HEALTH/MEDICARE

APPENDIX A

Spending/Revenue Options

REVIEW MEDICAID EXPENDITURES IN THE CONTEXT OF OVERALL HEALTH CARE REFORM

Agency: HHS HCFA Functional Code: 551

Enforcement: PG-E
Source: CG RP IMF
Structure: OPB
Budget Fund: TF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)							
Outlays (+ or -)							

Proposed Program -

Arguments for Proposal - HHS Secretary, Louis Sullivan announced a series of new steps toward creating a nationwide electronic health care information network. In the new system, health care insurance and billing would be handled by computer networks. Consumers and health care providers would no longer be required to complete extensive forms. Health cards would enable users to access their health insurance coverage information. Standardized billing forms would be created for physicians. Payments to physicians who submit claims electronically would be paid electronically.

Arguments Against Proposal - Arguments against the Sullivan proposal have included concerns with privacy of health records which generated opposition from the ACLU. Also, some skepticism that savings are overstated.

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? - It is very difficult to contain costs without reimbursement which generally results in service reduction or cost shifting to private third-party payers.

Campaign Positions that Affect the Proposal - In his budget proposal, Ross Perot included Medicaid cost containment savings of $2.9b (1st year), $6.9b (2nd year), $11.3b (3rd year), $16.3b (4th year), $21.4b (5th year); for a 5-year total of $58.8 billion.

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

COMBINE FUNDING TO STATES FOR THE COSTS OF ADMINISTERING AFDC, MEDICAID, AND FOOD STAMPS INTO A SINGLE INDEXED GRANT

Agency: HHS HCFA
Agriculture

Functional Code: 551 605 609

Enforcement: PG-E
Source: CBO RP
Structure: OPB
Budget Fund: TF
Category: SC
Rating: 2

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		-0.50	-0.83	-1.20	-1.60	-2.05	-6.15
Outlays (+ or -)		-0.50	-0.83	-1.20	-1.60	-2.05	-6.15

Proposed Program - Would set all administrative matching rates at 50 percent in 1993; thereafter, it would combine the administrative funding for the three programs into a single grant whose growth would be indexed by the fixed-weighted gross national product deflator.

Arguments for Proposal - Reducing the higher matching rates to 50 percent is now appropriate because the need for special incentives for certain activities such as adding computer systems or establishing fraud and abuse units no longer exists (for example all State Medicaid programs now have computer systems and are operating fraud and abuse units. Providing the administrative funds as a block grant would also enable states to manage these funds more effectively. [CBO]

Arguments Against Proposal - States might reduce their administrative efforts which might raise program costs associated with errors or fraud. Consolidation might hurt Medicaid recipients, because states would be encouraged to slow the growth of benefits or limit services. [CBO] Programs use different eligibility criteria making it potentially difficult for beneficiaries to apply for benefits.

State and Local Impact of Proposal - States might respond to this option by reducing their administrative efforts, which could lead to an increase in errors and fraud, which in turn could lead to increased expenses. [CBO] States experiencing growing caseloads, due to recession or, for example, federal mandates to extend Medicaid coverage, could have serious problems. After FY 94, increases in administrative costs which exceed inflation no matter the cause would be borne entirely by the state. As a solution, these states might also cut back services to the same population.

Any Political Landmines Associated with Proposal? - This proposal has been proposed and rejected in the past. Many states already face Medicaid funding crises in part due to actions at the federal level. Rep. Waxman (D-CA), Chairman of the Health and Environment Subcommittee, would likely strongly oppose, as well as members of other affected committees which have rejected earlier proposals. Even Senator Helms (R-NC), when he chaired the Agriculture Committee, rejected the same proposal. An effort to consolidate programs across agency and Congressional committee lines might prove politically difficult.

Campaign Positions that Affect the Proposal - Included in Ross Perot's budget proposal.

Funding Summary - Change amounts above are from CBO, but with a one year later starting date. Current services amounts shown are the grants to states for Medicaid account total, the food stamp program account total, and the family support payments to states account total.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		128.45	140.29	153.81	168.66	185.53	776.74
Outlays		128.25	140.09	153.60	168.45	185.30	775.69
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		127.95	139.46	152.61	167.06	183.48	770.59
Outlays		127.75	139.26	152.40	166.85	183.25	769.54

APPENDIX A

Spending/Revenue Options

REVIEW MEDICARE EXPENDITURES IN THE CONTEXT OF OVERALL HEALTH CARE REFORM

Agency: HHS HCFA — Functional Code: 571

Enforcement: PG-E
Source: CG RP IMF
Structure: OPB
Budget Fund: TF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)							
Outlays (+ or -)							

Proposed Program - [Need program details on Medicare/Medicaid cost savings proposals.]

Arguments for Proposal - HHS Secretary, Louis Sullivan announced a series of new steps toward creating a nationwide electronic health care information network. In the new system, health care insurance and billing would be handled by computer networks. Consumers and health care providers would no longer be required to complete extensive forms. Health cards would enable users to access their health insurance coverage information. Standardized billing forms would be created for physicians. Payments to physicians who submit claims electronically would be paid electronically. Cuts in Medicare to obtain Federal savings might free up money to extend coverage to the uninsured.

All proposals that reduce Medicare Part A spending shore up the Health Insurance (HI) trust fund, a point that should be made relative to the Social Security Trustees' report that shows HI in deficit beginning in FY 1993.

Arguments Against Proposal - Medicare has been growing more slowly than health care costs in general. PROPAC reports that 70 percent of hospitals lose money on their Medicare patients.

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? - It is very difficult to contain costs without reimbursement which generally results in service reduction or cost shifting to private third-party payers.

Campaign Positions that Affect the Proposal - In his budget proposal, Ross Perot included Medicare cost containment budget savings of $3.8b (1st year), $9.0b (2nd year), $15.2b (3rd year), $23.1b (4th year), $31.4b (fifth year); for a 5-year total of $82.5 billion.

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

FREEZE MEDICARE'S PROSPECTIVE PAYMENT SYSTEM RATES FOR ONE YEAR

Agency: HHS HCFA — Functional Code: 571

Enforcement: PG-E
Source: CBO
Structure: OPB
Budget Fund: TF
Category: SC
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		---	---	---	---	---	---
Outlays (+ or -)		-1.60	-2.15	-2.40	-2.60	-2.85	-11.60

Proposed Program - Would freeze Prospective Payment System (PPS) rates for one year.

Arguments for Proposal - Some hospitals would increase their efficiency in response to the freeze, and others could absorb the reduction in payments. [CBO] All proposals that reduce Medicare Part A spending shore up the Health Insurance (HI) trust fund, a point that should be made relative to the Social Security Trustees' report that shows HI in deficit beginning in FY 1993.

Arguments Against Proposal - Some Medicare beneficiaries might encounter reduced access to hospitals, especially in rural areas. Rural hospitals have been more likely than urban ones to lose money under PPS, because many rural hospitals have an aging population with a high proportion of Medicare patients. Accordingly, rural hospitals are less able to make up any Medicare losses by charging more to other patents. [CRS]

State and Local Impact of Proposal - In some rural areas, Medicare can account for up to 85 percent of hospital revenues. Hospitals in those communities typically are major employers. Such hospitals (sole community hospitals) could be exempted at some loss, probably small, in savings.

