DEPARTMENT OF HEALTH & HUMAN SERVICES

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Here's part of it - I'll call you after our morning mtg.

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SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS
Senate Welfare Bill

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

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Simulates effects of full implementation in 1993 dollars

	Base Estimate	Alternative Assumptions		
		States Provide Child Benefit Vouchers After Time Limit; CBO Program Projection; Base Estimate Labor Supply Assumptions	CBO Projection of Program Growth Under Current Law	More Conservative Labor Supply Effect of Time Limit
Children Under 18				
Number in Poverty (Millions)	11.2	10.9	11.0	11.4
Change From Current Law	1.2	0.9	1.0	1.4
Poverty Rate (Percent)	16.2	15.7	15.8	16.4
Change From Current Law	1.8	1.3	1.4	2.0
Families With Children				
Number in Poverty (Millions)	19.2	18.6	18.7	19.5
Change From Current Law	2.2	1.6	1.8	2.5
Poverty Rate (Percent)	13.3	12.8	12.9	13.5
Change From Current Law	1.6	1.1	1.1	1.8
Poverty Gap (Billions)	20.6	18.9	19.4	21.0
Change From Current Law	4.4	2.7	3.2	4.8
All Persons				
Number in Poverty (Millions)	30.7	30.0	30.2	31.0
Change From Current Law	2.6	1.9	2.1	2.9
Poverty Rate (Percent)	11.8	11.6	11.6	11.9
Change From Current Law	1.0	0.8	0.8	1.1
Poverty Gap (Billions)	52.3	50.7	51.2	52.7
Change From Current Law	5.5	3.8	4.4	5.9

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The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effects of taxes (including EITC), Food Stamps, housing programs, ans school meal programs. Changes in government-provided health coverage is not included, nor are there any adjustments for medical costs.

SOURCE: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

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Income Distribution of House, Senate and Administration Budget Plans

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1/6 *Budget Plans: The Administration vs. Congress*

Both the Administration and the Congress have plans to balance the budget. The proposals are similar in several ways: they eliminate the deficit, provide tax cuts, and require spending reductions. However, the plans are quite different in how they treat families with different incomes. By planning to vastly reduce benefits to middle and low income families with children while providing substantial tax relief to the wealthy, the congressional proposals shift the burden of balancing the budget to the most vulnerable families -- working families with children and not much income. The Administration reaches a balanced budget in a more equitable manner by minimizing the impact of cuts on lower income families with children and targets tax relief to working families.

2/6 *What is an Income Distribution Analysis?*

This analysis was prepared in conjunction with

The Department of Health and Human Services and the Treasury Department prepared an analysis of the potential income effects of Congress' and the Administration's budget plans for families with children. The analysis illustrates how these effects would be distributed across families with a wide range of incomes -- essentially detailing which income groups will benefit and which will lose under the various budget plans.

What Is Included HEADER

There are two components to the income distribution analysis. One component measures the effect of the various tax plans on the after-tax income of different income brackets. The other is a benefit component, which shows the income effect of proposed cuts in programs such as AFDC, SSI, Food Stamps, WIC, child nutrition, housing assistance, energy assistance, federal retirement benefits, and some health benefits. The estimate of the impact of the proposed changes in benefits is conservative, as the analysis does not include the effect of proposed reductions in education, job training, transportation, and public health programs, or most of the proposed cuts to the Medicaid and Medicare programs. (A full explanation of what was measured is included with the distribution tables that follow this discussion.) Expand

What is not included

Results of the Income Distribution Analysis

An analysis of the effects of the Senate and revised House budget plans shows a dramatic imbalance. With the combination of tax, income and health benefit changes, families who earn below $50,000 would lose while those who earn over $100,000 would gain substantially. For example, under the House plan, families with below $30,000 are hit the hardest by benefit cuts. While the average family in this group would lose nearly $1,000 in income and health benefit cuts in the House proposal, the same family would receive only an average $11 tax break since many individuals would face significant tax increases. Under the Senate plan, these same families would lose an average of $863 in income and health benefits and, at the same time, pay *more* in taxes. Under the Administration's budget plan, families earning less than $30,000 would experience only a modest average reduction in income of $59.

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Taxes EITC tax

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The Administration provides modest tax relief to the ~~working class.~~ middle income families. Under the President's plan, the average family earning between $30-50,000 would get a tax break three times the size of those who earn over $200,000. By contrast, the House and Senate tax plans target their tax breaks to wealthier families. Their credits to those between $30,000 and $50,000 are about the same size as the Administration's. However, they give those with income over $200,000 an average of more than $3,200 in tax relief -- 13 times the tax reduction planned for the middle class. The Senate plan increases taxes for those who earn less than $30,000, while giving those who earn over $200,000 an average tax break of $3,416.

2. Reductions in Direct Benefits

The House and Senate have proposed very deep cuts in income and other assistance programs for low-income families. Welfare bills passed in both houses would convert the AFDC program to a capped block grant with reduced funding levels. Strict spending caps, entailing deep cuts and potentially including block grants, would be placed on the Food Stamps program. Large savings in both the Senate and the House would be taken from the SSI program. The House has also proposed deep reductions in child and school nutrition programs, and would cut housing and energy assistance programs that serve low-income families.

To balance the budget, improve efficiency and encourage work, the Administration's plan includes some necessary ~~cuts~~ reductions to low-income ~~benefit~~ programs. While the direct benefit change of the Administration's plan for families earning below $30,000 is less than $100, these same families would suffer a $438 loss in income under the House plan, and and a ~~$308~~ $243 loss under the Senate plan.

3. Reductions in Health Benefits

(Describe health cuts)

The House and Senate plans would reduce health coverage by $556 to those beneficiaries earning below $30,000. Under the Administration's plan, savings in health coverage would come from provider payment reform *without cutting the health coverage families receive*. In fact, an analysis of the President's plan would show that lower co-pays would actually reduce out-of-pocket medical costs for Medicare participants.

What Do the Result of the Distribution Analysis Mean?

This study illustrates that the cuts in the congressional budget plans disproportionately affect low and middle income families -- especially families with children. This imbalanced impact is especially striking when looking at the cumulative impact of the tax and benefit cuts across different income levels. An overall picture of the congressional budget plans, shows that cuts in benefits are deepest on the poorest families, while the tax breaks get larger as we go up the income scale. For example, the 20% of families with the lowest incomes -- families with children who can least afford an income cut -- would lose an average of $1500 in income and $1700 in health coverage under the House budget plan while those families with incomes over $100,000 would receive a an average of $4000 in tax relief.

While the House has modified its plans some since then, the Republican congressional plans, if enacted, would still exacerbate a troubling 20 year trend toward an increasing degree of income inequality. The results raise a fundamental question. Do we as a nation want to continue an effort to raise the incomes of the average families and to reduce the disparity -- particularly by rewarding work for people who have a low base of income? Or do we want to move in the other direction, drastically cutting benefits, and cutting the reward to work for low income working families in order to give a tax break to the people at the high end of the income distribution?

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Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Budget Plans

[redacted]

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SUBtotal (0-$50)

Annual Family Income (FEI)	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Tax Benefits				
Less than $30,000	40%	$11	-$54	$36
$30,000 to $50,000	21%	$251	$249	$251
$50,000 to $100,000	27%	$647	$693	$472
Over $100,000	12%	$1,620	$1,650	$288
Over $200,000	3%	$3,269	$3,416	$82
Top 1%		$5,422	$5,626	$69
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$994	-$863	-$95
$30,000 to $50,000	21%	-$332	-$291	-$38
$50,000 to $100,000	27%	-$202	-$177	-$26
Over $100,000	12%	-$284	-$257	-$20
Breakout of Income and Health Cuts				
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$438	-$243	-$95
$30,000 to $50,000	21%	-$136	-$97	-$38
$50,000 to $100,000	27%	-$82	-$83	-$26
Over $100,000	12%	-$89	-$77	-$20
Health Coverage Cuts				
Less than $30,000	40%	-$556	-$556	$0
$30,000 to $50,000	21%	-$196	-$196	$0
$50,000 to $100,000	27%	-$120	-$120	$0
Over $100,000	12%	-$195	-$195	$0

Family Economic Income (FEI) is a broad-based concept used in tax modeling. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

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House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Average Income and Health Coverage Loss Per Family By Quintile

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	House Budget Plan		Senate Budget Plan		Administration Plan	
AFI Income Quintile	Dollars	% of Income	Dollars	% of Income	Dollars	% of Income
Total						
Lowest	-$3,183		-$2,576		-$406	
Second	-$1,277		-$1,093		-$214	
Third	-$449		-$379		-$89	
Fourth	-$169		-$165		-$40	
Highest	-$187		-$169		-$38	
Income Changes						
Lowest	-$1,521	-10.5%	-$781	-5.4%	-$316	-1.9%
Second	-$599	-2.5%	-$381	-1.6%	-$178	-0.5%
Third	-$249	-0.5%	-$160	-0.5%	-$78	-0.2%
Fourth	-$89	-0.2%	-$85	-0.2%	-$36	-0.0%
Highest	-$107	-0.1%	-$97	-0.1%	-$35	0.0%
Health Changes						
Lowest	-$1,662		-$1,662		-$90	
Second	-$678		-$678		-$36	
Third	-$200		-$200		-$11	
Fourth	-$80		-$80		-$4	
Highest	-$80		-$80		-$3	

Tax changes (EITC and child tax credit) are not included. Including them would make the cuts deeper for the lower quintiles, while showing net benefit increases for the upper quintiles.

Adjusted family income ranks families based on their income as a percent of the poverty line. These results should not be added to Treasury's FEI tables, which do not include family size in the ranking factors.

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POVERTY ANALYSIS OF THE HOUSE AND SENATE PLANS

The following tables compare the effects of the House, Senate, and Administration Balanced Budget plans on the number of persons and children with incomes below the poverty line, and the size of the poverty gap (a measure of how far below poverty people are). The tables also show the separate effects of welfare bills, which ~~are about~~ 1/10 (Senate) to 1/6 (House) of the overall outlay reductions in the ... cuts the ~~they would~~ use to eliminate the deficit and fund a large tax cut.

make up 90 of the

There are two sets of poverty tables. One uses the pre-tax cash definition of income Census uses for the official poverty statistics. However, this gives an ~~incomplete~~ picture of the changes, since many of the budget cuts raise taxes on low income families and reduce their Food Stamps and medical coverage. As a result, the primary analysis incorporates a commonly used alternative definition of income that includes the effects tax policies (including the Earned Income Credit), and near-cash in-kind assistance programs such as Food Stamps and housing programs. (The text below discusses only the more comprehensive definition.)

partial

distributional - better picture

How should these results be interpreted?

~~A well-done~~ The poverty analysis can complement a distributional analysis, but cannot provide as much information. There are several reasons for this:

- Estimating the change in the number of people below poverty does not tell you how much these people would lose -- only how many who are a little above poverty would lose enough to drop below it.

- Estimating the change in the poverty gap gives some information on how far below poverty people are dropped. However, policies that hit those who are 10% to 25% above the poverty line will not have an appreciable effect on the poverty gap -- but will be highlighted by a distributional analysis.

