

March 29, 1996

WR-
Budget**BUDGET IMPACT OF EARNINGS TEST LEGISLATION (H.R. 3136)**

H.R. 3136 results in \$3.2 billion in deficit reduction over 7 years. The legislation enacts two provisions that are contained in Administration and Congressional balanced budget and welfare reform proposals. The provision to eliminate eligibility for SSI on the basis of drug addiction and alcoholism saves \$2.7 billion over 7 years. The provision to adjust the discretionary caps for additional spending on continuing disability reviews (CDRs) saves \$0.8 billion. The deficit reduction in the legislation depends upon savings from these proposals. Consequently, the \$3.2 billion in savings can be considered a down payment towards welfare reform and a balanced budget.

Costs and Savings over 7 Years
(CBO estimates unless indicated, billions of dollars)

Cost of Earnings Test Increase	+5.65
Scorable Savings	
Eliminating DA&A for SSI	-2.67
Eliminating DA&A for DI	-3.12
Modify Stepchild Benefits	<u>-1.63</u>
Subtotal	-7.43
Non Scorable Savings	
Continuing Disability Reviews	-0.80
Increase in Taxation of Benefits Revenue ¹	<u>-0.60</u>
Subtotal	-1.40
Net Savings	-3.18

¹ The higher Social Security benefits from increasing the earnings limit will lead to increased revenue from current law provisions to tax Social Security benefits. OMB and CBO scoring rules do not allow these savings to be scored. However, like the CDR provisions, these savings would be reflected in new OMB and CBO baselines and would help reduce the deficit. The above estimate is from SSA's actuaries.

CHANGES TO ORIGINAL 1995 MEDICAID PROPOSAL

WR-Medicaid

FINANCING: MOVING TOWARDS THE GOVERNORS

- **Original Position:** Per capita cap that adjusts federal support as enrollment increases or declines. A 33 percent Disproportionate Share Hospital (DSH) cut with no hold harmless provision and no specifics as to how dollars were used.
- **Compromise Position:** Adopts the National Governors' Association (NGA) financing formula, with some modifications to assure CBO scoring. Unlike the per capita cap, this approach provides a hold harmless provision that ensures that states can keep their base allotment (they get to choose from the best of 1993, 1994, or 1995), even if they decrease the Medicaid recipient enrollment below levels of their base year. Institutes a DSH hold harmless provision and targets dollars to facilities disproportionately serving the uninsured and other needy hospitals defined by the states.

ELIGIBILITY: EXPANDING STATE FLEXIBILITY

- **Original Position:** Maintained current law that prohibited states from rolling back their optional expansions of kids and pregnant women to mandatory poverty/coverage levels. In addition, required that states maintain current federal disability eligibility definition requirements.
- **Compromise Position:** Gives states the authority to roll back optional coverage of kids to minimum poverty/coverage levels and substitutes the disability eligibility reforms included in the bipartisan welfare bill, (which no longer requires states to cover alcoholics, chemical and substance abusers and some SSI kids.)

BENEFITS: REDUCING COSTS AND TARGETING ABUSES

- **Original Position:** Maintained current law requirements.
- **Compromise Position:** Provides states the authority to apply nominal copayments for Medicaid HMO coverage. Also, to address concerns about EPSDT benefit abuses, authorizes the Secretary to limit inappropriately utilized benefits.

ENFORCEMENT: DECREASING LITIGATION AND COSTS

- **Original Position:** Restructured, but did not totally repeal the Boren amendment. Retained individuals' current access to Federal court system.
- **Compromise Position:** Totally repeals the Boren amendment and requires that all state administrative appeals be exhausted prior to any court appeal on eligibility or benefits disputes.

FLEXIBILITY TO INCREASE COVERAGE WITHOUT WAIVERS

- **Original Position:** Although the President's June, 1995 proposal did eliminate the federal waiver process for managed care and home and community based alternatives, states that achieved savings through the new flexibility provisions could not plow those savings back into targeted coverage expansions without a federal waiver.
- **Compromise Position:** Empowers states to use Medicaid savings to provide coverage for any population up to 150 percent of poverty without a federal waiver. (As a result, states can either pocket the savings or use it to expand coverage to any population it wants provided they are under specified poverty threshold.)