Any Political Landmines Associated with Proposal? - Cuts in reimbursement have led in the past to significant cost shifting to private third party payers. Hospitals can be expected to oppose the program. [CRS] Hospitals may prefer a delay in the update rather than freeze on the base-year rates.

Campaign Positions that Affect the Proposal -

Funding Summary - Current Services is the Federal hospital insurance trust fund account.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		97.57	107.12	118.00	128.14	140.95	591.78
Outlays		96.72	106.07	116.42	126.95	139.65	585.81
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		---	---	---	---	---	---
Outlays		95.12	103.92	114.02	124.35	136.80	574.21

CHARGE A FEE FOR SMI CLAIMS NOT BILLED ELECTRONICALLY

Agency: HHS HCFA | Functional Code: 571

Enforcement: PG-R
Source: CBO RP
Structure: OPB
Budget Fund: TF
Category: UF
Rating: 3

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		---	---	---	---	---	---
Outlays (+ or -)		-0.23	-0.26	-0.22	-0.17	-0.10	-0.98

Proposed Program - Would charge a fee for Medicare Supplemental Medical Insurance (SMI-Part B physicians services) claims not billed electronically.

Arguments for Proposal - Would create an incentive for providers to switch to an electronic system for submitting claims thereby reducing the need for manual entry of data. Medicare would save money on the number of clerical personnel needed to enter data, and the chance of entering data incorrectly would be reduced. [CBO]

Arguments Against Proposal - Physicians would need to purchase equipment and software for submitting bills electronically. This may provide hardship to physicians who provide a significant amount of charity care. [CBO] May affect rural and new physicians more severely than established urban/suburban practices.

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? -

Campaign Positions that Affect the Proposal -

Funding Summary - Current Services is the federal supplemental insurance fund account total.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		—	—	—	—	—	—
Budget Authority		69.15	78.52	89.01	100.59	113.67	450.94
Outlays		68.27	77.43	87.76	99.28	112.19	444.93
Proposed Level							
Revenue		—	—	—	—	—	—
Budget Authority		—	—	—	—	—	—
Outlays		68.04	77.17	87.54	99.11	112.09	443.95

APPENDIX A

Spending/Revenue Options

INCREASE MEDICARE SMI PREMIUM TO 30%

Agency: HHS HCFA — Functional Code: 571

Enforcement: PG-E
Source: CBO RP BR
Structure: OPB
Budget Fund: TF
Category: UF
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		---	---	---	---	---	---
Outlays (+ or -)		-1.36	-1.95	-2.92	-4.92	-7.17	-18.30

<u>Proposed Program</u> - Would increase the premium for physicians' services under Medicare (SMI, Part B) from the current 25 percent of program costs to 30 percent. Charles L. Schultze estimates in the chapter, "Paying the Bills," in the book *Setting Domestic Priorities, What Can Government Do?*, that $9 billion (1997 value) can be cut from the budget by increasing SMI premiums.

Arguments for Proposal - Increasing premiums would increase amounts those enrolled in Medicare pay for health insurance without affecting the costs of those who are seriously ill, or those with incomes below the federal poverty threshold who are eligible to have Medicaid pay their premiums. [CBO] Increase in premiums are said to be preferable to increases in deductibles or "co-pays" as a way of generating savings.

Arguments Against Proposal - Low-income persons enrolled in Medicare who are not enrolled in Medicaid could find the increased premium burdensome and may go without coverage. States would be forced to pay part of the higher premium for Medicare enrollees who are also eligible for Medicaid. [CBO] A significant percentage of elderly people who are not on Social Security but are below the poverty line and are eligible to have Medicaid pay the Medicare premiums for them are not aware they can receive this coverage. Therefore, they are not enrolled in the QMB program under which their Medicare premiums would be paid.

State and Local Impact of Proposal - See "Arguments Against."

Any Political Landmines Associated with Proposal? -

Campaign Positions that Affect the Proposal - In his budget proposal, Ross Perot recommended an increase in the SMI premium from the current 25 percent to 35 percent for an increase in receipts of $2.8 b (1st year), $4.0b (2nd year), $6.0b (3rd year), $10.1b (4th year), $14.8b (5th year); for a 5-year total of $37.7 billion in deficit reduction.

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		69.15	78.52	89.01	100.59	113.67	450.94
Outlays		68.27	77.43	87.76	99.28	112.19	444.93
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		---	---	---	---	---	---
Outlays		66.91	75.48	84.84	94.36	105.02	426.63

APPENDIX A

Spending/Revenue Options

TAX A PORTION OF THE INSURANCE VALUE OF MEDICARE BENEFITS

Agency: HHS HCFA Functional Code: 571

Enforcement: PG-R
Source: CBO
Structure: OPB
Budget Fund: TF
Category: TI
Rating: 3

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		-1.80	-4.70	-5.60	-6.70	-8.00	-26.80
Budget Authority (+ or -)		---	---	---	---	---	---
Outlays (+ or -)		---	---	---	---	---	---

Proposed Program - Would tax 50 percent of Medicare HI benefits and 75 percent of SMI benefits (the portion of these benefits not financed by post-income tax dollars) over a modified AGI of $25,000 for individuals and $32,000 for couples analogous to the tax on Social Security benefits.

Arguments for Proposal - "A tax on SMI benefits would shift some SMI costs from taxpayers to enrollees. If income thresholds were used, low- and middle-income enrollees would not be affected." [CBO]

Arguments Against Proposal - Tax liability would be substantial for individuals in the 28 percent tax bracket. [CBO]

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - Proposals to increase taxes on middle and upper income seniors, if not handled well politically, can result in massive lobbying pressure. Organized labor and business may oppose because it can be seen as a first step to taxing benefits paid by employers.

Campaign Positions that Affect the Proposal -

Funding Summary - Current Services reference amounts (this proposal would increase revenues) shown are Medicare HI and SMI Function totals.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority		149.50	166.04	185.99	206.65	229.38	937.56
Outlays		147.77	163.89	183.16	204.16	224.58	923.56
Proposed Level							
Revenue		-1.80	-4.70	-5.60	-6.70	-8.00	-26.80
Budget Authority		---	---	---	---	---	---
Outlays		---	---	---	---	---	---

APPENDIX A

Spending/Revenue Options

INCREASE MEDICARE-B PREMIUM FOR THOSE WITH INCOMES > $125,000

Agency: HHS HCFA Functional Code: 571

Enforcement: PG-E
Source: CG CBO
Structure: OPB
Budget Fund: TF
Category: UF
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)							
Outlays (+ or -)		-0.60	-1.00	-1.00	-1.80	-2.69	-7.09

Proposed Program - Would increase Medicare Part B (SMI-Supplemental Medicare Insurance - physicians fees) rates for those with incomes of more than $125,000. Under current law, the federal government subsidizes approximately 75 percent of Part B costs. [CRS]

Arguments for Proposal - Would achieve budget deficit reduction by assessing means-related premiums for Medicare Part B. The CBO proposed a program in which income-related premiums would begin at $100,000 for individuals and $125,000 for couples. The premiums would be automatically deducted from Social Security checks. Most enrollees would be unaffected by this approach. If premiums were set to cover 100 percent of costs, only about 2 percent would be subject to the income-related premium. [CBO] Government subsidies should be reduced for those who are clearly not needy. [CRS]

Arguments Against Proposal - Opponents maintain that means-related premiums weaken the fundamental entitlement structure of Medicare. [CRS] Administrative/implementation problems may be significant since the Social Security Administration does not have access to information regarding the current incomes of beneficiaries. Such information is available through the tax system and may therefore necessitate administration through the tax system.