- There is no commonly agreed-upon way to include the effect of changes in health coverage in poverty analysis. While the lost health coverage could be included in a distributional analysis, ~~it could~~ is not be incorporated into the poverty analysis.

- Whether or not people are in poverty is based on annual income -- while most low income families live from month to month.

- Poverty analysis is sensitive to assumptions about economic growth in ways that distributional analysis is not. Improved economic growth resulting from a balanced budget should enable more poor families to find jobs -- as has already happened since the Clinton Administration reduced the deficit in half. However, they would still be badly hurt by the cuts in Food Stamps, the earned income tax credit, and the loss of medical coverage -- which the distributional analysis highlights well.

- The number of people in poverty is dependent on estimates of work effort and the number of jobs available when individuals reach the time limit. While waivers that include time limits do exist, no State has reached one. Therefore, there is no prior experience on which to base an estimate of these effects on poverty.

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POLICY CHANGES THAT COULD IMPROVE THE RESULTS

The Administration has repeatedly recommended ~~improvements to the welfare~~ proposals of Congress to enact ~~real welfare reform that is tough on work, not on children.~~ These policies were recommended by the Administration in both the welfare and balanced budget proposals, and in letters from the Administration to Congress. We modeled these policies to determine their effects on poverty and found that they would ~~reduce the number of people adversely affected by~~ the Senate bill by -----, and the number of children by ----. ~~The improvements recommended by~~ the Administration include:

- *A more balanced deficit reduction plan.* Using the Administration's timetable for balancing the budget, selecting a different mix of cuts, and not giving large tax breaks to rich households would make the biggest difference in the number of children moved into poverty. Adopting the Administration's balanced budget plan would eliminate three quarters of the child poverty effect of the House budget plan and two thirds of the child poverty effect of the Senate budget plan.

~~FS, SSI Budget~~

- ~~*Do not cut AFDC as deeply.*~~ Each $1 billion reduction in Federal or State AFDC benefit funding moves 80,000 **[is this number still right?]** children into poverty. Less deep Federal cuts, and provisions that discourage States from "racing to the bottom" would reduce the estimates of those moved into poverty.

- (3) *Performance bonuses for States.* When the Senate added performance bonuses for States with good work programs, they funded them by cutting the block grant funding available for cash assistance. Adding money for performance bonuses -- rather than cutting ~~children to pay~~ them -- could keep __ ~~children out of poverty~~.

- (2) *Vouchers for children.* Children need to be protected from destitution and homelessness if their parents cannot find a job when a time limit ends. Providing vouchers in the amount of the child's benefit after time limits ~~could keep __ children out of poverty~~.

& Maintain State contribution

- (2) *Better contingency funding.* The poverty effects will be much worse than estimated if the economy moves into recession -- or is crashed by too-rapid budget cuts. The Senate's too-small contingency funding would run out and end in a few years. Adequate contingency funding would protect children from unexpected changes in the economy and increases in unemployment. While the effect on poverty would be modest under current unemployment projections, children need this protection if unemployment rises.

People Welfare to work

- (4) *Additional funding for child care.* The poverty effects of welfare reform depend, in part, on how many people get jobs -- and single mothers need child care to go to work. By 2002, the Senate bill would fund less child care than under current law. More child care funding is needed first to help ensure that the labor supply estimates included above are not too optimistic, and to relieve financial pressure States might otherwise feel to cut even cash assistance even more to pay work and child care costs.

- Child Support CSE — $50 pass thru
- (1) Food Stamps
- SSI

Interaction

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Poverty Effect By Program

Additional Number of Children In Poverty Under Alternative Proposals (In Millions)

	Senate Plan		Administration Plan
	Welfare Bill	Entire Plan	
Food Stamps	.45	.45	.40
SSI	.20	.20	.10
AFDC, Other Than Time Limit	.20	.20	
AFDC Time Limit	.50	.50	
Other Changes (Labor supply, Child Nutrition)	-.10	-.10	
EITC		.50	
Total	1.25	1.75	.50

Numbers under Review

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ASSUMPTIONS MADE TO ANALYZE THE POVERTY IMPACTS OF THE SENATE WELFARE REFORM BILL

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ASSUMPTIONS ABOUT STATE BEHAVIOR

An analysis of the impact of any welfare reform or budget plan on the number of people in poverty cannot depend only on the plan itself. Other factors, such as the health of the economy and States behavior also have an important impact -- yet these factors cannot be easily predicted.

For example, given the Senate welfare plans and appropriations cuts, states and the residents of the states, will be faced with less money for many social and health programs than current law projections. In addition, the incentive structure for states to spend additional dollars will be dramatically altered. Under the current federal-state partnership when a state spends an additional state dollar on Medicaid, AFDC, JOBS, or child care the federal government matches that dollar with one to four dollars depending upon the state and/or the program. Under the basic block grants, every new dollar spent by a state is a state dollar and there are no additional federal dollars; that is a tremendous loss to the states.

How States might react in the larger context of fiscal restraint and increased state flexibility must be considered in performing an income distribution and poverty analysis. Since these factors are unpredictable, as part of the analysis a number of assumptions must made regarding state behavior. These assumptions include:

(A) States freeze cash assistance federal and state benefit spending at nominal 1994 levels;

(B) States use additional cash assistance benefit savings from families made ineligible due to the five year time limit to fund the necessary work program and related child care;

© States do not use state dollars to provide cash assistance benefits beyond the five year federal limit;

(D) States do not choose to the option to impose a shorter time limit (e.g., 24 or 36 months) on cash assistance recipients;

(E) States fully use the hardship exemptions to the federal time limit (that is, 10% of the caseload in the House plan and 20% in the Senate plan).

(F) No state elects to deny benefits to optional groups as permitted under the Senate plan (e.g., a family cap, teenage parents). No state elects to treat interstate migrant under the rules of their former state;

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(G) States continue to provide working-poor child care;

(H) States continue the entitlement to cash benefits, that is, they continue to serve all families who meet the state plan eligibility requirements and apply;

(I) States only spend sufficient dollars to draw down their Medicaid block grant allotment;

(J) No state elects a food stamp block grant.

Cash Benefits

The key assumption underlying the income distribution analysis is that states maintain 100 percent of their fiscal year 1994 level of spending on cash assistance benefits (formerly AFDC benefits) while spending sufficient block grant and state dollars to meet the work requirements and provide necessary child care. As part of this assumption, that portion of the federal block grant that is based on 1994 federal benefit spending continues to be spent on cash benefits.

To hold spending constant at overall 1994 nominal levels, there are a variety of ways in which states could restrict eligibility or reduce benefits. For example, states could choose to eliminate benefits for particular groups of current recipients such as the two parent program and teenage mothers and their children or impose an across the board cut to benefits to spread the cut proportionately over their entire population. States could also create waiting lists for cash assistance much as they currently do for child care subsidies when dollars are insufficient to meet demand. In this analysis, it is assumed that states institute an across-the-board cut in benefits and maintain the entitlement (i.e., all those eligible under the state plan will be served). In this way, some families will be made ineligible for benefits while those still eligible will receive lower monthly benefits.

The assumption includes that benefit savings to states for families who exceed the five-year time limit and are denied further cash assistance will be reinvested in maintaining the states commitment to meeting the mandated work requirements and providing child care for the working poor. It is further assumed that states would not continue to support families beyond the five-year limit with state only cash assistance. The projected costs for the work program (including program operations and related child care) exceed the amounts provided in the federal block grant by $6 billion in the year 2002. The state share of savings from reduced benefits and the time limit is projected to be $5.5 billion in the same year. States will be hard pressed to meet the work program demand on their resources and pay for needed child care for the working poor; they will not be able to pay additional benefits to those who exceed five years of cash assistance receipt.

It is a given that once a block grant goes into effect, states will have to make reductions in benefits or services. Yet states are just beginning to formulate responses. The state of Maryland appears to be in the forefront in developing responses to the cuts. Maryland projects a best-case scenario of state and federal budget cuts relative to 1995 of $43 million in fiscal year 1996 to $112 million in fiscal year 1999. These estimates take into account the fact that new requirements costing millions of dollars will be in effect. An analysis of the worst case scenario shows reductions of $77 million in fiscal year 1996; rising to $180 million in fiscal year 1999. Proposals for the shortfall include benefit reductions of 10% to 30% and reductions in the energy assistance program. A benefit reduction of 10% would lower benefits by $37 per month. The benefit for a family of three would be decline from a 1995 level of $373 to $336. A benefit reduction of 30% would lower benefits by $112 per month for a family of three.

Just as important, it is assumed that no state institutes harsher, shorter time limits as allowed under the welfare plan. This assumption is made even though through the HHS waiver process there is ample evidence that once freed from federal oversight many states will impose time limits of 24 or 36 months. To date, 21 states have received approval for time limiting AFDC benefits. In 15 of these states the time limits will be implemented statewide. Most of the time limits are either 24 or 36 months. HHS has not approved "cold-turkey" time limits, in which a family is denied aid in spite of "playing by the rules." HHS has had extensive negotiations over what happens when families reach the time limit with every state for which it has approved a time limit. All the states that have approved waivers for time limits have initially asked for much harsher policies with fewer extensions. Once states have the latitude to institute time limits without federal waivers and without a policy of providing some manner of aid for families that have played by the rules, it is likely that cold turkey time limits of less than five years will be implemented in many states. As states face increasing budgetary pressures, they will likely reduce expenditures by instituting shorter time limits.

States are assumed to use all hardship exemptions. While some states may do this, it is not likely for most states because the block grant does not go up and for every two people to which the state extends the exemption, it has to put an additional person to work because of work requirements. States may not be able to meet the work participation requirements if too many exemptions are given.

Medicaid

The Medicaid block grant maintains the federal-state fiscal partnership with the federal government providing states with one to four dollars for every state dollar spent but subjects this arrangement to a funding cap. Therefore, states are assumed to spend sufficient state dollars to draw down their entire allotment of the federal block grant. This implies that total Medicaid spending will be reduced by 35% in the year 2002. As with cash assistance and its related programs there is no financial incentive for states to spend additional dollars; every additional dollar is a state-only dollar and brings no additional federal dollars to the state.

Methodology

RANKING HOUSEHOLDS AND DEFINITIONS OF INCOME

Ranking Households. There are two types of distributional analysis included in this document. Tables that include tax analysis are based on Family Economic Income, and are not adjusted for family size. Tables that focus on spending cuts affecting families with children are based on Adjusted Family Income, similar to analysis CBO has done in the past. Tables based on FEI and AFI should not be added together, since they do not rank families in the same way. An FEI quintile table includes 20% of all households in each quintile, and ranks them by the absolute dollar level of income. An AFI table ranks households by their income as a percent of the poverty threshold for a family of that size. Since it adjusts for family size, it also places 20% of persons into each quintile, rather than 20% of households. In addition, the definitions of income are not identical.

Family Economic Income (FEI). Family Economic Income is a broad-based concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Adjusted family income (AFI). Adjusted family income is derived by dividing family income (after-tax cash income plus food, housing, school lunch, and other near-cash assistance provided by the government) by the poverty level for the appropriate family size.