SAVINGS INCREASE EVEN AS CBO MEDICAID BASELINE DECLINES

- **Original Position:** \$54 billion off of a much higher CBO Medicaid baseline.
- **Compromise Position:** \$59 billion off of the new CBO Medicaid baseline, which is over \$25 billion lower than the December CBO Medicaid baseline and \$55 billion lower than the baseline used to score the budget proposals passed by the Congress in 1995.

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= budget

WELFARE REFORM AND THE BIPARTISAN BUDGET AGREEMENT

- The Administration strongly opposes the House Ways and Means Subcommittee proposal, which violates the bipartisan budget agreement, treats disabled legal immigrants unfairly, and prevents working welfare recipients from getting a minimum wage.
- The Administration is pleased that the Ways and Means Subcommittee \$3 billion welfare-to-work proposal meets many of the Administration's priorities. These include: targeting funds to areas and individuals with high needs, directing funds to cities and local governments, awarding some funds competitively, and allowing communities to create successful job placement and creation programs.
- But the provisions of the Subcommittee proposal addressing legal immigrants and the minimum wage are clearly unacceptable.

Legal Immigrants

- The Ways and Means Subcommittee's proposed amendment to the welfare law clearly violates the negotiated, bipartisan budget agreement policy to restore a minimal safety net for disabled legal immigrants. The Subcommittee's proposal would restore SSI and Medicaid benefits only to immigrants *already receiving* benefits prior to August 23, 1996; by contrast, the bipartisan budget agreement policy restores SSI and Medicaid benefits to *any* immigrant *in the country* as of that date who is or becomes disabled.
- The Ways and Means Subcommittee proposal would protect 75,000 fewer immigrants than the budget agreement by the year 2002. And in leaving unprotected any person who becomes disabled after August 22, 1996, it fails to target assistance to the most vulnerable individuals.

Minimum Wage

- The Administration also strongly opposes the Ways and Means Subcommittee's provision on the minimum wage, which undermines the fundamental goals of welfare reform.
- The Administration believes strongly that everyone who can work must work -- and that those who work should earn the minimum wage, whether they are coming off of welfare or not.
- The House Ways and Means Subcommittee proposal does not meet this test. It effectively creates a subminimum wage for workfare participants. And it weakens the welfare law's work requirements.

LEGAL IMMIGRANTS AND THE BIPARTISAN BUDGET AGREEMENT

The Ways and Means Subcommittee's proposed amendment to the welfare law clearly violates the negotiated, bipartisan budget agreement policy to restore a minimal safety net for disabled *legal* immigrants. The Subcommittee's proposal would restore SSI and Medicaid benefits only to immigrants (both the disabled and non-disabled elderly) *already receiving* benefits prior to August 23, 1996; by contrast, the bipartisan budget agreement policy restores SSI and Medicaid benefits to *any* immigrant *in the country* as of that date who is or becomes disabled. The budget agreement targets assistance to the most vulnerable individuals.

- **THE WAYS AND MEANS SUBCOMMITTEE PROPOSAL IGNORES VULNERABLE IMMIGRANTS WHO BECOME DISABLED AFTER AUGUST 22, 1996:** This proposal abandons many legal immigrants who were in the U.S. when the welfare law was signed but become severely disabled after that date. In contrast, the bipartisan budget agreement protects these immigrants.
- **BY THE YEAR 2002, THE WAYS AND MEANS SUBCOMMITTEE PROPOSAL WOULD PROTECT 75,000 FEWER IMMIGRANTS THAN THE BUDGET AGREEMENT.** This number grows to 125,000 by the year 2007.

Example: A legal immigrant family entered the country 3 years ago. Both the father and mother have worked full-time since then, and have an annual income of about \$25,000, but neither job provides health insurance for themselves or the family. Their 5 year-old son becomes severely disabled in a car accident next year. Under the budget agreement, he would be eligible for SSI and Medicaid; under the Ways and Means Subcommittee's proposal he would be denied SSI -- and potentially denied Medicaid.