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - This would affect some of the seniors who overturned the catastrophic health care plan and if not presented carefully could result in a similar reaction by seniors and seniors organizations.

Campaign Positions that Affect the Proposal - Included in *Putting People First*. Proposed in the Bush Administration's FY 93 budget.

Funding Summary - The change numbers shown above are from *Putting People First*, but shifted one year later. These estimates are considerably less than amounts under a similar CBO option. The CBO options would save between $9.3 and $9.6 billion over 5 years through increased premium collections. Current services amounts shown are from the federal supplementary medical insurance trust fund account.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		69.19	78.52	89.01	100.59	113.67	450.94
Outlays		68.27	77.43	87.76	99.28	112.19	444.93
Proposed Level							
Revenue		---	---	---	---	---	—
Budget Authority							
Outlays		67.67	76.43	86.76	97.48	109.50	437.84

INCOME SECURITY

APPENDIX A

Spending/Revenue Options

PROVIDE HALF-COLA TO EARLY FEDERAL RETIREES

Agency: Functional Code: 602

Enforcement: PG-E
Source: CG CBO HF RP IMF BR N-D
Structure: OPB CIB IRB
Budget Fund: GF TF EF
Category: SC
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)					approx. -1.5		

Proposed Program - Until they reach age 62, provide a half-COLA rather than a full COLA to early retirees in the civil service retirement program -- *i.e.*, those who retire before age 62 -- and to those early retirees in the military retirement system who joined the armed forces before August 1, 1986. (The system has already been reformed for those joining the armed forces after August 1, 1986.) A full catch-up would be provided on a prospective basis at age 62 so that benefits from that age on were the same as they would be under current law. This provision should probably be phased in over several years.

Arguments for Proposal - Many early retirees have other jobs and are quite comfortable. An analysis of census data in the early 1980s found that a substantial majority of the retirees were in the top two-fifths of the income spectrum. For military retirees, the typical retirement age is about 43. They generally have other jobs and do not need a full COLA for 20 years before they truly retire.

Arguments Against Proposal - The proposal would primarily affect military retirees, because they retire at a younger average age than do civilian employees. It would be argued that these retired military personnel served their country with the understanding that after 20 years of military service, they could retire and get a fully untaxed pension. This proposal would breach that understanding.

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? - Military retirees and veterans groups would likely oppose, as would federal employee unions and Members of Congress who represent large numbers of federal employees. This might be very difficult for President Clinton, given the continuing sensitivity over military issues.

Campaign Positions that Affect the Proposal -

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

REDUCE CIVILIAN AND MILITARY RETIREMENT BENEFITS OR LIMIT COLAS TO FEDERAL CIVILIAN AND MILITARY RETIREES FOR 5 YEARS

Agency: OPM | Functional Code: 602

Enforcement: PG-E
Source: RP CBO BR
Structure: IRB
Budget Fund: TF
Category: SC
Rating: I

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		---	---	---	---	---	---
Outlays (+ or -)		-0.50	-1.50	-2.50	-3.40	-4.60	-12.60

Proposed Program - Would reduce federal military and civilian retiree COLAs by 2/3 of CPI over the next 5 years. [RP] Other options exist for limiting federal retiree COLAs, including deferring COLAs for retirees until age 62, limiting CSRS (pre-1986 federal retirement system) and MRS COLAs, and adding a year to the 3-year salary base for pensions or restricting thrift plan match. (See CBO Ent-51, pg. 259) Charles L. Schultze proposes in the chapter, "Paying the Bills," in the book *Setting Domestic Priorities, What Can Government Do?*, "some reduction in the federal government's $87 billion civilian and military retirement benefits." He does not specify the amounts or sources of those cuts. Yet another option might be to provide a half-COLA to early retirees with prospective full catch-up at age 63. However, this may not be appropriate to apply to armed forces personnel entering after July 31, 1986, given reforms to military retirement system.

Arguments for Proposal - Retirement benefits provided to federal workers typically exceed benefits provided to private pensioners. [RP] A reduction in the COLA would align practices of federal personnel policy with the practices of private employers. [CBO]

Arguments Against Proposal - May affect the government's ability to retain an experienced corps of career employees. Hay Management Associates found that federal pay lagged behind the private sector by an average of 18.9 percent and at senior levels by 58.4 percent, and that the entire federal pay and benefits package lagged behind the private sector by 15.8 percent. Some opponents argue that federal pay and benefits have been seriously eroded over the last 10 years. [CRS] Applying cuts to military pensions would also encourage military personnel to delay retirement which would counter efforts to reduce the size of the military. [CBO]

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - Opponents of federal retiree COLA cuts have argued for symmetry between Social Security and CSRS, the pre-1986 federal civilian retirement program, since Social Security has a full COLA. [CRS] Targeting military retirees might pose particular problems in light of military-related campaign issues. Also, can expect strong reactions in areas with high concentrations of Federal retirees.

Campaign Positions that Affect the Proposal - Included in Ross Perot's budget proposal but not detailed in *United We Stand*.

Funding Summary - Change amounts shown above are from Perot's budget plan. Current Services amount is account total for Civil Service retirement and disability fund. An amount should be added to the Current Services base for Military retirement -- not available.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		37.14	39.14	43.23	46.16	49.39	215.06
Outlays		36.85	38.83	42.88	45.79	49.00	213.35
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		---	---	---	---	---	---
Outlays		36.35	37.33	40.38	42.39	44.40	200.75

APPENDIX A

Spending/Revenue Options

END LUMP SUM PAYMENTS OF FEDERAL EMPLOYEES' RETIREMENT BENEFITS

Agency: OPM | Functional Code: 602

Enforcement: PG-E
Source: HF
Structure: IRB
Budget Fund: TF
Category: SC
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)							
Outlays (+ or -)		0.00	0.00	-2.06	-2.79	-3.77	-8.63

Proposed Program - Extend prohibition on federal employees taking their retirement benefits in a lump sum.

Arguments for Proposal - This prohibition was enacted in the 1990 budget agreement and is scheduled to expire in fiscal year 1995. [HF] CBO estimates that eliminating the lump-sum option for all federal employees would save $2.1 billion in 1996 and $2.08 billion in 1997.

Arguments Against Proposal - Savings from ending lump sum payments would be offset by higher annuity payments in later years. Lump sum withdrawal of contributions at the time of retirement compensates somewhat for the requirement that participants must help finance the retirement plan with after tax salaries. This type of withdrawal option is frequently included in public sector plans for county and municipal workers and in some teacher plans. (This option is not common among private pension plans, because virtually all private plans are fully employer financed and require no employee contributions.) [CRS]

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - Opposition likely to be heavy in areas with high concentration of Federal retirees.