MODELING OF TAX CHANGES

The change in Federal taxes is estimated at 1996 income levels but assuming fully phased in law and long-run behavior. The effect of the back-loaded IRA (ASDA) proposal is measured as the present value of tax savings on one year's contributions. The effect of the prospective capital gains indexing proposal is the fully phased in tax savings, multiplied by the ratio of the sum of the present value of prospective capital gains indexing over 17 years to the sum of the present value of fully phased in indexing over 17 years, holding realizations constant. The effect on tax burdens of the proposed capital gains exclusion and prospective indexing are based on the level of capital gains realizations under current law. Provisions which expire before the end of the budget period and provisions which affect the timing of tax payments but not liabilities are not distributed. The incidence assumptions for tax changes is the same as for current law taxes.

This analysis estimates the impact of H.R. 4, the reconciliation bill, and appropriations bills as passed by the House and Senate. Provisions of H.R. 4 that are analyzed include the AFDC block grant and benefit prohibitions, and changes to the SSI and Food Stamp programs. Reconciliation actions that are analyzed include changes to housing assistance, Medicare, and Medicaid. A detailed list of the provisions that are included begins on the following page. The analysis also estimates the impact of policy proposals that are included in the Administration's budget which include changes to SSI eligibility for children, Food Stamp program changes, immigrant provisions and Medicaid proposals.

MODELING OF SPENDING CUTS

The analysis focuses on changes in policy that will directly affect family income. It does not include the effects of changes in services provided, such as more difficult access to health care services resulting from reductions in Medicare payments to health care providers, or reduced job training or Head Start funds.

As with most studies this complex involving numerous assumptions, it can be argued that some aspects of the assumptions overstate and others understate the impacts of the proposals. These estimates attempt to provide an accurate picture of the impact of the proposals on income. The goal of the study was to undertake a balanced analysis which would yield a credible as well as a relatively conservative estimate. Several factors and decisions have contributed to what, on balance, is a reasonable estimate. First, as described above not all provisions are modeled. Second, the data do not identify all persons who would potentially be affected by the program cuts. For example, we assumed that none of the Medicare provider cuts affect beneficiaries, the estimate of the number of non-citizens affected is lower than Administration or CBO estimates, and the study assumes that no states implement the option to block grant food stamps. These estimates do account for interactions between proposals.

Furthermore, the model makes relatively conservative assumptions regarding state maintenance of effort in the AFDC and Medicaid programs and the labor supply response of persons who lose AFDC benefits. The study assumes that states do not reduce state spending in response to the block granting of AFDC. Instead, it is assumed that states, at first, follow the Federal lead and keep benefits, on average, at the 1994 levels implicit in the block grant. The study assumes that later they reduce benefits and child care subsidies only enough to offset the decline in Federal dollars, while accounting for the savings resulting from the reduction in caseload and benefits from other provisions. Under the Medicaid block grant, state funds would be matched up to a Federal cap. The study assumes that states would spend only enough to receive their full Federal allotment (this assumption only affects the estimate of the value of health benefits and does not affect the poverty rates). Some states might actually increase their level of effort after a block grant. However, it is likely that the aggregate state maintenance of effort will decrease over time.

The study also incorporates a labor supply response to the time limit. For estimating the effects of the House proposal; the labor supply response (i.e. the subsequent work effort of persons who lose benefits) assumes that 20 percent of cases denied AFDC because of the time limit will go to work part-time at a wage rate equal to the median wage of women who formerly received AFDC and then went to work. These assumptions are based the limited skills and work experience, low scores on tests of aptitude, and chronic health and other problems of these long-term recipients.

The Senate assumptions are based on the work of academic researchers and the work efforts of single mothers who don't receive AFDC but have similar characteristics. The study estimates that more than 40 percent of long-term welfare recipients will work at least part-time when they lose AFDC benefits due to the time limit. The average earnings for all recipients, including those with no earnings, would be $4,700 per year, and the highest ten percent would earn an average of $24,500 per year. Given the limited skills and work experience, low scores on tests of aptitude, and chronic health and other problems of these long-term recipients, these assumptions are likely to be optimistic.

The overall estimates in this analysis were obtained using the Department of Health and Human Services' TRIM microsimulation model. TRIM (for Transfer Income Model) is based on a nationally-representative sample of the non-institutionalized U.S. population, the March Supplement of the Current Population Survey. This survey of about 60,000 households is conducted monthly by the Census Bureau and the Bureau of Labor Statistics. Using the survey data, TRIM computes income, benefits, and taxes for each person under current law, then aggregates these individual amounts for U.S. totals. These current law totals can then be compared to similarly computed estimates for the alternative policies contained in the Congressional proposals.

The tables that show impacts by income quintile and family type use a definition of income similar to that of the Census Bureau in calculating the official poverty count, but the definition captures more fully the effects of government policies. For these tables, most cash and near-cash income as well as taxes are counted when determining income. That is, this definition of income counts all cash income as the Census does, but adds the value of food stamps, school lunches, the Earned Income Tax Credit (EITC), and housing assistance and deducts from income the employee portion of Social Security (FICA) and federal income taxes.

The tables compare the impact of the House and Senate Republican plans with current law and show a single-year impact of the proposals as if they were fully implemented in 1996 dollars. The following proposals were included in each analysis:

Analyses of the House Passed H.R. 4

AFDC

- Deny benefits to non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 10% hardship exemption
- Eliminate the $50 child support pass-through
- Deny cash benefits to parents younger than age 18 with children born out-of-wedlock

- Deny benefits for children born or conceived while the mother received AFDC

SSI
- Deny benefits to non-citizens, with certain exemptions
- Deny cash SSI Disability benefits to non-institutionalized children, with some exceptions

Food Stamps
- Deny benefits to non-citizens, with certain exemptions
- Limit the annual benefit increase to 2% per year
- Freeze the standard deduction at 1995 levels
- Reduce and freeze the excess shelter expense deduction at 1995 levels
- Count state and local energy assistance as income when determining eligibility and benefits
- Require single, childless adults to participate in work or training after 3 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support
- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs
- Establish a school nutrition block grant at reduced funding levels
- Combine CACFP, WIC, and Summer Food into a single block grant at reduce funding

Analyses of House Actions

Includes all the provisions of H.R. 4 above plus:

Housing
- Impose a minimum rent of $50
- Increase the proportion of income paid for rent from 30% to 32% for Section 8
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Eliminate new Section 8 certificates

Medicare
- Increase Part B premiums from 25% of program costs to 31.5% of program costs for all beneficiaries, except increase them to 100% of program costs for single beneficiaries with income over $100,000 and couples over $150,000 and increase them linearly from 31.5% to 100% of program costs for singles between $75,000 and $100,000 and couples between $100,000 and $150,000
- Reduce managed care benefits for beneficiaries currently enrolled in HMOs

Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $182 billion between 1996 and 2002

Other Actions

- Eliminate the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Reduce the pension benefits of future Federal retirees
- Limit government contributions for Federal health benefits
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

Analyses of Senate Passed H.R. 4

AFDC

- Limit participation and benefits of non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 20% hardship exemption
- Eliminate the $50 child support pass-through

SSI

- Deny benefits to non-citizens, including current recipients, with certain exemptions
- Restrict SSI Disability benefits to children meeting the medical listings

Food Stamps

- Limit participation and benefits of non-citizens, with certain exemptions
- Reduce and freeze the standard deduction
- Count all energy assistance received as income when determining eligibility and benefits
- Reduce the maximum benefit
- Require children 21 and younger in the household to file with parents
- Require single, childless adults to participate in work or training after 6 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Round down reimbursement rates and delay indexation
- Implement a two-tier means-test for benefits in family day care homes.

Analyses of Senate Actions

Includes all the provisions of the Senate passed H.R. 4 above plus:

Food Stamps

- Reduce and freeze the standard deduction further than in H.R. 4

Housing

- Impose a minimum rent of $25 in public housing
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Reduce the number of new Section 8 certificates

Medicare

- Increase Part B premium to $89 in 2002
- Set income-related threshold for premiums to $50,000 for individuals and $100,000 for couples; premium hits 100% of program costs for individuals at $100,000 and for couples at $150,000
- Increase the Part B deductible to $210 in 2002
- Reduce managed care benefits for beneficiaries currently enrolled in HMOs

Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $182 billion between 1996 and 2002

Other Actions

- Reduce funding for the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Delay the cost-of-living adjustment of Federal retirees
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

Analyses of Administration's Budget

SSI

- Restrict SSI child disability benefits for new applicants to those meeting the medical listings

Food Stamps

- Set the maximum allotment equal to the cost of the Thrifty Food Plan
- Count all energy assistance received as income when determining eligibility and benefits
- Require children under age 18 in the household to file with parents
- Eliminate indexing of $10 minimum benefit for small households
- Reduce the standard deduction in 1996 and 1997; resume indexing in 1998

Child and Adult Care Feeding Program (CACFP) Subsidies

- Reimburse meals served in Family Day Care in designated low-income areas to children below 185 percent of poverty applying for benefits, and to children in homes operated by a low-income provider at current law tier 1 rates
- Implement a two-tier means-test for benefits in family day care homes.

Immigrant Provisions

- Extend sponsor deeming period under the SSI, AFDC, and Food Stamp programs
- Establish a "two-tier" deeming policy under SSI, AFDC, and food stamps
- Sponsored immigrants whose sponsors' income exceeded the median family income would continue to be subject to deeming until the immigrant became a U.S. citizen
- Deeming rule changes are applied prospectively; current recipients would maintain eligibility as long as they remained continuously eligible
- Eliminate "PRUCOL" eligibility and replace with specific immigration status requirements for AFDC, SSI, and Medicaid eligibility; apply this policy prospectively to new applicants only.

Medicare

- Reduce provider payments

Medicaid

- Medicaid provisions result in a 5.4 percent reduction in total Medicaid spending

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POTENTIAL POVERTY EFFECTS OF CONGRESSIONAL WELFARE REFORM BILLS AND BUDGET PLANS AS WELL AS THE DISTRIBUTIONAL IMPACT OF CONGRESSIONAL AND ADMINISTRATION BUDGET PROPOSALS

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November 8, 1995

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OVERVIEW

This report provides two analyses: (1) an analysis of the potential impact on poverty of the House and Senate welfare reform bills and Senate Democratic alternative, and of the House and Senate budget plans; and (2) an analysis of the distributional effects of the House and Senate budget plans and a preliminary analysis of the Administration's plan.

Today, millions of poor children are stuck in a welfare system that discourages work and responsibility, breaks up families, and fails to move people from poverty to independence. Most Americans, without regard to party, agree that we must reform welfare by imposing time limits, requiring people to work, demanding responsibility from young mothers and fathers, and strengthening families.

Over the past two-and-a-half years, the President has taken executive action, encouraged state experimentation, and spearheaded national legislation to reform the nation's failed welfare system. He cut taxes for working Americans by expanding the Earned Income Tax Credit (EITC), which rewards work over welfare; he signed an Executive Order to crack down on Federal employees who owe child support; he has granted 35 States the freedom to experiment with initiatives to move people from welfare to work; and he directed that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher food stamp benefits when their welfare checks are docked.