Question: Doesn't the Ways and Means Subcommittee proposal treat the elderly better than the Administration's proposal, while the Administration's policy favors the disabled? Isn't this really a wash?

Answer: The parties to the budget agreement already made the decision about where to target limited resources. The agreement explicitly states the policy of restoring SSI and Medicaid eligibility to immigrants who are or become disabled and who are in the U.S. as of August 22, 1996. This is one of the specific policies agreed to by the President and the Congressional leadership. Furthermore, the Leadership Council of Aging Organizations and the Consortium of Citizens with Disabilities state that they will not support "any reductions in benefits to immigrants with disabilities in order to provide them to other groups of immigrants."

The Administration believes that the budget agreement appropriately targets the most vulnerable individuals. It provides for all immigrants in the country when the welfare law was signed who have suffered -- or may suffer in the future -- a disabling accident or illness. At the same time, the agreement will result in restoring benefits to a full 80% of the caseload as of August 22, 1996 -- all of those now classified as disabled plus approximately two-thirds of the elderly

caseload who can be reclassified as disabled.

WELFARE TO WORK

We are pleased that the Ways and Means subcommittee has included in its mark a \$3 billion welfare-to-work proposal that meets many of the Administration's priorities:

- It directs funds where they're needed most: to help long term recipients in cities and other communities with large numbers of poor people;
- It awards some funds on a competitive basis, assuring the best use of scarce resources;
- It provides communities with appropriate flexibility to use the funds to create successful job placement and creation programs.

We are pleased that Congressman Shaw was willing to work in a bipartisan basis to incorporate many of the Administration's priorities.

We are, however, deeply disappointed at the subcommittee draft's lack of adequate worker protections and non-displacement provisions, and urge the subcommittee to add language that will better protect against worker displacement.

The President proposed a \$3 billion welfare to work program last fall and fought to have it included in the bipartisan balanced budget agreement. A centerpiece of the President's second-term agenda, the proposal will help move one million adults from welfare to work by the year 2000.

MINIMUM WAGE AND WORKFARE

Background: The Labor Department has concluded that the Fair Labor Standards Act (FLSA) applies to welfare recipients in workfare or other subsidized employment programs in the same way as that law applies to all other employees. This means that most welfare recipients in these programs will receive at least the minimum wage.

The House Ways and Means Subcommittee on Human Resources proposes to amend the welfare law so that welfare recipients engaged in workfare would not be employees for the purposes of the Fair Labor Standards Act or any other federal law. Although requiring the minimum wage for hours worked, the proposal would permit states to count child care, Medicaid, and housing benefits in their calculation of the minimum wage. It would also allow states to count additional hours of job search, education, and training toward the welfare law's work requirements.

The Administration strongly opposes the Ways and Means Subcommittee's provision on the minimum wage and welfare work requirements.

- This Ways and Means Subcommittee proposal would undermine the fundamental goals of welfare reform. The Administration believes strongly that everyone who can work must work -- and that those who work should earn the minimum wage, whether they are coming off of welfare or not.
- The House Ways and Means Subcommittee proposal does not meet this test. It effectively creates a subminimum wage for workfare participants. And it weakens the welfare law's work requirements.
- This Subcommittee proposal also was not addressed in the budget agreement between the White House and Congress and should therefore not be included in the reconciliation bill.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 3, 1997

CRice -
How does this look
to you? Let me know.
- BR

[CM - return a copy]

Memorandum to: Gene Sperling
Bruce Reed

From: Ken Apfel *Ken*

Subject: Welfare to Work in the Balanced Budget Bill

I need your concurrence on how we handle the "Welfare Jobs Challenge" in the Balanced Budget Bill.

I know that we are not being any more specific about the provisions of the "Welfare-to-Work Jobs Challenge" than appears in the Budget. However, in order to score the \$3 billion the 1998 Budget includes for this proposal, we need to include language in the Balanced Budget Bill. If we don't do this, there will be a \$3 billion hole in the bill. Therefore, I propose including the language below in the bill and in the section-by-section analysis for the Balanced Budget Bill.