Campaign Positions that Affect the Proposal -

Funding Summary - Change amounts shown above are from the Heritage Foundation's Deficit Reduction Plan. Current Services amount is account total for Civil Service retirement and disability fund. Instead of total outlays from the Civil Service Retirement TF, as shown below, Current Services should be an estimate of the amount of the FY 1994 COLAs, based on CPI full COLA assumption.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		37.14	39.14	43.23	46.16	49.39	215.06
Outlays		36.85	38.83	42.88	45.79	49.00	213.35
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority							
Outlays		36.85	38.83	40.82	43.00	45.23	204.72

Spending/Revenue Options

REDUCE SPECIAL PURPOSE HUD GRANTS

Agency: HUD | Functional Code: 604

Enforcement: DOM
Source: CBO CG N-D
Structure: CIB
Budget Fund: GF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		-0.12	-0.12	-0.13	-0.13	-0.14	-0.64
Outlays (+ or -)		-0.0	-0.06	-0.12	-0.13	-0.13	-0.43

Proposed Program - Would eliminate 133 grants which originated in the 1992 HUD appropriation.

Arguments for Proposal - Although the grants are part of the appropriation for rental housing assistance for low-income households, the overwhelming majority of them are aimed at community and economic development, infrastructure, and public service activities, including art centers and recreation and health care facilities. Opponents of these grants argue that they are strictly local and should be funded at the local level. [CBO] Could save $1 billion between 1993 and 2002. [N-D]

Arguments Against Proposal - The communities in which these 133 grants are slated to be spent would have to find local funds or private subscription to complete the projects.

State and Local Impact of Proposal - See arguments for and against.

Any Political Landmines Associated with Proposal? - Most of these grants will go to constituents of influential House and Senate members. Outgoing Administration may obligate these funds.

Campaign Positions that Affect the Proposal - Included in *Putting People First*.

Funding Summary - Numbers above are CBO, but delayed one year. Current services amounts shown are from the subsidized housing programs account total.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		—	—	—	—	—	—
Budget Authority		8.61	8.90	9.21	9.53	9.82	46.07
Outlays		18.45	19.63	20.79	21.44	22.51	102.82
Proposed Level							
Revenue		—	—	—	—	—	—
Budget Authority		8.49	8.78	9.08	9.40	9.68	45.43
Outlays		18.45	19.57	20.67	21.31	22.38	102.39

APPENDIX A

Spending/Revenue Options

INCREASE TARGETING OF CHILD NUTRITION SUBSIDIES

Agency: Agriculture
Food and Nutritional Services

Functional Code: 605

Enforcement: DOM
Source: CBO RP HF
Structure: OPB
Budget Fund: GF
Category: SC
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		-0.40	-0.90	-0.97	-1.05	-1.10	-4.45
Outlays (+ or -)		-0.34	-0.83	-0.96	-1.05	-1.10	-4.30

Proposed Program - Would target child nutrition subsidies away from middle and upper income children. Under the National School Lunch Act, a basic cash subsidy is provided for each lunch served, regardless of a child's family income. Students who do not qualify for reduced priced lunches may purchase paid lunches which are federally subsidized at a rate of 15.5 cents in the 1990-91 school year. [CRS] CBO proposal does not clearly delineate how proposal would be implemented.

Arguments for Proposal - Some of the benefits of this program benefit middle and upper income children. [CBO] Only about half of the 28 million children who received federally subsidized meals under various child nutrition programs in 1990 were from lower income families. [CRS]

Arguments Against Proposal - As many as several thousand schools could drop out of the program entirely. According to some estimates, as many as 2,000 schools left the program after school lunch cuts in 1980 and 1981. [R. Greenstein] This would eliminate federally subsidized meals for low-income children attending those schools. Low income children at other schools might stand out as being poor when non-poor children drop out of the program. [CBO] A reduction in the basic subsidy would increase the price of paid lunches and would reduce non-poor children's participation in the program. If this happened, the economies of scale due to broad participation in the program would be lost. [CRS]

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - This proposal would attract strenuous opposition, has a very low chance of passage, and would likely even have trouble attracting sponsors. Virtually every member of the relevant Congressional committees oppose it. Many members of Congress believe such proposals would gravely injure the program, including Senator Leahy (D-VT), Chairman of the Agriculture, Nutrition and Forestry Committee, and Rep. Ford (D-MI), Chairman of the Education and Labor Committee. In addition, the potent 70,000 member American School Food Service Association stands ready to go to war over it. One possibility to achieve savings in school food subsidies is to cut off subsidies at high income levels. The resulting savings would be much smaller. [R. Greenstein]

Campaign Positions that Affect the Proposal - Included in Ross Perot's budget plan.

Funding Summary - Change amounts shown above are from CBO, but with a one year later starting date. Current Services amounts are the Food and Nutrition Service's Child Nutrition programs account.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		6.83	7.22	7.61	8.01	8.41	38.08
Outlays		6.77	7.16	7.55	7.95	8.35	37.78
Proposed Level							
Revenue		---	---	---	---	---	—
Budget Authority		6.43	6.32	6.64	6.96	7.31	33.63
Outlays		6.43	6.33	6.59	6.90	7.25	33.48

APPENDIX A

Spending/Revenue Options

SCALE BACK LOW-INCOME HOME ENERGY ASSISTANCE

Agency: HHS | Functional Code: 609

Enforcement: DOM
Source: CBO
Structure: OPB
Budget Fund: GF
Category: SC
Rating: 2

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		-0.16	-0.16	-0.17	-0.17	-0.18	-0.83
Outlays (+ or -)		-0.15	-0.16	-0.17	-0.17	-0.18	-0.82

Proposed Program - Would scale back and consolidate Low-Income Home Energy Assistance (LIHEAP) Program and reduce funding by 10 percent. LIHEAP is a block grant program in which the federal government gives states and Indian tribes grants to operate multi-component home energy assistance programs for needy households. Grantees determine which state-level and local agencies administer the program, what eligibility standards will be used, and how and when benefits will be provided, and what mix and what range of benefits will be offered. [CRS]

Arguments for Proposal - The LIHEAP and its predecessor energy assistance programs were created in response to the rapid 1970s' price increases in energy used in the home (notably fuel oil). Since then, real energy prices have dropped sharply. In addition, 28 states transferred up to 10 percent of their LIHEAP funds during fiscal year 1990 to supplement spending on five other social and community services block grant programs; the transfers indicate that there is less political support in some states for energy assistance. Moreover, since FY 1990, LIHEAP has been cut more than 10 percent. The Heritage Foundation proposes to restrict eligibility of LIHEAP to those with incomes below 130 percent of the poverty level and reduce funding by 25 percent for a savings of $0.7b (FY 94), $0.8b (FY 95), $0.83b (FY 96), $0.85b (FY 97), $0.88b (FY 98) for a total 5-year savings of $4.1 billion. This program duplicates the other federal utility assistance and state and local utility assistance programs. [HF]