Throughout the welfare reform debate, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the risks to children if they do not. The President endorsed the welfare reform bill sponsored by Senators Daschle, Breaux, and Mikulski, which every Senate Democrat supported. When that measure failed, the Administration worked with Senators in both parties to secure important improvements in the final Senate bill. In letters to Congress on welfare reform and budget reconciliation, the Administration has repeatedly called for other improvements.

As the President said in his Sept. 16 radio address, praising the bipartisan improvements that the Senate made,

> Despite the progress we've made, our work isn't done yet. We'll be working hard on this bill over the next few weeks to make sure the right incentives are there to move people from welfare to work, to make sure children are protected, and that states not only share the problem, but have the resources they need to get the job done. And we'll be working hard to build on the bipartisan progress we've made this week.

In that spirit, this report recommends:

- **Maintaining and strengthening improvements in the Senate welfare reform bill**: Providing the child care that mothers need to leave welfare for work; requiring states to maintain their financial effort; providing an adequate contingency fund to protect states and families in economic downturns; giving states performance bonuses for transforming their welfare systems to place people in jobs; preserving child welfare, Food Stamps, and child nutrition programs; and letting states decide for themselves whether to impose policies like the family cap.

- **Additional improvements in welfare reform**: Providing vouchers to children whose parents reach the 5-year time limit and cannot find work; and preserving the $50 child support pass-through.

- **A more balanced deficit reduction plan:** Rejecting efforts to cut the EITC; rejecting a Medicaid block grant; and moderating cuts in Food Stamps and Supplemental Security Income (SSI).

Done right, welfare reform will help people move off welfare so they can earn a paycheck, not a welfare check. Done wrong, it will cause harm and fail to transform a broken system. With House and Senate committees meeting to work out their differences on their respective welfare reform and reconciliation bills, this report underscores the importance of working on a bipartisan basis to build on the Senate's progress, not turn back toward the House legislation.

Any serious plan to balance the budget in the coming years will include some cuts in programs that affect low-income Americans. We must make sure, however, that the cuts and benefits in a budget plan are distributed equitably, and that program reforms are designed to reward work and independence so that people can lift themselves and their children out of poverty.

After all, this year's efforts to balance the budget come after two decades of income stagnation and rising economic inequality. Since the early 1970s, most Americans have worked harder and harder just to stay in place; many have fallen behind. At the same time, the gap between rich and poor has reached its widest point since the government began to track it in 1947.

From the start, the President's economic program was designed to address these two problems. The Administration worked with the last Congress to cut the budget deficit in order to increase national savings, freeing up capital with which businesses could invest and, thus, create more high-wage jobs. While freezing overall discretionary spending, the Administration shifted public resources toward investments in education and training in order to enhance the skills of our future workforce, enabling them to compete better in the global economy. Because trade-related jobs, on average, pay more than other jobs, the Administration opened new markets across the globe for U.S. goods. Because no working family should have to live in poverty, the Administration sought to "make work pay" by expanding the EITC. And because welfare should provide a second chance, not a way of life, the Administration proposed a dramatic plan to "end welfare as we know it."

As the distributional analysis shows, both the House and Senate budget plans would exacerbate the trend toward rising income inequality; they would provide huge tax breaks for those who don't need them and finance them with deep cuts in benefits to middle- and low-income families with children. With the combination of tax, income and health benefit changes taken into account, families earning under $50,000 would pay more while those earning over $100,000 would pay less. Families with incomes of under $30,000 would be hit the hardest.

The President's plan, by contrast, would minimize the impact of cuts on low- and moderate-income families with children. At the same time, it would target tax relief to working families with children.

On poverty, in particular, this report includes two kinds of tables. One uses the pre-tax cash definition of income that the Census Bureau uses for official poverty statistics. The other incorporates a broader definition that takes into account tax policies such as the EITC and near-cash in-kind assistance, such as Food Stamps and housing. Neither definition includes proposed changes in health coverage, which would have dramatic impacts on low-income children -- far beyond changes in Aid to Families with Dependent Children (AFDC).

Under the broader definition of poverty, the House welfare reform bill could move 2.1 million children below poverty. Improvements included in the Senate bill have cut that number by nearly half, to 1.2 million. The Senate Democratic welfare bill could move 100,000 to 500,000 below poverty.

These numbers, however, do not reflect some gains that the Administration's economic policies have made in reducing poverty. For instance, they do not reflect the recent Census Bureau finding that the number of people in poverty fell by 1.2 million between 1993 and 1994, nor the fact that Food Stamp rolls have dropped by 2.0 million since March 1994.

No one, of course, can predict the future of poverty with any precision. The Administration's poverty analysis is based on long-term projections for full implementation of the changes, which do not try to predict a number of important variables that far into the future -- e.g., job growth, marriage and birth rates, and the long-term behavioral impact of a fundamental change in the culture of welfare.

If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy help promote work and responsibility and reduce births outside marriage, more people will lift themselves out of poverty and fewer will find themselves there in the first place. If, however, we do not enact real welfare reform that moves people from welfare to work and fails to reduce teen pregnancy and slow the growing rate of births outside marriage, the declines in poverty of the last two years will be reversed.

POVERTY ANALYSIS OF THE WELFARE REFORM AND BALANCED BUDGET PLANS

Changes in taxes and benefits proposed in the various budget and welfare plans will significantly affect income. Some of these proposed changes will move people across the poverty line. The poverty line was developed in the 1960s based on the amount of income estimated to be necessary for a family to sustain itself. It is adjusted annually by changes in the consumer price index, and varies by the number of children, elderly, and other persons in the household. In 1994, the average poverty threshold for a family of four was $15,141.

This analysis includes two kinds of poverty tables. One uses the pre-tax cash definition of income that the Census Bureau uses for the official poverty statistics. The other table incorporates a commonly used alternative definition of income that is broader than the official poverty definition and takes into consideration a wider range of factors relating to income. It includes, for example, the effects of tax policies (including the Earned Income Credit) and near-cash in-kind assistance programs such as Food Stamps and housing programs. The discussion below references only the broader definition. Neither definition includes proposed changes in Medicaid and Medicare.

The following tables compare the potential effects of the House and Senate balanced budget plans on the number of persons and children with incomes below the poverty line, and estimate the effects these proposals have on the size of the poverty gap -- a measure of how short of the poverty thresholds a family's income falls. The tables also show the separate effects of the House-and Senate-passed bills welfare bills and the Senate Democratic welfare reform alternative, which every Democratic Senator supported and the Administration endorsed. The analysis estimates the impact on poverty at full implementation, which will be reached in most program provisions by the year 2002.

How should these results be interpreted?

A poverty study complements the distributional analysis that follows -- but it cannot provide as much information. There are several reasons why the distributional analysis provides a more comprehensive picture:

- Estimating the change in the number of people below the poverty line does not necessarily provide information on the change in individuals' well-being -- it only shows how many of those currently above the poverty line move below it. For example, a measure of poverty status cannot show the significant impact of income loss on the millions of families already below the poverty line .

- Estimating the change in the poverty gap gives some information on how far below the poverty line people's income moves. However, policies that affect those who are 10% to 25% above the poverty line will not have an appreciable effect on the poverty gap -- but will be highlighted by a distributional analysis.

- There is no commonly agreed-upon way to include in a poverty analysis the effect of changes in health coverage which are dramatic in both the House and Senate budget plans. While the lost health coverage is included in the distributional analysis, it is not part of the poverty analysis.

SUMMARY OF RESULTS

Progress since January 1993

The policies of this Administration have already reduced poverty in America and will help to offset the potential impact on poverty of possible cuts that could be enacted as part of any effort to reform welfare and balance the budget:

Effect of 1993 changes. The EITC and Food Stamp changes enacted in 1993 had a significant impact on low income working families. At full implementation, these changes would move 1.4 million persons, including 0.8 million children, out of poverty under the post-tax, post near-cash transfer definition of poverty. (See the first two columns in the next table.) The current House- and Senate-passed budget plans would repeal significant portions of these expansions.

Economic progress. The Clinton Administration has cut the deficit in half and expanded the economy. The Census Bureau recently reported that, under the pre-tax cash definition of income used for official poverty statistics, there were already 1.2 million fewer people, including 0.4 million children, below poverty in 1994 than in 1993. Under the more comprehensive definition of income, there were 0.6 million fewer poor children in 1994 that in 1993. (The change for all persons was 1.2 million.) Similarly, the Food Stamp rolls have dropped by 2.0 million people -- 7% -- since they peaked in March 1994.

House and Senate Welfare Reform Bills

Number of children in poverty. Under the broader definition of income, the House welfare reform bill could move 2.1 million children below poverty. Improvements included in the Senate bill cut that number by nearly half, to 1.2 million. The Senate Democratic welfare reform bill, on the other hand, move only 0.1 million to 0.5 million children below poverty[1].

Variables not included in poverty analysis. It is important to put these numbers in perspective. The poverty analysis is based on long-term projections that do not attempt to predict a number of important variables far into the future: effect of deficit reduction on job growth; marriage and birth rates; and the long-term behavioral impact of a fundamental change in the culture of welfare. If work based welfare reform, tough child support enforcement, and a national

[1] The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

campaign against teen pregnancy succeed in promoting work and responsibility and reducing births outside marriage, more people will move themselves out of poverty and fewer people will find themselves there to begin with.

House and Senate Budget Plans

Number of children in poverty. The House budget plan could move 2.3 million children into poverty. The Senate Budget plan could move 1.7 million children into poverty -- as many as 500,000 as a result of deep cuts in the EITC.

Health care cannot be included in poverty analysis. The House and Senate budget plans would put millions of poor children at risk of losing medical coverage. These effects are not included in the poverty analysis but they would make millions of children worse off.

POLICY RECOMMENDATIONS TO PROMOTE WORK AND MINIMIZE THE IMPACT ON CHILDREN

Any comprehensive plan to balance the budget within the next decade will require spending cuts, some of which will affect low-income Americans. In its balanced budget plan, the Administration has sought to make sure that cuts and benefits are distributed equitably.

Throughout the budget and welfare reform debates, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the potential risk to children if they do not. Many of these improvements were included in the Senate-passed welfare reform bill. Others have been recommended repeatedly by the Administration in letters to Congress on welfare reform and budget reconciliation.

The following policies which the Administration has called for would significantly decrease the potential impact on children, and increase the prospect that people will bring their families out of poverty through work:

A. Maintain and Strengthen Improvements in the Senate Welfare Reform Bill

The Senate adopted a number of bipartisan improvements over the House bill that significantly increase the prospects for people to leave welfare for work and reduce the risks that children will be harmed. These include rejecting House provisions that would block grant child welfare and child nutrition programs and mandate the family cap and the cutoff of unwed teen mothers, and instead adopting the following measures to promote work and protect children:

- **Child Care.** The poverty effects of welfare changes depend in large part on how many people get jobs. In particular, welfare reform should provide the child care mothers need so they can leave welfare for work. The House bill cuts child care funding. The Senate increased child care funding by $3 billion over the next five years. But the impact of that improvement is not captured in this poverty analysis because the child care funding increase in the Senate bill expires after the year 2000. (This analysis is modeled on full implementation; generally 2002.) Making that increase in child care permanent would reduce the poverty impact in two ways: by improving the prospects for recipients to leave welfare for work, and by reducing the pressure on States to divert money away from benefits in order to pay for child care.

