performance**

Credible self-assessments by design teams will be important to NASDC's monitoring of design efforts and to providing information to communities that contemplate implementing the design. NASDC will also sponsor continuing independent assessment of the teams' progress.

Does the proposal contain an approach to assessment of student performance that appears likely to satisfy the needs of the designers themselves, communities considering adopting the design, and NASDC? Is the approach keyed to the ultimate achievement of one or more of the national education goals? Are the assessment methods and instruments aligned with the designs' goals, and do they cover all the student outcomes sought?

## **3. Potential for widespread application and the quality of plans for fostering such application.**

NASDC intends to do all that is possible to assure that the efforts it supports do not result simply in a few isolated model schools or sets of schools in unique localities. While detailed plans for fostering wide-scale implementation are not required until the third year, the designs themselves must be created with an eye to the strategies to be used to promote their wider adoption. Proposals will be assessed on the quality and promise of their strategies for promoting the use of designs by other communities. Do the strategies deal with the changes needed in the policy environment to permit the designs to succeed? Are the recurring costs of implementing the design reasonable? Do the strategies effectively consider the continuation of the effort after NASDC funding ceases in five years?

more individuals with a proven record of design innovation in education or elsewhere? Does the team include leaders and teachers from schools and communities that will participate in the development process, or (if the schools and communities have not yet been identified) does the proposal provide persuasive evidence that the team will be able to develop needed partnerships with such people?

### *Quality of the Team's Plans*

The likelihood of a design's success will also depend on the quality of the strategies and plans to refine the design and implement it in real communities. Plans should, at a minimum, show what is to happen, when it is to happen, and who will make it happen.

In assessing the initial proposal, NASDC will be concerned with whether the proposal appears likely to yield a practical design that will pass rigorous scrutiny and be capable of implementation in other sites. Does the bidder demonstrate an understanding of the complexities of implementing its design? Do the initial strategies for developing the design incorporate at least a general idea of how the bidder plans to encourage adaptation and use of the design following initial testing and implementation? Does the plan consider changes in school organization and governance that are essential to dealing with excess regulation? If the plan assumes that the delivery of other services for children (e.g., health screening or counseling) will change, is the plan clear regarding the changes required and how they will be accomplished? Does the plan effectively address working relationships within schools and sets of schools? Does the plan adequately address requirements for teacher preparation?

It is anticipated that awards will be in the form of fixed price contracts. The proposed budget should be presented in the form shown in Appendix C. As noted in the section on Selection Criteria, NASDC will consider the potential promise of the design effort relative to its cost to NASDC.

### **PROJECT DURATION**

Initial contracts will be for one year. In that year, each design team is expected to develop the basic design it proposes. This represents a period during which the design team should refine and expand its initial conception and explore the best combinations of approaches, systems, technologies, and personnel needed to make the design a reality. A crucial part of the work during this phase will be defining the standards against which the design will be assessed in the course of implementation.

Following evaluation of the developed design, NASDC plans to negotiate a second round of two-year contracts with those design teams whose work produces the most original and plausible designs. The objective of this second phase is to demonstrate that the design can be adapted and used in real communities. The designs must be tested and refined in more than one site. Difficulties will undoubtedly arise during initial implementation. Phase 2 offers design teams the opportunity to experience these difficulties firsthand and make the necessary adjustments. During this phase as well, the teams must develop the capability to help communities re-create and implement the designs during Phase 3.

A third, two-year phase will follow initial testing—an implementation effort to provide technical assistance to many communities. Further problems are likely to arise

when several different communities, with different needs and capabilities, attempt to adapt particular designs to their own needs. Here the design team will be asked to demonstrate that there are realistic, viable, cost-effective solutions to the various difficulties associated with implementation and operation.

For each of these phases, the bidder is expected to lay out a series of milestones for its work—times at which NASDC can expect to see some specific kind of progress, and some specified level of results.

## PRODUCTS

The work product for the initial one-year contract shall include:

1. *A comprehensive design for creating new high-performance learning environments.* Contractors will be expected to create and present to NASDC one or more comprehensive designs or coherent, integrated, educational approaches deemed highly effective in promoting learning in the five core subjects as well as preparing students for responsible citizenship, further learning, and productive employment. These designs shall be presented to NASDC in written form and may also incorporate other media as necessary and appropriate to assist in understanding the design and how it will be adapted, re-created, or used by communities. Each design team shall specify, in its proposal, the date by which its initial design(s) will be presented to NASDC.