Arguments Against Proposal -

- Real energy prices have dropped only a fraction of the percentage LIHEAP has already been cut. LIHEAP is currently funded at 55 percent of the FY 1981 level, and 67 percent below the level estimated by the Carter Administration to be needed in FY 1981 to offset the effects of higher energy prices on the poor.
- This cut would hit the very poorest -- nearly 60 percent of recipient households have annual incomes below $6,000.
- This year there are more poor people than in any year since 1964, so the level of per person LIHEAP funding has decreased even more.
- These cuts would come on top of sharp cuts in Aid to Families with Dependent Children (AFDC). AFDC benefits are now 43 percent below their 1970 levels in the median state after adjusting for inflation.
- Given current funding levels, about 20 million eligible low-income households are currently left out and average benefits per poor household have been cut substantially in recent years.
- HUD says that 5 million poor households have "worst case" housing needs because they pay over half their monthly income for rent and utilities.
- A recent study at Boston City Hospital found that the proportion of poor children visiting the hospital who were underweight rose in cold seasons as families cut back on food to pay heating bills.

[R. Greenstein]

State and Local Impact of Proposal - Would shift some of these costs to state and local utility assistance programs.

Any Political Landmines Associated with Proposal? - Consider pro-rating reductions to mitigate strong regional biases.

Campaign Positions that Affect the Proposal -

Funding Summary - Change amounts shown above are from CBO elimination option, but with a one year delay. Current Services amounts are the LIHEAP account.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		1.50	1.65	1.71	1.77	1.88	8.51
Outlays		1.60	1.65	1.71	1.76	1.81	8.53
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		1.34	1.49	1.54	1.60	1.70	7.68
Outlays		1.45	1.49	1.54	1.59	1.63	7.71

MISCELLANEOUS

APPENDIX A

Spending/Revenue Options

SAVINGS IN VETERANS PROGRAMS

Agency: Veterans Administration — Functional Code: 700

Enforcement: PG-E
Source: CBO Bush Budget
Structure: OPB CIB IRB
Budget Fund: GF
Category: SC
Rating: 2 (in part); 4 (in total)

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)							

Proposed Program - This is obviously an extremely sensitive and delicate area for President-elect Clinton. The question is whether he can propose some modest reductions if the reductions are smaller than those in the FY 1993 Bush budget. The Bush budget proposed veterans' cuts of $3.5 billion over 5 years ($700 million in FY 1997). The Bush proposals were: 1) extend the expiration of existing authority to recover costs from health insurers of service-connected veterans for treatment of non-service connected conditions (this authority apparently expires after FY 1993 and extending it saves $200 million to $300 million a year); 2) various changes in the veterans' baseline proposal and veterans' pension and retirement benefits.

Arguments for Proposal - The arguments for extending existing authority to recover costs from insurers for treatment on non-service connected conditions is particularly strong. Why should the federal government rather than the private insurers bear these costs?

Arguments Against Proposal -

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? - It should be possible to extend the existing authority to recover costs from health insurers. It will be potentially much harder to secure the other changes which veterans groups can be expected to oppose, particularly given the campaign sensitivities.

Campaign Positions that Affect the Proposal -

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

EXTEND CUSTOMS USER FEES

Agency: Customs Service — Functional Code: 750

Enforcement: PG-E
Source: PO
Structure: OPB
Budget Fund: GF TF EF
Category: UF
Rating: 2

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)				-0.75	-0.75	-0.75	-2.25

Proposed Program - Existing Customs fees that expire after 1995 would be extended.

Arguments for Proposal - These user fees are already in effect and should be extended rather than allowed to expire.

Arguments Against Proposal -

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? -

Campaign Positions that Affect the Proposal -

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

CUT WHITE HOUSE STAFF
CUT CONGRESSIONAL STAFF

Agency: Executive Office of the President
Legis. Branch

Functional Code: 801 802

Enforcement: DOM
Source: CG HF
Structure: OPB
Budget Fund: GF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)							
Outlays (+ or -)		-0.11	-0.11	-0.11	-0.11	-0.11	-0.55

Proposed Program - Will reduce White House staff by 25 percent and challenge Congress to do the same.

Arguments for Proposal - The White House and Congress must demonstrate leadership to federal agencies and the public. The Heritage Foundation proposed to cut Congressional staffs by 50 percent and eliminate the franking privilege. The bulk of the Members' free mail is unsolicited and is used for re-election purposes. The GAO has found that Congressional staffs are three times the size they were in 1960. [HF] Some in Congress have argued that White House funding should be consolidated, analyzed, and fully disclosed because, under the current scattered system, it is impossible to understand all the costs.

Arguments Against Proposal - (1) No program impact. (2) The Carter administration failed to make good on the same campaign promise, because it soon discovered (within three months) that it lacked the personnel to run the government. It first detailed staff from agency payrolls to the White House and later dropped the program altogether.

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - Need to demonstrate parity between White House and Congress; and between political and career slots. Also, Congress may need flexibility in achieving cuts since some staffs are larger than others, and there is much variation in compensation.

Campaign Positions that Affect the Proposal - Included in *Putting People First*. Campaign pledge to cut the White House staff by one-quarter.

Funding Summary - Number shown above is from *Putting People First,* but delayed one year. Current services amounts shown are from the Senators' official personnel and office expense account, the House of Representatives' salaries and expenses account total, and the White House's salaries and expenses account. Note that according to a report prepared by OMB Director Darman for the House and Senate Appropriations Committees, a number of White House related services are accounted for elsewhere in the federal budget. For example, the cost of the White House Communications Agency appears in the DOD's budget ($90.6 million in FY 93). Much information regarding funding of all White House services is classified. [Washington Post]

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		1.04	1.07	1.14	1.20	1.26	5.71
Outlays		0.91	0.96	1.01	1.06	1.11	5.05
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority							
Outlays		0.80	0.85	0.90	0.95	1.00	4.50

APPENDIX A

Spending/Revenue Options

CHANGE REVENUE SHARING FORMULA FOR FEDERAL LANDS

Agency: Forest Service Interior BLM — Functional Code: 806

Enforcement: PG-E
Source: CBO RP
Structure: OPB
Budget Fund: GF
Category: SC
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		-0.20	-0.20	-0.21	-0.21	-0.22	-1.05
Outlays (+ or -)		-0.19	-0.20	-0.21	-0.21	-0.22	-1.05

Proposed Program - Would change revenue sharing formula from a gross to a net-receipt basis for commercial activities on USDA Forest Service and Dept. of Interior BLM land. Because federal property is exempt from state and local taxes, Congress has chosen to enact a variety of mechanisms that provide for sharing of federal land-related revenues and receipts with the state or local governments. Depending upon the type of activity generating the revenues, percentages paid range from 5 to 90 percent of gross program receipts as specified in individual statutes. [CRS]

Arguments for Proposal - Currently states share 25 percent of the burden of paying administrative costs, but receive up to 50 percent of federal gross receipts. "Federal savings would be substantial if the Congress required agencies to deduct their full program costs from their gross receipts before making payments to states." [CBO]

Arguments Against Proposal - Changing the formula would have a negative impact on the economies of states and counties. [CBO]

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? -

Campaign Positions that Affect the Proposal - Included in Ross Perot's budget plan.