- **Contingency Fund and Maintenance of Effort.** Another critical variable is how States respond, especially in the event of an economic downturn that would increase caseloads and reduce revenues. The House bill includes an inadequate rainy day loan fund and no requirement for states to maintain their effort. The Senate bill includes a $1 billion contingency grant fund and an 80% maintenance of effort requirement. The Administration has sought to maintain and strengthen these improvements through a tightly drawn, permanent maintenance of effort provision and a contingency fund with a more effective trigger mechanism and a greater amount of funds in reserve. The Administration and CBO project that the current Senate contingency fund will run out in a few years even with a growing economy, so it should be strengthened to provide states and families greater protection in a serious recession.

- **Performance Bonuses.** For welfare reform to succeed in moving people from welfare to work, states will need to transform the culture of welfare to reward success instead of failure or the status quo. The House bill gives states a perverse incentive to save money by throwing people off the rolls, and lets them count people as "working" if they were simply cut off welfare -- whether or not they have moved into a job. The Senate added performance bonuses for states with successful work programs, but funded them out of the overall block grant. Providing additional money for performance bonuses -- rather than reducing the block grant to pay for them -- would increase the number of people who leave welfare for work and reduce the number of children at risk.

B. Other Improvements in Welfare Reform

The Administration has recommended two other improvements to the Senate welfare reform bill that would reduce the potential impact of the final legislation on children:

- **Vouchers for Children.** The Senate Democratic welfare reform bill, which the Administration endorsed, provided vouchers for children whose parents reach the 5-year time limit and cannot find work. Requiring or allowing states to provide vouchers in the amount of the child's benefit after the time limit would reduce any potential impact by ensuring that children receive adequate housing and other necessities.

- **Child support for AFDC families.** Families on welfare currently receive the first $50 of child support that their absent parents pay. The House and Senate bills would eliminate this provision.

- **Moderate Food Stamp cuts.** The House cuts Food Stamps 26% by 2002; the Senate 19%. The House bill puts an inflexible cap on food stamp spending, which could leave working families vulnerable in an economic downturn. Moderating the cuts to the levels suggested by the Administration would substantially reduce the poverty effects.

- **Do not block grant Medicaid.** While proposed changes in Medicaid do not show up in the poverty tables, the distributional analysis points out that they could have dramatic impacts on children in low-income families, far beyond the cuts in AFDC. As the following distributional analysis shows, the 20% of families with children with the lowest incomes would lose health coverage worth $1,199 (Senate) to $1,271 (House). The Administration's plan, which rejects a Medicaid block grant, achieves a balanced budget in a more equitable way and minimizes the impact on children.

- **Increase the minimum wage**. The Administration has proposed to increase the minimum wage from $4.25 to $5.15 over two years. The real value of the minimum wage is now 27% below its value in 1979. If it is not increased this year, it will be worth less than at any time in the last 40 years. This continuing decline in the real value of the minimum wage makes it harder and harder for parents to rear their children out of poverty and makes it more and more difficult to move people from welfare to work. Increasing the minimum wage could decrease the poverty effect of the welfare and budget changes without significant budgetary costs.

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Table 1

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Senate Democratic Welfare Plan* (S.1117)
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	10.8	10.0	12.3	12.1	11.6	11.2	10.1 to 10.5
Change From Current Law			2.3	2.1	1.7	1.2	0.1 to 0.5
Poverty Rate (Percent)	15.5	14.4	17.6	17.4	16.8	16.2	
Change From Current Law			3.3	3.0	2.4	1.8	
Families With Children							
Number in Poverty (Millions)	18.3	17.0	20.9	20.6	19.9	19.2	17.2 to 18.0
Change From Current Law			3.9	3.7	2.9	2.2	0.2 to 1.0
Poverty Rate (Percent)	12.6	11.7	14.4	14.3	13.8	13.3	
Change From Current Law			2.7	2.5	2.0	1.5	
Poverty Gap (Billions)	17.6	16.2	24.8	24.3	21.5	20.6	
Change From Current Law			8.6	8.1	5.3	4.4	
All Persons							
Number in Poverty (Millions)	29.5	28.1	32.6	32.1	31.6	30.7	28.3 to 29.3
Change From Current Law			4.5	4.0	3.5	2.6	0.2 to 1.2
Poverty Rate (Percent)	11.3	10.8	12.6	12.4	12.2	11.8	
Change From Current Law			1.7	1.6	1.3	1.0	
Poverty Gap (Billions)	48.6	46.8	57.4	56.2	54.0	52.3	
Change From Current Law			10.6	9.3	7.2	5.5	

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, and school meal programs. Changes in government-provided health coverage are not included, nor are there any adjustments for medical costs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

*The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance, ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

Table 2

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Under The Income Definition Used For Official Poverty Statistics

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Senate Democratic Welfare Plan* (S.1117)
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	15.5	15.5	16.0	16.0	15.8	15.8	15.3 to 15.7
Change From Current Law			0.5	0.5	0.3	0.3	-0.2 to 0.2
Poverty Rate (Percent)	22.3	22.3	23.1	23.1	22.8	22.8	
Change From Current Law			0.7	0.7	0.5	0.4	
Families With Children							
Number in Poverty (Millions)	26.5	26.5	27.5	27.5	27.2	27.2	26.1 to 26.9
Change From Current Law			1.0	1.0	0.7	0.6	-0.4 to 0.4
Poverty Rate (Percent)	18.3	18.3	19.0	19.0	18.8	18.8	
Change From Current Law			0.7	0.7	0.5	0.4	
Poverty Gap (Billions)	41.6	41.6	50.6	50.6	47.0	46.9	
Change From Current Law			9.0	9.0	5.4	5.3	
All Persons							
Number in Poverty (Millions)	38.8	38.8	39.9	39.9	39.6	39.6	38.4 to 39.4
Change From Current Law			1.1	1.1	0.9	0.8	-0.4 to 0.6
Poverty Rate (Percent)	14.9	14.9	15.4	15.4	15.3	15.2	
Change From Current Law			0.4	0.4	0.3	0.3	
Poverty Gap (Billions)	76.3	76.3	85.9	85.9	82.9	82.5	
Change From Current Law			9.6	9.6	6.6	6.2	

Notes: The definition used for official poverty statistics counts all cash income, but excludes the effect of taxes (and EITC), Food Stamps, housing programs, and other near-cash government assistance programs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

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SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

The following table (Table 3) shows how the estimates of the poverty effects of the Senate-passed welfare bill vary under alternate technical assumptions. The point estimates included in the comparison with other Congressional welfare bills and House and Senate-passed budget plans are in the column labeled "Intermediate Estimate".

Areas less sensitive to technical assumptions. Estimates of the effects of the cuts in Food Stamps, SSI, and the Earned Income Tax Credit are not very sensitive to technical assumptions. The effects of these cuts vary primarily by the population growth and economic assumptions that underlie the estimate of the budget savings, where Administration and CBO estimates are similar.

Areas more sensitive to technical assumptions. While a significant portion of poverty changes related to AFDC are a function of Federal budget cuts, the total AFDC estimate is rather sensitive to alternate assumptions. Three alternate technical assumptions have been modeled; alternate demographic and economic assumptions have not been modeled. As the table shows, the alternate assumptions modeled show the Senate-passed welfare bill moving from 0.9 million to 1.4 million children below the poverty line. If smaller deficits increase economic growth, States increase welfare funding, or there is a decline in the numbers of out-of-wedlock births and divorces, the effect could be considerably less than 0.9 million. On the other hand, if the Nation falls into a recession or States "race to the bottom" to cut assistance, as some fear, the effect could considerably more than 1.4 million.

ALTERNATE ASSUMPTIONS THAT HAVE NOT BEEN MODELED

In the long run, economic and demographic variables are among the most important determinates of welfare caseloads. Other than the differences between Administration and CBO baseline assumptions, alternative economic and demographic variables have not been modeled. The poverty effects are also sensitive to alternative State funding levels that have not been modeled.

- ***Economic Growth and Unemployment***. An extended period of strong economic growth would reduce the poverty effects. Since AFDC recipients usually are the least likely to find and keep jobs during a recession, and the House-passed bill in particular has almost no countercyclical protection, the poverty effects would be greater if unemployment rates increased substantially.

- ***State funding for benefits.*** The estimates assume States maintain current State funding levels for benefits until recipients reach the time limit, and then use the time limit savings to fund work programs and child care. Poverty effects would be greater if States reduced their funding in a "race to the bottom" as some fear, and smaller if States increased their funding to offset the loss of Federal dollars.

- ***Marriage and birth rates***. Some recent changes in birth rates -- such as the sudden increase in the late 1980's -- were not predicted, and had a tremendous impact on welfare caseloads. If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy can reduce teen pregnancy, out-of-wedlock births, and/or increase marriage rates, the poverty effects will be smaller. If out-of-wedlock birth rates continue to grow and marriage continues to decline, the poverty effects could be greater.

ALTERNATE ASSUMPTIONS THAT HAVE BEEN MODELED

Three variations have been modeled for the Senate welfare bill. No variations have been modeled for the House bill. These variations include:

- ***What effect does a time limit have on employment?*** The base estimate for the Senate analysis assumes 40 percent of parents reaching the time limit find some kind of employment. The range of hours worked and wages received is based on those of parents in the National Longitudinal Study of Youth who had been on AFDC for long periods of time.

  The more conservative labor supply column of the table assumes that only 20 percent of these parents find jobs, with most of those jobs being part-time. This assumption increases the number of children moved below the poverty line by 0.2 million. This assumption is consistent with those CBO used to price the welfare bills. (There is no data on which to base an estimate of the number finding employment. No parent has ever reached a time limit in any of the State welfare reform waivers that includes a time limit.)

- ***What would AFDC look like under current law in 2002 and 2005?*** CBO's baseline projects slower program growth under current law than the Administration's baseline includes. These types of projections are inexact. Were CBO's program growth assumptions incorporated into these estimates, the estimate of the number of children moved below the poverty line would be 0.1 million fewer.

- ***What do States do after the mandatory time limit?*** Waiver requests indicate a number of States will want to end assistance completely when the time limit ends. Some States, however, may choose to pay cash benefits with State funds or provide in-kind vouchers. If States with two-thirds the caseload provided housing and other vouchers worth the children's portion of the AFDC benefit, the number moved below the poverty line would be 0.1 million smaller.