2. *A plan to guide work through the second phase of testing and implementation.* This plan must spell out how and where the design team will test the feasibility of implementing its designs, including a detailed description of the communities with which the design team will work. The plan must, in addition, lay out a series of milestones

hold the promise of leading to programs that will achieve relevant national goals—particularly preparation of students for responsible citizenship, further learning, and productive employment, combined with demonstrated competence in challenging subject matter including English, mathematics, science, history, and geography? Will the design result in schools significantly different from, and radically better than, those currently in existence? Is the design relevant to the diverse populations in the nation’s communities? Does the design address the systemic issues surrounding implementation in communities—including required changes in rules, regulations, and administrative practice—and continuing costs of operation?

NASDC is interested in understanding the bidders’ basis for believing their designs will achieve high levels of performance. Thus, in assessing the potential of the design, NASDC will be concerned with the research and/or experience that supports the design. As noted in Section IV, bidders should support their design vision with research, analysis, and lessons drawn from prior or existing reform efforts or solidly reasoned “think pieces.” NASDC supports bold ideas and understands that some proposals will not be built on a research base. However, if this is the case, a reasoned justification should be provided.

### *Quality of the Design Team*

The quality of the design, and the ability to implement and test it, obviously depend on the quality of the design team. Does the design team possess the array of talents needed to design, develop, test, and promote widespread use of school designs? Are the individuals making up the design team backed up by organizational capabilities needed for their support? Are the team’s financial plans viable? Does the team include one or

documentation of their ideas in the time remaining on their contract.

For selection for Phase 2 and 3, NASDC will also consider (1) the factors listed in Section VI under “Intellectual Property,” and (2) reasonableness of costs and availability of alternative sources for any consulting services that may be necessary to implement the design.

### CRITERIA

The criteria for Phase 1 selection include: (1) the likelihood that the design will enable all students to reach the national education goals and attain world class standards; (2) the quality of the plans to assess the performance of the design; (3) the plans and potential for fostering widespread application and (4) the appropriateness and realism of the proposed costs. The slate of selected proposals will be chosen to provide designs addressing a wide variety of educational needs.

#### **1. The likelihood that the design will enable students to reach the national education goals and to attain world class standards.**

The most important concern of the selection process is identifying proposals with the greatest likelihood of leading to implemented designs that enable students to achieve world class standards. That likelihood is a product of the design concept itself, the quality of the team that is developing and implementing the design, and the plan of action proposed.

#### *Promise and Originality of the Design*

NASDC is looking for designs that clearly break the mold of existing education and schooling practice. Does the proposed preliminary design do so? Does it clearly

over the two-year period—checkpoints at which, and criteria by which, the performance of its designs and work can be judged by NASDC. The plan will be presented to NASDC in writing and through such other media as the design team deems appropriate.

**3. A revised strategy for Phase 3.** The Phase 3 strategy and associated analysis should demonstrate that the design can be adapted or re-created by many communities, that the design team has thought through the difficulties likely to arise and how they can be solved, and how the design team plans to help many communities simultaneously to adapt, re-create, and operate its design(s).

Products for the second and third phases will be defined when contracts for these phases are awarded. In general, however, bidders can anticipate that NASDC will seek documentation and products generated during the testing and implementation efforts of Phase 2, along with evaluation results and a plan for Phase 3.

## V. SELECTION

### PROCESS

NASDC intends to create a selection process that is fair, consistent, and capable of identifying truly original and effective designs. The details of the selection process will depend on the number, complexity, and diversity of proposals received. Under present plans, proposals will be categorized by concept and/or type of performer, screened, and reviewed by panels of experts who will provide advice on the proposals' strengths and weaknesses. Based on this advice, the President of NASDC, NASDC management, and the Education Advisory Panel will prepare a preliminary slate of proposals. The president of NASDC will submit his recommendations on the slate to the NASDC board, which will make the final selection. The final slate will be chosen to assure that the needs of all children and communities are addressed and that design efforts represent a broad spectrum of approaches and performers.

The initial awards should not be seen as simply planning grants, with the real work to begin in Phases 2 and 3. Phase 1 is intended to be a significant design effort. While the process to be used in choosing among the initial designs at the end of Phase 1 has not been decided, bidders should assume, for planning purposes, ongoing monitoring and technical assistance from NASDC during Phase 1, and a selection based on site visits and review of documents produced in the first phase. This review will take place approximately eight months after the initial contract and decisions will be made in time to permit a smooth flow from design into Phase 2. If the design is not chosen for continuation, design teams will be expected to complete the