Funding Summary - Change amounts shown above are from CBO, but with one year delay. Current Services is the sum of the USDA Forest Service Permanent appropriations account and the BLM's Payments in lieu of taxes account.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		0.37	0.37	0.37	0.38	0.38	1.87
Outlays		0.37	0.37	0.37	0.38	0.38	1.87
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		0.17	0.17	0.16	0.17	0.16	0.82
Outlays		0.18	0.17	0.16	0.17	0.16	0.82

APPENDIX A

Spending/Revenue Options

REDUCE INTEREST COST OF FEDERAL DEBT BY SHORTENING MATURITIES

Agency: All | Functional Code: 901

Enforcement: DOM
Source: CG RP
Structure: OPB
Budget Fund: GF TF EF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE EFFECT OF OPTION (Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)		---	---	---	---	---	---
Outlays (+ or -)		-1.70	-3.40	-5.10	-6.80	-8.30	-25.30

Proposed Program - Amounts shown above are Option 1 - Low range. The numbers for Options 1 and 2 are: Option 1 - FY 94: (-1.7 to -2.6b); FY 95: (-3.4 to -5.2b); FY 96: (-5.1 to -7.8b); FY 97: (-6.8 to -10.4b); FY 98: (-8.3 to -13.0b). Option 2 - FY 94: (-3.2 to -5.1b); FY 95: (-6.4 to -10.2b); FY 96: (-9.6 to -15.3b); FY 97: (-12.8 to -20.4b); FY 98: (-16.0 to -25.5b). Interest expense is now running at over $200 billion on our $4 trillion national debt and constitutes one of the biggest categories of federal spending. There are opportunities to moderately reduce its growth by borrowing on a somewhat shorter term basis than the recent Treasury practice.

Right now, the Treasury yield curve is "steep." This means that the gap between short term Treasury bill rates (currently yielding 2.50 percent) and 30-year bond rates (7.70 percent) is particularly wide. Increasing Treasury borrowings at the short end of the maturity range, and reducing them at the long end, obviously will save money.

Any such shift, however, would require a delicate approach to avoid destabilizing the money markets. Truly huge amounts could not be shifted without provoking such impacts. If they are provoked, the operation could be self defeating because interest rates would rise and the savings would not materialize.

Arguments for Proposal - Background

Right now, on an annualized basis, the Treasury is borrowing approximately $300 billion of "new money" (to finance the budget deficit) and is refinancing approximately $500 billion of debt which matures each year (see attached chart). In other words, it is borrowing $800 billion per year from the public credit markets.

The Department raises these amounts in a series of maturities. These include three and six month bills, one year bills, two year notes, four year notes, five year notes, ten year notes, and 30 year bonds. Over the years, there has been a maximum effort to "regularize" this borrowing process; *i.e.*, to maintain a particular frequency for each maturity and relatively predictable amounts for each. This is done to let markets know what's coming and thus maximize their absorptive capacity. The average maturity on the entire national debt is 5 years and 11 months, and has grown steadily in recent years.

The Social Security and other trust fund surpluses also are invested in Treasury Securities. These funds simply buy the same maturities which the public buys and on a pro rata basis. With growing surpluses in most of the trust funds, they have acquired increasing amounts of Treasury Securities in recent years, and their total now approximates $1 trillion. It is not clear whether any shift borrowing toward the short end of the maturity range would apply equally to the trust fund purchases. There would be no savings to the unified budget because the reduced interest expense would represent lost interest income to the funds and they would cancel out each other.

Borrowing On A Shorter Term Basis

Perhaps the best way to borrow on a shorter term basis would be to completely suspend new sales of 30 year bonds and cut back sharply on use of the ten year note. This would make sense for three reasons: (1) The maximum interest savings would be achieved by eliminating the longest maturities; (2) It would relieve general pressure on long term interest rates and perhaps facilitate their declining. Since real interest rates are unusually high, this would benefit the economy more broadly because the long-bond is the benchmark for long-term borrowing rates such as corporate bonds and mortgages; and (3) A few respected bond market experts, like Henry Kaufman, already have called for suspending the 30 year maturity to help the economy.

The Treasury is currently borrowing $50-80 billion annually in the 30 year category. This maturity has been used on a quarterly basis, with $12 billion a typical, recent amount per sale. Periodically, however, a much larger 30 year issues is sold; *e.g.*, up to $30 billion.

The ten year amounts and the frequency are similar. At least $50 billion is being raised annually in this category. It would be reasonable to conclude that half of these amounts could be shifted onto a shorter term basis without severe market disruption.

Conceivably, this total of $75 billion could be raised entirely on a 3 month and 6 month basis. This would depend on careful consultations with the Federal Reserve, which orchestrates such short term rates. In effect, we would need a supportive Fed.

It should also be recognized that increasing the supply of short term debt carries the risk of pushing up short term interest rates.

<u>If this major shift was possible, however, it could involve savings of five full percentage points on the $75 billion, or $3.75 billion in the first year</u>. Continuation of such an approach would mean larger savings in later years. This assumes that present levels of interest rates are unchanged over the next year.

It is even possible that larger amounts could be shifted, and bigger savings attained. The Treasury has been steadily extending the average maturity of the overall national debt, and this could be reversed.

For example, the average maturity was 3 years in 1976 and now is almost 6 years. While it would take several years to take full effect, an aggressive shortening of this average maturity might be set in motion. Assuming constant interest rates, the eventual savings from such an operation would be larger than $3.75 billion.

Conclusion

With the yield curve so steep and the demand for credit so weak, there are clear opportunities to slow the growth in interest expense by shifting to shorter term maturities. The degree of possible shift cannot be determined without consultation with the Federal Reserve and, perhaps, government bond experts.

It should be re-emphasized, however, that any such operation involves market disruption risks. Not the least of these is the refinancing risk that would be created by meaningfully increasing the amount of short term maturities that would have to be rolled over in the near future. Any such market disruptions have obvious political fallout.

The Treasury has been extending average maturities in recognition of our exploding debt and the related refinancing burden. That is the safe course. Moderate changes in this course, e.g., dropping the 30 year bond, are surely possible. Extreme changes, however, could backfire.

It is important that Treasury policy remain predictable in order to maximize the absorptive capacity of the markets. Any new policy should be announced clearly and well in advance of implementation.

Note should also be taken of the intersection of this initiative with other fiscal policy measures. In particular, some observers feel that a spending policy involving significant stimulus will precipitate inflation and drive interest rates up. If this were to happen, the increased cost of rolling over the shorter maturities of debt, compared to financing longer term today, could erode the gains achieved by shifting the maturity schedule of the Federal debt. With so little inflationary pressure on the economy today, however, it is more likely that interest rate increases associated with the announcement of a stimulus package will be short-lived.