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Table 3

SENATE WELFARE BILL SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

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Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Optimistic Assumptions	Assumptions Modeled				Pessimistic Assumptions
	States Increase Benefit Funding, Increased Economic Growth; and/or Non-Marital Birth Rates Decline	Two-Thirds of States Provide Child Benefit Vouchers After Time Limit; CBO Projection of Program Growth; Intermediate Labor Supply Effects	CBO Projection of Program Growth Under Current Law	**Intermediate Estimate**	More Conservative Labor Supply Effect of Time Limit	States "Race to the Bottom" and/or Decreased Economic Growth
Children Under 18						
Number in Poverty (Millions)	-?.?	10.9	11.1	**11.2**	11.4	+?.?
Change From Current Law	-?.?	0.9	1.1	**1.2**	1.4	+?.?
Poverty Rate (Percent)	-?.?	15.7	15.9	**16.2**	16.4	+?.?
Change From Current Law	-?.?	1.3	1.6	**1.8**	2.0	+?.?
Families With Children						
Number in Poverty (Millions)	-?.?	18.7	18.9	**19.2**	19.5	+?.?
Change From Current Law	-?.?	1.7	1.9	**2.2**	2.5	+?.?
Poverty Rate (Percent)	-?.?	12.9	13.1	**13.3**	13.5	+?.?
Change From Current Law	-?.?	1.2	1.3	**1.6**	1.8	+?.?
Poverty Gap (Billions)	-?.?	19.2	19.9	**20.6**	21.0	+?.?
Change From Current Law	-?.?	3.0	3.7	**4.4**	4.8	+?.?
All Persons						
Number in Poverty (Millions)	-?.?	30.2	30.4	**30.7**	31.0	+?.?
Change From Current Law	-?.?	2.1	2.3	**2.6**	2.9	+?.?
Poverty Rate (Percent)	-?.?	11.6	11.7	**11.8**	11.9	+?.?
Change From Current Law	-?.?	0.8	0.9	**1.0**	1.1	+?.?
Poverty Gap (Billions)	-?.?	50.9	51.6	**52.3**	52.7	+?.?
Change From Current Law	-?.?	4.1	4.8	**5.5**	5.9	+?.?

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, ans school meal programs. Changes in government-provided health coverage is not included, nor are there any adjustments for medical costs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

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DISTRIBUTIONAL ANALYSIS OF THE BALANCED BUDGET PROPOSALS

Both the Administration and the Congress have plans to balance the budget. The proposals are similar in several ways: the plans eliminate the deficit, provide tax cuts, and require spending reductions. However, the plans are quite different in how they treat families at different income levels. By planning to vastly reduce benefits to middle and low income families with children while providing substantial tax break to those with high income, the proposals passed by the House and Senate shift the burden of balancing the budget to the most vulnerable families -- families with children and low or no wages. In contrast, the Administration reaches a balanced budget in a more equitable way by minimizing the impact of cuts on low and moderate income families with children and targeting tax relief to non-wealthy working families with children.

WHAT IS A DISTRIBUTIONAL ANALYSIS?

This analysis complements the study of potential poverty effects by providing detailed estimates of the various budget plans' impacts on families' incomes and health coverage. The Office of Management and Budget coordinated an effort in which the Department of Treasury and the Department of Health and Human Services used computer models to produce these estimates of the various budget alternatives. Many other agencies also contributed to the analyses of the provisions included in the budget plans.

Unlike the poverty study, this analysis describes how the effects of these plans would be distributed across families at a range different income levels. It illustrates which income groups will gain and which will lose under the various budget plans and estimates, in dollar terms, the change in income for each of these groups. The analysis is based on fully-implemented policy changes, and is presented in 1996 dollars.

WHAT IS INCLUDED AND WHAT IS NOT INCLUDED IN THE DISTRIBUTION?

There are two components included in the distribution analysis. One component measures the effect of the various tax plans on the after-tax income of households in different income brackets. The other is a benefit component, which shows proposed cuts in programs such as AFDC, SSI, Food Stamps, child nutrition, housing assistance, energy assistance, federal retirement benefits, and some health benefits.

The study focuses only on tax changes and changes in programs that provide direct income support and health coverage to individuals and families. Therefore, the study does not include some significant components of the budget plans now being debated by Congress that do not affect income or health coverage. For example, the analysis does not include the effect of proposed reductions in education, job training, transportation, and public health programs, or the reductions in provider payments in the Medicaid and Medicare programs.

A more complete explanation of what was measured and how the analysis was conducted is included in both the distribution tables and methodology section following this discussion.

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RESULTS OF THE DISTRIBUTIONAL ANALYSIS

An analysis of the effects of the Senate passed and revised House passed budget plans shows a dramatic imbalance. With the combination of tax, income support and health benefit changes, families with income below $50,000 would lose while those with income $100,000 and over on average would gain substantially.

Changes in Taxes

The Administration's plan provides tax relief to middle income families while the Republican Congressional plans target upper income families. One comparison makes this clear. All three plans -- House, Senate and Administration -- provide an average tax cut of $250 for families with incomes between $30,000 and $50,000. The Republican plans, however, give 13 times as much in tax benefits to those with incomes of $200,000 and over as they give to those with incomes between $30,000 and $50,000, and, 40 times as large a tax cut as the Administration to those with incomes $200,000 and above. The Administration plan provides three times as much tax relief to those with incomes between $30,000 and $50,000 as it gives to those with incomes of $200,000 and above.

Earned Income Tax Credit. While the Administration's plan would give some tax relief to all income groups and maintain the EITC for working families, the House and Senate passed plans would increase taxes on lower income families through cuts in the EITC. The House-passed plan would raise taxes on average for families with incomes under $10,000. The Senate-passed plan goes even further, raising taxes on average for families with incomes under $30,000, while giving those with income of $200,000 and over an average tax break of $3,416.

Reductions in Benefits Affecting Income

Both the House and Senate passed budget plans have proposed very deep cuts in income and other assistance programs for low income families. To balance the budget, improve efficiency and encourage work, the Administration's plan also includes cuts to low-income benefit programs. While the benefit reductions in the Administration's plan for families with income below $30,000 would reduce their average annual income by only $73, these same families would suffer a $411 loss in income under the House plan, and a $252 loss under the Senate plan.
Worse yet, the deepest cuts passed by the House and Senate affect the poorest 20% of families with children (those at or below 121% of poverty). Their average income would decrease by $1,549 (10.8% of income) under the House plan and $825 per year (5.8% of income) under the Senate plan.

Reductions in Health Coverage

The contrast between the Administration plan and the House and Senate passed bills is even sharper when changes in health coverage are considered. The Administration plan would obtain the majority of its savings from reform of provider payments, and would expand coverage beyond everyone who is eligible under current law -- covering all poor children by 2002. As a result of these policies, there are only modest effects on families (States may reduce some optional

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services). In addition, the Administration plan would help people continue their health insurance when they lose a job that provides it. Medicare recipients would see their costs drop, as provider payment reforms will reduce co-payments.

The Republican Congressional plans, on the other hand, will increase costs for Medicare recipients and may end the Federal guarantee of Medicaid coverage for many low income children, disabled, and elderly. The House-passed bill would reduce annual health coverage by $493 for the average household below $30,000 -- and $1,271 for the lowest quintile of families with children (those below 121% of poverty). The Senate-passed cuts are as deep -- reducing the annual value of health coverage by $496 for the average household with income below $30,000, and by $1,199 for families with children below 121% of poverty.

COMPARISON OF TAX AND BENEFIT CUTS

While it is not entirely clear at what income level families on average are helped rather than hurt by the Republican Congressional plans, one thing is clear -- they hurt families below $50,000, and help those above $100,000.

Families below $30,000. The House-passed plan gives these families an average tax cut of $11 while cutting annual income and health assistance by $904. The Senate actually raises taxes on the average family in this income range, while cutting health and income assistance by $748.

Families between $30,000 and $50,000. The Administration and Republican Congressional plans would give these families approximately $250 on average in tax relief. However, the House-passed plan would on average cut their income and health assistance by more than that amount -- $294 -- and the Senate-passed plan would cut it more -- $385. And there are a lot of service cuts -- such as education and training -- that are not included in the analysis.

Households $100,000 and above. The House-passed plan would give these families an average of $1,613 in tax benefits, and the Senate-passed plan gives $1,642. At the same time, the Senate plan would reduce these upper income families' annual income and health coverage only $376, the House plan even less -- $155.

WHAT DO THE RESULTS OF THE DISTRIBUTIONAL ANALYSIS SHOW?

This study illustrates that the cuts in the Republican budget plans disproportionately affect low and middle income families -- especially families with children. This imbalanced impact is especially striking when looking at the cumulative tax and benefit cuts across different income levels. An overall picture of the House and Senate passed budget plans reveals that cuts in benefits get deeper and deeper as one looks at families with lower and lower incomes. Alternately, the tax breaks get larger as one goes up the income scale. For example, 20% of families with children with the lowest incomes would lose an average of $1,549 in annual income and $1,271 in annual health coverage under the House budget plan -- for total benefit cuts of $2,820. Under the same plan, families with income of $200,000 and over would receive an average of $3,269 in annual tax breaks. So while low income families with children would lose over $2,800 in assistance, those with high incomes would receive over $3,000 or more.

These plans, if enacted, would further exacerbate a troubling 20 year trend toward an increasing degree of income inequality. The results raise a fundamental question. Do we as a nation want to continue an effort to reward work and raise the incomes of low income families? Or do we want to move in the other direction, by cutting benefits and by limiting the rewards for work for low income families in order to give a tax break to the people at the top of the income distribution?

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Table 4

Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Balanced Budget Plans

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$411	-$252	-$95
$30,000 to $50,000	21%	-$122	-$97	-$38
$50,000 to $100,000	27%	-$70	-$92	-$26
Over $100,000	12%	-$55	-$97	-$20
Health Coverage Cuts				
Less than $30,000	40%	-$493	-$496	$22
$30,000 to $50,000	21%	-$172	-$288	$28
$50,000 to $100,000	27%	-$90	-$169	$8
Over $100,000	12%	-$100	-$279	$32
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$904	-$748	-$73
$30,000 to $50,000	21%	-$294	-$385	-$10
$50,000 to $100,000	27%	-$160	-$261	-$18
Over $100,000	12%	-$155	-$376	$12
Tax Benefits				
Less than $30,000	40%	$11	-$53	$36
$30,000 to $50,000	21%	$251	$249	$251
$50,000 to $100,000	27%	$648	$700	$473
Over $100,000	12%	$1,613	$1,642	$287
Over $200,000	3%	$3,269	$3,416	$82
Top 1%	1%	$5,422	$5,626	$63

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Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

Family Economic Income (FEI) is a broad-based concept used in tax modeling that ranks household income by absolute dollar amounts. FEI is constructed by adding to AGI unreported and underreported income, IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Table 5

Aggregate Changes in Tax Benefits, Income, and Health Coverage By Income Group

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House, Senate, and Administration Balanced Budget Plans

Dollars in Billions

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$18.0	-$11.0	-$4.1
$30,000 to $50,000	21%	-$2.8	-$2.2	-$0.9
$50,000 to $100,000	27%	-$2.0	-$2.7	-$0.8
Over $100,000	12%	-$0.7	-$1.3	-$0.3
Total	**100%**	**-$23.5**	**-$17.3**	**-$6.0**
Health Coverage Cuts				
Less than $30,000	40%	-$21.5	-$21.7	$1.0
$30,000 to $50,000	21%	-$3.9	-$6.6	$0.6
$50,000 to $100,000	27%	-$2.6	-$4.9	$0.2
Over $100,000	12%	-$1.3	-$3.7	$0.4
Total	**100%**	**-$29.5**	**-$36.9**	**$2.3**
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$39.5	-$32.7	-$3.1
$30,000 to $50,000	21%	-$6.7	-$8.8	-$0.3
$50,000 to $100,000	27%	-$4.6	-$7.6	-$0.6
Over $100,000	12%	-$2.0	-$5.0	$0.1
Total	**100%**	**-$53.0**	**-$54.2**	**-$3.7**
Tax Benefits				
Less than $30,000	40%	$0.5	-$2.3	$1.6
$30,000 to $50,000	21%	$5.7	$5.7	$5.7
$50,000 to $100,000	27%	$18.8	$20.4	$13.8
Over $100,000	12%	$21.6	$22.0	$3.8
Over $200,000	3%	$9.1	$9.5	$0.2
Top 1%	1%	$5.9	$6.2	$0.1
Total	**100%**	**$47.0**	**$45.8**	**$24.9**

Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis

Table 6

Tax Benefits By Quintile

House, Senate, and Administration Balanced Budget Plans

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Family Economic Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Average Tax Benefits Per Family (In Dollars)			
Lowest	-$12	-$26	$12
Second	$32	-$77	$57
Third	$242	$233	$242
Fourth	$530	$578	$430
Highest	$1,340	$1,380	$396
Top 10%	$1,752	$1,771	$243
Top 5%	$2,377	$2,416	$126
Top 1%	$5,422	$5,626	$63
Aggregate Tax Benefits By Income Group (In Billions of Dollars)			
Lowest	-$0.3	-$0.6	$0.3
Second	$0.7	-$1.7	$1.2
Third	$5.3	$5.1	$5.3
Fourth	$11.6	$12.7	$9.4
Highest	$29.3	$30.2	$8.7
Top 10%	$19.2	$19.4	$2.7
Top 5%	$13.0	$13.2	$0.7
Top 1%	$5.9	$6.2	$0.1

Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

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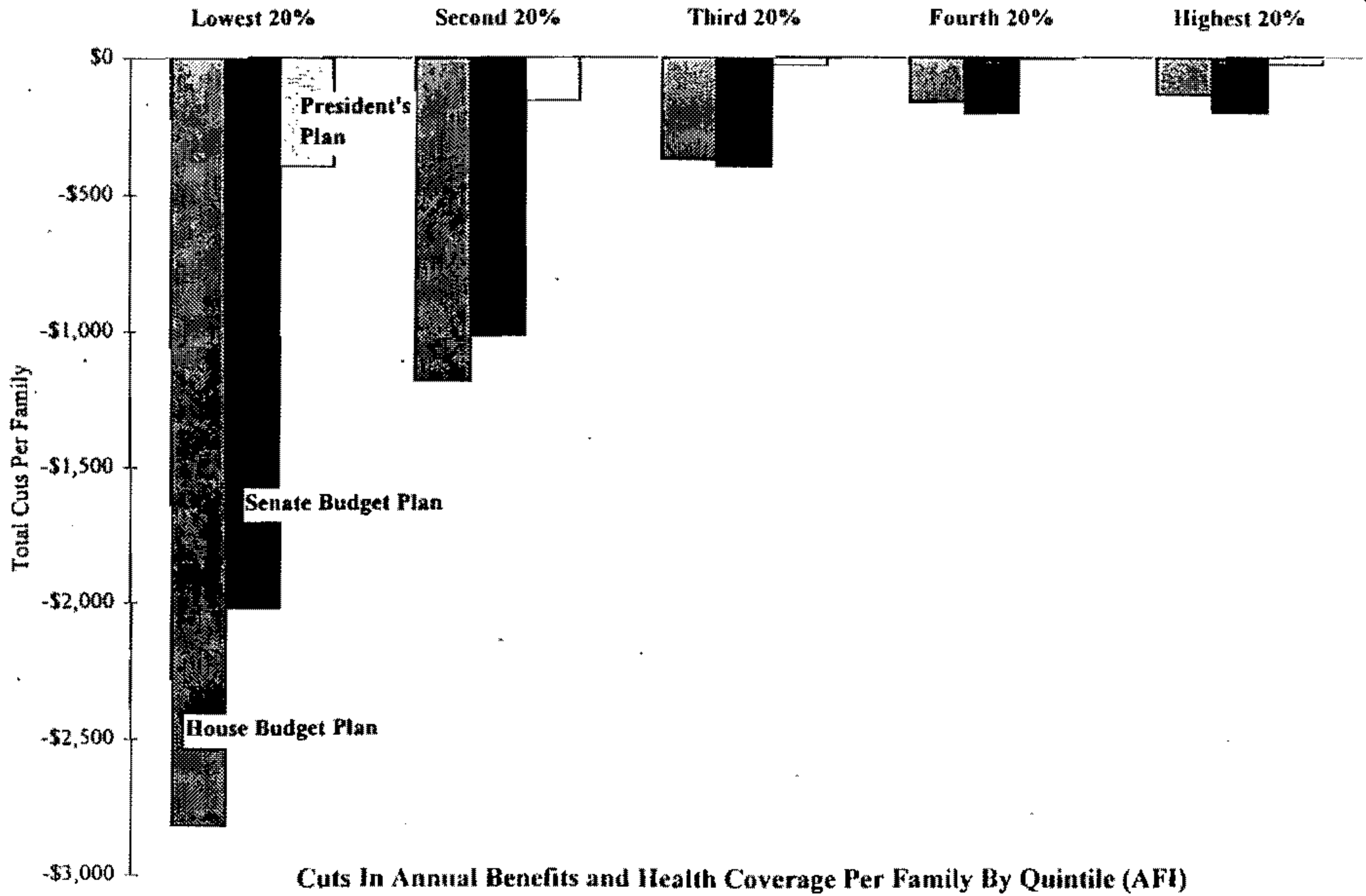
Low Income Families With Children Are Hit Hard By Republican Budget Proposals
Total Income And Health Coverage Cuts Affecting Families With Children



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Under Congressional Budget Plans, Tax Benefits For Richest 5% Exceed Benefit Cuts That Reduce Income For Poorest 20% Of Families With Children

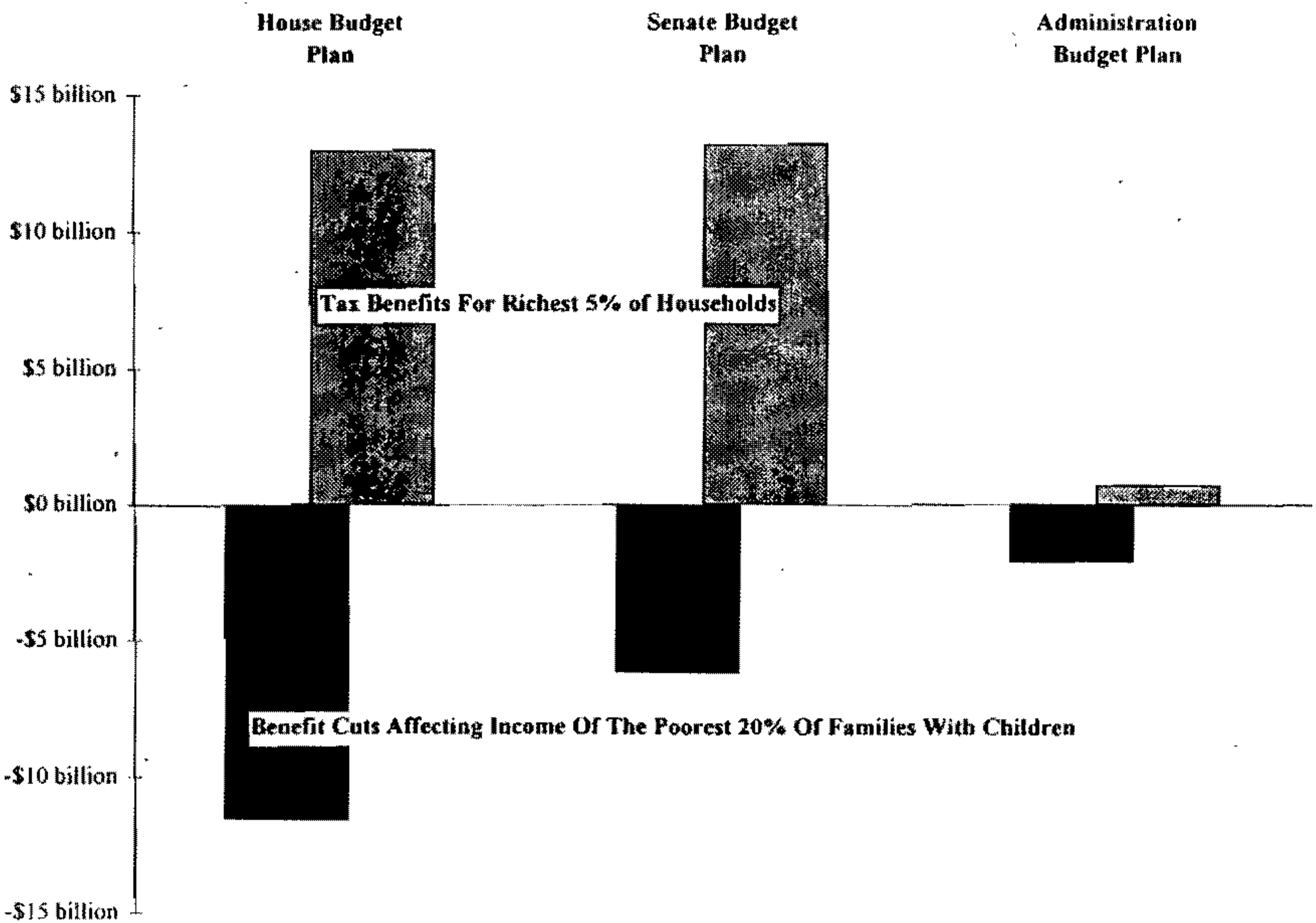

Table 7

House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Average Income and Health Coverage Loss Per Family By Quintile

Adjusted Family Income Quintile	House Budget Plan Dollars	House Budget Plan % of Income	Senate Budget Plan Dollars	Senate Budget Plan % of Income	Administration Plan Dollars	Administration Plan % of Income
Benefit Cuts Affecting Income						
Lowest	-$1,549	-10.8%	-$825	-5.8%	-$276	-1.9%
Second	-$630	-2.7%	-$385	-1.6%	-$123	-0.5%
Third	-$191	-0.5%	-$160	-0.5%	-$55	-0.2%
Fourth	-$84	-0.2%	-$85	-0.2%	-$15	-0.0%
Highest	-$76	-0.1%	-$97	-0.1%	-$6	0.0%
Health Coverage Cuts						
Lowest	-$1,271		-$1,199		-$82	
Second	-$558		-$631		$17	
Third	-$181		-$240		$45	
Fourth	-$80		-$118		$25	
Highest	-$60		-$103		$5	
Total Income and Health Coverage Cuts						
Lowest	-$2,820		-$2,024		-$358	
Second	-$1,188		-$1,016		-$106	
Third	-$372		-$400		-$10	
Fourth	-$164		-$203		$10	
Highest	-$136		-$200		-$1	

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 3 because family economic income does not include family size in the ranking factors.