The bill language is as spare as possible; it doesn't even suggest the Secretary of Labor will promulgate regulations to implement the program. The section-by-section analysis paragraph also is bland, essentially repeating the language in the FY 1998 Budget (page 106, right hand column), but not citing specific types of services, program structure, or who is targeted (i.e., the "hardest-to-employ" are not cited).

Please let me know if you have any objections to this or changes you wish to make to the language or explanation. We are trying to complete drafting by Thursday, so I would appreciate a response as soon as possible.

Bill Language:

Subtitle D - Welfare-to-Work Initiatives

SEC. ____ For purposes of carrying out welfare-to-work initiatives -

(A) there are hereby appropriated to the Secretary of Labor, \$750,000,000 for fiscal year 1998; \$1,000,000,000 for fiscal year 1999; and \$1,250,000,000 for fiscal year 2000.

Section-by-section analysis:

SEC ____, Welfare-to-Work Initiatives. This section makes \$3 billion in mandatory funding available for the President's proposal to help States and cities move one million welfare recipients into lasting jobs by the year 2000 through job placement and job creation. More detailed legislative specifications for the program are not yet finalized.

THE WHITE HOUSE
WASHINGTON

November 29, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Mary Jo Bane
David Ellwood

THROUGH: Carol Rasco

SUBJECT: Welfare Reform and the FY95 Budget

I. The Working Group Draft Options Paper

Later this week, the Welfare Reform Working Group will send you a draft options paper on welfare reform. We will continue to refine the document in early December, but we wanted you to see a draft of our recommendations now, as you begin to make decisions about the FY95 budget.

The Working Group has completed the last of its five regional hearings and site visits, and has met with more than 250 interest groups, hundreds of welfare recipients, and dozens of members of Congress, governors, and state officials in both parties. There seems to be remarkable agreement within the Administration on the basic elements of a welfare reform proposal. The Working Group, which consists of 33 subcabinet officials from eight agencies and the White House, held an all-day retreat last week to review its draft recommendations. At the end of the meeting, everyone burst into applause over the level of consensus that had been reached.

We will submit a draft options paper to you this week, and follow up with more specific decision memos and decision meetings as necessary. In the meantime, we will also need to consult further with states and with key members of Congress to begin building a coalition for welfare reform. We will probably need to share specific sections with a carefully selected small number of key players. Our goal, pending your decisions on key issues, is to have legislation ready early next year.

One important development: The American Public Welfare Association (APWA) will soon release its own consensus reform plan, which will be very similar to our recommendations, and will include a two-year time limit followed by work. The APWA plan was developed by a broad bipartisan group of state welfare directors, ranging from

Jerry Whitburn of Wisconsin to Barbara Sabol of New York. We are optimistic that many governors will go along.

The New York Times reported Sunday that we are looking at subsidies for private employers to hire people off welfare. We are focusing on many ways to move people from welfare to the private sector, and this is one option under consideration, but it is not as central as the Times article suggested.

II. Cost Issues

Although definitive cost estimates for welfare reform will depend on decisions you make about key aspects of the plan, the levels themselves are actually quite flexible -- especially during the first 4-5 years of the program. The plan can be phased in slowly, starting with new applicants coming onto the welfare rolls. (The Republican plan uses a similar, gradual phase-in.) The phase-in can be adjusted to fit the amount of money available for welfare reform in the budget.

Three areas are likely to require increased funding: child care for families who are working or in training; expansion of the JOBS program to give more people access to education and training; and administration of the community service jobs program for those who hit the two-year time limit. We would expect these costs to be in the range of \$1 to 1.5 billion in FY95, rising to \$5 to 6 billion when fully phased in.

Essentially all of these costs are on the entitlement side of the budget. Welfare reform does not require new domestic discretionary spending.

Given the very tight budget and the fact that no money was included in the previous budget for welfare reform, we have been operating on the assumption that any new money spent on this initiative will have to be offset by savings generated by the program and by other entitlement savings.

We have identified several possible sources. Savings could result from increased child support collections and reductions in the caseload. Other entitlement savings could come from a series of initiatives ranging from capping the growth of Emergency Assistance, some tightening of the rules regarding non-citizens seeking to collect public assistance, closer coordination of the tax and transfer system to reduce fraud, potentially making a portion of means-tested benefits taxable the way earnings are for those with incomes above poverty, and a number of other ideas. We are currently working with OMB and Treasury on these and other offsets.