Arguments Against Proposal -

State and Local Impact of Proposal - None

Any Political Landmines Associated with Proposal? - Discussed above. Essentially, any program to alter the established pattern of borrowing by the Treasury will have an influence on the financial markets. The more abrupt and aggressive a change, the greater will be the potential for disruption. A few key decision-makers and opinion leaders in the markets ought to be consulted, but only if strict confidentiality can be maintained. Any new program will have to be communicated clearly to the markets well in advance of implementation.

Campaign Positions that Affect the Proposal - None

Funding Summary - The Current Services amounts shown below are the totals for Subfunction 901 Interest on the Public Debt.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority		324.78	351.32	376.88	404.44	432.75	1890.17
Outlays		324.78	351.32	376.88	404.44	432.75	1890.17
Proposed Level							
Revenue		---	---	---	---	---	---
Budget Authority		---	---	---	---	---	---
Outlays		323.08	347.92	371.78	397.64	424.45	1864.87

APPENDIX A

Spending/Revenue Options

ELIMINATE 100,000 FEDERAL EMPLOYEES

Agency: All

Functional Code: 999

Enforcement: D-ID DOM
Source: CG
Structure: OPB
Budget Fund: GF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue		---	---	---	---	---	---
Budget Authority (+ or -)							
Outlays (+ or -)		N/A	-2.00	-4.30	-4.50	-4.50	-15.30

Proposed Program - Will cut 100,000 federal government positions through attrition. [See CBO DEF-41, pg. 91.] Estimates are that Federal civilian turnover is 400,000 per year. In theory, a 3 month freeze should cut 100,000 people. In practice, this is difficult if not impossible to accomplish in so short a time, because (1) turnover occurs disproportionately at lower levels, (2) a large number of jobs aren't fungible, *e.g.*, technical positions, and (3) some jobs simply shouldn't be reduced, *e.g.*, IRS agents, FBI agents and air traffic controllers. There might in contrast be disproportionate opportunity for cuts in civilian defense. (Nearly 1/2 of civilian employment is at the Department of Defense.)

A more effective means of accomplishing a 100,000 reduction by attrition would be to allow the agencies to replace 3 of 4 departures over a year, though this might have to be extended to 18 to 24 months to complete for "untouchable" categories. Also, the agencies should have decentralized authority to make their own judgments about cuts and replacements, but should be required to track and report progress toward their goals.

It is important that this program be kept a secret until implemented. Premature announcement will trigger a hiring freeze and other gamesmanship that will frustrate the program.

Arguments for Proposal - During periods of budget austerity, agencies should be encouraged to adopt efficiencies. Federal pay and benefits are more than adequate to recruit and retain a quality work force. [CRS] The decline of the former Soviet bloc as a military threat, the conclusion of the Persian Gulf crisis and the closing of many U.S. military installations would allow major reductions of staff at the Department of Defense and at defense support agencies. [CRS] The Pentagon estimates released in February 1992 project up to 120,000 civilian jobs eliminated by the end to FY 1995, including more than 400,000 in FY 1993 alone. Reduction in staff at the U.S. Postal Service is expected to result from increased automation and a continuing trend toward alternative outside delivery systems. [CRS] Some observers have suggested that there are significant opportunities for increasing public employee productivity through improved computerization or other technologies. If so, service quality could be retained or improved even as employment decreased somewhat. This automation could be part of the FY 93-94 stimulus program.

Arguments Against Proposal - Public employee unions and other employee organizations will likely oppose and further insist on parity between lower and senior grades. Outgoing party should be prevented from embedding former political appointees in career positions. Some agencies with increasing workloads may need exemptions from freeze. Freeze could interfere with new Administration appointments.

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - None.

Campaign Positions that Affect the Proposal - Included in *Putting People First*.

Funding Summary - Not available as a single identifiable line-item, but is subsumed in numerous agency salaries and expenses (S&E) accounts and line-items. [Number above from *Putting People First*, but delayed one year.] The Object Class Analysis, Budget of the United States Government, Fiscal Year 1993, states that the actual cost to the United States of personnel services and benefits for 1991 was $244 billion, and estimates that the cost to the United States of personnel services and benefits was $252 billion in 1992 and was $257 billion in 1993.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue		---	---	---	---	---	---
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

CUT 3% FROM ADMINISTRATION

Agency: All | Functional Code: 999

Enforcement: DOM
Source: CG RP
Structure: OPB CIB IRB
Budget Fund: GP TF EF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)		N/A	-2.00	-5.00	-6.50	-8.50	-22.00

Proposed Program - Three percent across the board administrative savings in every Federal agency. [CG] Various object classes will be reduced which will reduce appropriation requirements in salaries and expenses (S&E) accounts. Ross Perot proposed a plan which would "require the federal departments to submit budgets that cut 15 percent from their discretionary budgets in two steps. First, cut specific programs that are unnecessary and outdated to save 5 percent. Then, make an across-the-board cut of all remaining departments and programs of another 10 percent." Bush administration has enforced strict caps on discretionary spending in nearly all agencies and proposed to freeze domestic government employment and cut federal personnel by 4 percent. The two big features of this proposal are: (1) decentralize authority and responsibility in order to give agencies flexibility to decide where and how to cut, and (2) stress accountability by requiring prospective agency heads to enforce the program as a condition of their employment and by rigorously reporting and tracking progress toward the goal. If done in conjunction with proposal to eliminate 100,000 federal jobs, must be careful not to double count savings.

Arguments for Proposal - During periods of budget austerity, agencies should be encouraged to adopt efficiencies. [CG] "The longer an enterprise is in existence, the larger the unnecessary overhead." [RP]

Arguments Against Proposal - Some agencies with increasing workloads may experience difficulties. Care must be taken that "administrative" reductions do not become "program" reductions. Also, indiscriminate or across the board cuts may actually end up being costly. For example, Medicare is said to be losing hundreds of millions of dollars annually because of administrative austerity hitting audit functions. [GAO]

State and Local Impact of Proposal - None.

Any Political Landmines Associated with Proposal? - May generate political heat if cuts affect services to beneficiaries of programs such as Social Security.

Campaign Positions that Affect the Proposal - Included in *Putting People First*. Included in Ross Perot's, *United We Stand*. By urging no specific budget cuts, Perot raises expectations without taking the political heat.

Funding Summary - Number above is from *Putting People First*, but delayed one year.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

REDUCE OVERHEAD ON FEDERALLY SPONSORED UNIVERSITY RESEARCH

Agency: Various | Functional Code: 999

Enforcement: DOM
Source: CG CBO HF
Structure: CIB
Budget Fund: GF
Category: SC
Rating: I

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)		-0.73	-0.76	-0.79	-0.82	-0.85	-3.95
Outlays (+ or -)		-0.33	-0.66	-0.76	-0.80	-0.83	-3.40

Proposed Program - Would cap the administrative portion of modified direct costs for university research sponsored by all non-defense agencies at 20 percent (currently capped at 26 percent) and facilities' indirect costs at 15 percent.