See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

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Table 8

House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Aggregate Income and Health Coverage Loss By Quintile

Dollars In Billions

Adjusted Family Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income			
Lowest	-$11.6	-$6.2	-$2.1
Second	-$4.8	-$3.0	-$0.9
Third	-$1.4	-$1.2	-$0.4
Fourth	-$0.6	-$0.6	-$0.1
Highest	-$0.6	-$0.8	$0.0
Total	**-$19.0**	**-$11.8**	**-$3.5**
Health Coverage Cuts			
Lowest	-$9.5	-$6.2	-$0.6
Second	-$4.3	-$2.6	$0.1
Third	-$1.4	-$0.8	$0.3
Fourth	-$0.6	-$0.5	$0.2
Highest	-$0.5	-$0.6	$0.0
Total	**-$16.3**	**-$17.4**	**$0.1**
Total Income and Health Coverage Cuts			
Lowest	-$21.1	-$15.2	-$2.7
Second	-$9.1	-$57.8	-$0.8
Third	-$2.8	-$3.0	-$0.1
Fourth	-$1.2	-$1.5	$0.1
Highest	-$1.1	-$1.6	$0.0
Total	**-$35.3**	**-$29.2**	**-$3.4**

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 3 because family economic income does not include family size in the ranking factors.

See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

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METHODOLOGY

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RANKING HOUSEHOLDS AND DEFINITIONS OF INCOME

Ranking Households. There are two types of distributional analysis included in this document. Tables 1-3 which include changes in tax benefits are based on Family Economic Income (FEI), which does not include an adjustment for family size. Tables 4-5 which focus on spending cuts affecting families with children, are based on Adjusted Family Income (AFI), similar to analysis CBO has done in the past. Figures in tables based on FEI and AFI should not be added together, since they do not rank families in the same way. An FEI quintile table includes 20% of all families in each quintile, and ranks them by the absolute dollar level of income. An AFI table ranks families by their income as a percent of the poverty threshold for a family of that size. Since it adjusts for family size, it also places 20% of persons into each quintile, rather than 20% of families. In addition, the definitions of income are not identical.

Family Economic Income (FEI). Family Economic Income is a broad-based concept. FEI is constructed by adding to Adjusted Gross Income unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of non-corporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Adjusted family income (AFI). Adjusted family income is derived by dividing family income (after-tax cash income plus food, housing, school lunch, and other near-cash assistance provided by the government) by the poverty level for the appropriate family size.

MODELING OF TAX CHANGES

The change in Federal taxes under the House, Senate and Administration plans is estimated at 1996 income levels but assuming fully phased in law and long-run behavior. The effect of IRA proposals is measured as the present value of tax savings on one year's contributions. The effect of the prospective capital gains indexing proposal in the House plan is the fully phased in tax savings, multiplied by the ratio of the sum of the present value of prospective capital gains indexing over 17 years to the sum of the present value of fully phased in indexing over 17 years, holding realizations constant. The effect on tax burdens of the capital gains exclusion in the House and Senate plans and prospective indexing in the House plan are based on the level of capital gains realizations under current law. Provisions which expire before the end of the budget period and provisions which affect the timing of tax payments but not liabilities are not distributed. The incidence assumptions for tax changes is the same as for current law taxes.

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MODELING OF SPENDING CUTS

This analysis estimates the impact of H.R. 4, the reconciliation bill, and appropriations bills as passed by the House and Senate. Provisions of H.R. 4 that are analyzed include the AFDC block grant and benefit prohibitions, and changes to the SSI and Food Stamp programs. Reconciliation actions that are analyzed include changes to housing assistance, Medicare, and Medicaid. A detailed list of the provisions that are included begins on the following page. The analysis also includes a preliminary estimate of the impact of policy proposals that are included in the Administration's budget -- which include changes to SSI eligibility for children, Food Stamp program changes, immigrant provisions and Medicaid proposals.

The analysis focuses on changes in policy that will directly affect family income. It does not include the effects of changes in services provided, such as more difficult access to health care services resulting from reductions in Medicare payments to health care providers, or reduced job training or Head Start funds.

As with most studies this complex involving numerous assumptions, it can be argued that some aspects of the assumptions overstate and others understate the impacts of the proposals. These estimates attempt to provide an accurate picture of the impact of the proposals on income. The goal of the study was to undertake a balanced analysis which would yield a credible as well as a relatively conservative estimate. Several factors and decisions have contributed to what, on balance, is a reasonable estimate. First, as described above not all provisions are modeled. Second, the data do not identify all persons who would potentially be affected by the program cuts. For example, the analysis assumes that none of the Medicare provider cuts affect beneficiaries and the study assumes that no states implement the option to block grant food stamps. These estimates do account for interactions between proposals.

Furthermore, the model makes relatively conservative assumptions regarding state maintenance of effort in the AFDC and Medicaid programs and the labor supply response of persons who lose AFDC benefits. The study assumes that states do not reduce state spending in response to the block granting of AFDC. Instead, it is assumed that states, at first, follow the Federal lead and keep benefits, on average, at the 1994 levels implicit in the block grant. The study assumes that later they reduce benefits and child care subsidies only enough to offset the decline in Federal dollars, while accounting for the savings resulting from the reduction in caseload and benefits from other provisions. Under the Medicaid block grant, state funds would be matched up to a Federal cap. The study assumes that states would spend only enough to receive their full Federal allotment (this assumption only affects the estimate of the value of health benefits and does not affect the poverty rates). Some states might actually increase their level of effort after a block grant. However, it is likely that the aggregate state maintenance of effort will decrease over time.

The study also incorporates a labor supply response to the time limit. For estimating the effects of the House proposal, the labor supply response (i.e. the subsequent work effort of persons who lose benefits) assumes that 20 percent of cases denied AFDC because of the time limit will go to work part-time at a wage rate equal to the median wage of women who formerly received AFDC and then went to work. These assumptions are based the limited skills and work experience, low scores on tests of aptitude, and chronic health and other problems of these long-term recipients.

The Senate assumptions are based on the work of academic researchers and the work efforts of single mothers who don't receive AFDC but have similar characteristics. The study estimates that more than 40 percent of long-term welfare recipients will work at least part-time when they lose AFDC benefits due to the time limit. The average earnings for all recipients, including those with no earnings, would be $4,700 per year, and the highest ten percent would earn an average of $24,500 per year.

The overall estimates in this analysis were obtained using the Department of Health and Human Services' TRIM microsimulation model. TRIM (for Transfer Income Model) is based on a nationally-representative sample of the non-institutionalized U.S. population, the March Supplement of the Current Population Survey. This survey of about 60,000 households is conducted monthly by the Census Bureau and the Bureau of Labor Statistics. Using the survey data, TRIM computes income, benefits, and taxes for each person under current law, then aggregates these individual amounts for U.S. totals. These current law totals can then be compared to similarly computed estimates for the alternative policies contained in the Congressional proposals.

The tables that show impacts by income quintile and family type use a definition of income similar to that of the Census Bureau in calculating the official poverty count, but the definition captures more fully the effects of government policies. For these tables, most cash and near-cash income as well as taxes are counted when determining income. That is, this definition of income counts all cash income as the Census does, but adds the value of food stamps, school lunches, the Earned Income Tax Credit (EITC), and housing assistance and deducts from income the employee portion of Social Security (FICA) and federal income taxes.

The tables compare the impact of the House and Senate Republican plans with current law and show a single-year impact of the proposals as if they were fully implemented in 1996 dollars. The following proposals were included in each analysis:

Analyses of the House Passed H.R. 4

AFDC

- Deny benefits to non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 10% hardship exemption
- Eliminate the $50 child support pass-through
- Deny cash benefits to parents younger than age 18 with children born out-of-wedlock
- Deny benefits for children born or conceived while the mother received AFDC

SSI

- Deny benefits to non-citizens, with certain exemptions
- Deny cash SSI Disability benefits to non-institutionalized children, with some exceptions

Food Stamps

- Deny benefits to non-citizens, with certain exemptions
- Limit the annual benefit increase to 2% per year
- Freeze the standard deduction at 1995 levels
- Reduce and freeze the excess shelter expense deduction at 1995 levels
- Count state and local energy assistance as income when determining eligibility and benefits
- Require single, childless adults to participate in work or training after 3 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Establish a school nutrition block grant at reduced funding levels
- Combine CACFP, WIC, and Summer Food into a single block grant at reduce funding

Analyses of House Actions

Includes all the provisions of H.R. 4 above plus:

Housing

- Impose a minimum rent of $50
- Increase the proportion of income paid for rent from 30% to 32% for Section 8
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Eliminate new Section 8 certificates

Medicare

- Increase Part B premiums from 25% of program costs to 31.5% of program costs for all beneficiaries, except increase them to 100% of program costs for single beneficiaries with income over $100,000 and couples over $150,000 and increase them linearly from 31.5% to 100% of program costs for singles between $75,000 and $100,000 and couples between $100,000 and $150,000
- Reduce managed care benefits for beneficiaries currently enrolled in HMOs

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Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $182 billion between 1996 and 2002

Other Actions

- Eliminate the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Reduce the pension benefits of future Federal retirees
- Limit government contributions for Federal health benefits
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

Analyses of Senate Passed H.R. 4

AFDC

- Limit participation and benefits of non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 20% hardship exemption
- Eliminate the $50 child support pass-through

SSI

- Deny benefits to non-citizens, including current recipients, with certain exemptions
- Restrict SSI Disability benefits to children meeting the medical listings

Food Stamps

- Limit participation and benefits of non-citizens, with certain exemptions
- Reduce and freeze the standard deduction
- Count all energy assistance received as income when determining eligibility and benefits
- Reduce the maximum benefit
- Require children 21 and younger in the household to file with parents
- Require single, childless adults to participate in work or training after 6 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Round down reimbursement rates and delay indexation
- Implement a two-tier means-test for benefits in family day care homes.

Analyses of Senate Actions

Includes all the provisions of the Senate passed H.R. 4 above plus:

Food Stamps
- Reduce and freeze the standard deduction further than in H.R. 4

Housing
- Impose a minimum rent of $25 in public housing
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Reduce the number of new Section 8 certificates

Medicare
- Increase Part B premium to $89 in 2002
- Set income-related threshold for premiums to $50,000 for individuals and $100,000 for couples; premium hits 100% of program costs for individuals at $100,000 and for couples at $150,000
- Increase the Part B deductible to $210 in 2002
- Reduce managed care benefits for beneficiaries currently enrolled in HMOs

Medicaid
- Eliminate entitlement and establish a block grant at reduced spending to save $182 billion between 1996 and 2002

Other Actions
- Reduce funding for the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Delay the cost-of-living adjustment of Federal retirees
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

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SSI
- Tighten eligibility criteria for receiving SSI benefits.

Food Stamps
- Reduce spending while maintaining the federal entitlement, increasing state flexibility and cracking down on fraud.

Child and Adult Care Feeding Program (CACFP) Subsidies

- Target family day care home meal subsidies more towards lower income children.

Immigrant Provisions

- Tighten SSI, AFDC and Food Stamp eligibility rules for non-immigrants.
- Sponsors of legal aliens would bear greater responsibility for those whom they encourage to come to the U.S.

Medicare

- Reduce provider payments and hold Part B premiums at 25% of total costs.

Medicaid/Health Insurance for the Unemployed

- Continue Medicaid entitlements with --X-- percent reduction in total Medicaid spending
- Provide health insurance protections for the unemployed and their families.