Welfare reform options
 (federal costs in billions)

1995 1995-99 steady state

1. Cost of campaign elements, assuming no effects on caseloads

Total		\$0.0	\$4.5	\$5.5
	AFDC			
	food stamps			
	training		\$1.1	\$0.5
	community service overhead		\$2.5	\$3.2
	child care		\$0.9	\$1.8

Two years of AFDC followed by unlimited work-for-welfare in community service. Phased in with first-time applicants. No effects on caseload or average benefits assumed. (As with all options, costs of EITC, child care food program, and foster care not modeled.)

2. Option 1 plus pre-eligibility job search for all applicants (5 percent entry effect)

Total		(\$0.2)	\$3.1	\$4.1
	up-front job search	\$0.3	\$1.5	\$0.3
	AFDC	(\$0.2)	(\$1.2)	(\$0.7)
	food stamps	(\$0.3)	(\$1.3)	(\$0.7)
	training		\$0.9	\$0.5
	community service overhead		\$2.4	\$3.0
	child care		\$0.8	\$1.6

Apparent consensus among working group that all non-exempt applicants should be required to participate in job search before receiving AFDC. Job search is relatively inexpensive, and has been shown to be effective with segments of the AFDC caseload.

3. Option 2, but assuming 10 percent exit effects along with up-front job search and 5 percent entry effects.

Total		(\$0.2)	\$0.3	(\$0.4)
	up-front job search	\$0.3	\$1.5	\$0.3
	AFDC	(\$0.2)	(\$2.3)	(\$2.3)
	food stamps	(\$0.3)	(\$2.4)	(\$2.4)
	training		\$0.9	\$0.4
	community service overhead		\$2.0	\$2.3
	child care		\$0.6	\$1.2

The only evaluation of a large scale welfare program for AFDC female case-heads is from Ohio. It showed large caseload reduction effects, but the evaluation design was not the best. Claiming savings from caseload effects of time-limits and community service probably will be controversial. A 10 percent effect is modest in light of the Ohio evaluation.

4. Up-front job search (5 percent entry effect), then two years of AFDC followed by one year of community service then in-kind safety net (no exit effects).

Total		(\$0.2)	\$1.6	\$0.1
	up-front job search	\$0.3	\$1.5	\$0.3
	AFDC	(\$0.2)	(\$2.8)	(\$4.6)
	food stamps	(\$0.3)	(\$0.4)	\$1.2
	training		\$0.9	\$0.5
	community service overhead		\$1.5	\$0.7
	child care		\$0.3	\$0.3
	housing vouchers		\$0.6	\$1.6

After one year of work, families would receive full food stamps and a housing voucher to bring them to 75 percent of the median state's AFDC plus food stamps.

5. Option 4 plus no eligibility for first-time applicant parents under age 19 and cases without paternity established (combined 25 percent entry effects)

Total		(\$0.9)	(\$6.6)	(\$2.3)
	up-front job search	\$0.2	\$1.1	\$0.2
	AFDC	(\$0.8)	(\$8.9)	(\$6.7)
	food stamps	(\$0.2)	(\$0.5)	\$2.1
	training		\$0.1	\$0.2
	community service overhead		\$1.1	\$0.6
	child care		\$0.0	\$0.1
	housing vouchers		\$0.5	\$1.2

Between one-third and one-half of AFDC cases do not have paternity established. Reducing eligibility for this group would have a big effect.

6. Option 5 plus 10 percent exit effect

Total		(\$0.9)	(\$8.7)	(\$4.9)
	up-front job search	\$0.2	\$1.1	\$0.2
	AFDC	(\$0.8)	(\$9.5)	(\$7.2)
	food stamps	(\$0.2)	(\$1.7)	\$0.5
	training		\$0.0	\$0.2
	community service overhead		\$1.0	\$0.5
	child care		\$0.0	\$0.0
	housing vouchers		\$0.4	\$0.9

The most comprehensive package, including a reasonable (but probably controversial) effect on exit rates.

Very
Preliminary
WR-Budget