Arguments for Proposal - The share of indirect costs has risen substantially since 1970. Despite the recent focus on administrative costs, facilities overhead has accounted for virtually all of the growth in indirect costs since 1982. Setting these rates back to the level roughly of 1980 should not do substantial harm; until quite recently, universities not only survived, but prospered, with those rates of reimbursement. Leaving the rates uncapped results in more R&D spending with less R&D. [CBO] Over the last few years, questions have been raised about the increasing amount of appropriated R&D funds which go to pay for the indirect costs of academic research. Interest has been heightened by recent congressional investigations into allegations of schools charging items inappropriately to indirect costs. A recent HHS audit found $14 million in inappropriate billing in the first 13 schools that were audited. Congressional testimony shows federal audits uncovered alleged billing abuses totaling several hundred million dollars, including about $2.31 million at Stanford University. Improper billings included such items as antique commodes, flower arrangements, depreciation of a 72-foot yacht, refurbishing a grand piano, modernization of the university president's home, payment for a wedding reception for the new president's wife, and construction of a new alumni club. Some schools have voluntarily reimbursed the government for improper bills and or have temporarily requested lower indirect costs rates, but other schools have not cooperated with the government. [CRS]

Representative Boucher (D-VA) introduced the National Science Foundation Authorization Amendments of 1991 which would limit university reimbursements for the administrative portion of indirect costs to 26 percent of modified direct costs. Representative Waxman (D-CA) introduced the NIH revitalization Amendments of 1992 which would limit reimbursement for administrative portion of indirect costs to 26 percent of modified direct costs for facilities, and would prohibit indirect costs for facilities (buildings and equipment) unless approved and used for such facility, if total acquisition cost for construction or renovation exceeds $3 million.

Arguments Against Proposal - Universities and higher education research associations argue for the need of universities to recover the total cost of research to maintain a world-class system of research universities built up at great costs over a period of decades. Not allowing full cost recovery might result in slow decay. CBO has admitted that its savings estimate here was too high by perhaps four times, and should be closer to $100-200 million annually.

Also these savings are not in an appropriation account, that is, Congress does not control overhead itself, but instead the appropriation to the National Institutes for Health (NIH), for example. Thus modifying overhead rates is simply a way to take the amount NIH gets and redirect it toward research and away from university overhead. The only way for the administration to take credit for deficit reduction is to reduce the request for NIH, NASA, NSF, DOE or other university research.

A better way to handle this issue is to do it through OMB and how it presents its budget for R&D. For example, if it wanted to do so, it could present a higher increase for R&D, offset by reductions in overhead rates and this come in with lower appropriation requests than otherwise would be the case.

State and Local Impact of Proposal - Indirect impact on state public higher education budgets.

Any Political Landmines Associated with Proposal? - None.

Campaign Positions that Affect the Proposal - Included in *Putting People First.*

Funding Summary - Change number shown above is from CBO, but delayed one year. Current Services not available as a single identifiable line-item, but is subsumed in numerous agency research accounts and line-items.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

FREEZE SPENDING ON FEDERAL CONSULTANTS

Agency: All | Functional Code: 999

Enforcement: DOM
Source: CG
Structure: OPB CIB IRB
Budget Fund: GF TF EF
Category: SC
Rating: 1

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)		-0.17	-0.19	-0.21	-0.21	-0.22	-1.00

Proposed Program -

Arguments for Proposal - In order to obtain savings from staff reductions and 3 percent cuts in administrative costs, agencies must be prevented from replacing full time employees with consultants. Current heavy reliance on consultant contracts needs to be reduced.

Arguments Against Proposal - Some contracts provide baseline operations, such as NIH biological tissue testing, which is directly tied to workload and therefore highly sensitive to funding levels. A cut in such contracts will directly reduce the program.

State and Local Impact of Proposal - Numerous programs of widely varying quality have been offered in Congress over the years to control contract spending.

Any Political Landmines Associated with Proposal? - Included in *Putting People First*.

Campaign Positions that Affect the Proposal - Some limited information is available through OMB's Object Class Budget.

Funding Summary - Change numbers shown above are from *Putting People First*, but delayed one year.

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

CAP ON NON-SOCIAL SECURITY MANDATORY PROGRAMS

Agency: All

Functional Code: 999

Enforcement: PG-E
Source: N-D
Structure: OPB IRB
Budget Fund: GF TF
Category: SC
Rating: 4

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)							

Proposed Program - Would enact a gradual phase-in cap on spending on non-Social Security mandatory programs. Would save $660 billion over 10 years. [N-D]

Arguments for Proposal - The cap would force Congressional committees to review their programs and report legislation that would limit growth, and would provide incentive for system-wide health care reform. [N-D]

Arguments Against Proposal - This proposal is a plug in budget parlance, which means a budget assumption that is not sufficiently specific to make a credible deficit reduction estimate. Isabel V. Sawhill criticized the N-D report stating, "[c]uts of this magnitude are bound to inflict real pain, especially on lower-income citizens. Yet, with the exception of some suggested program terminations which account for only 6 percent of the total savings, the report fails to specify where and how savings of this magnitude are to be achieved."

State and Local Impact of Proposal -

Any Political Landmines Associated with Proposal? - Isabel V. Sawhill states, "the [N-D] report implicitly assumes that health care reform can produce very large budgetary savings without explaining that this is either going to necessitate higher taxes or some rationing of the health care people receive."

Campaign Positions that Affect the Proposal - The Bush administration also proposed in its FY 1993 Budget and reiterated in *Mid-Session Review: The President's Budget and Economic Growth Agenda*, a cap on growth on non-Social Security mandatory spending. "Projected growth above the cap would trigger a reconciliation process in which savings could be achieved by program reforms. Failure of the reconciliation process to achieve the necessary savings would trigger a sequester of mandatory spending programs in the amount necessary to hold mandatory spending growth to the capped level."

Funding Summary -

PROPOSED LEVEL = CURRENT SERVICES PLUS PROPOSED CHANGE
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Current Services							
Revenue							
Budget Authority							
Outlays							
Proposed Level							
Revenue							
Budget Authority							
Outlays							

APPENDIX A

Spending/Revenue Options

REDUCE THE NUMBER OF FEDERAL COMMISSIONS

Agency: Numerous agencies — Functional Code: 999

Enforcement: DOM
Source: PO
Structure: OPB
Budget Fund: GP
Category: SC
Rating: 2

NOTE: All options rounded to the nearest $10 million. For example, $68 million would be shown as $0.07 billion.

CHANGE
EFFECT OF OPTION
(Dollars in Billions)

	1993	1994	1995	1996	1997	1998	Cumulative Six-year Deficit Impact
Revenue							
Budget Authority (+ or -)							
Outlays (+ or -)		-0.24	-0.25	+0.26	-0.27	N/A	-0.5 for five years

Proposed Program - A House Budget Committee report issued earlier this year recommended terminating federal funding for a number of boards, commissions, and other organizations that have had minimal impact, are duplicated by other federal agencies, or are superseded by other organizations that provide similar or better information or service. This proposal would carry out that recommendation.

Arguments for Proposal - There are low priority expenditures that need to be cut if the deficit is to be reduced.

TO: Governor Clinton and Senator Gore
FROM: Bob Rubin
DATE: 20 December 1992

cc: Altman, Bentsen, McLarty, Panetta, Rivlin, Tyson, Reich, Brown, Browner, and Stephanopoulos

ECONOMIC POLICY OPTIONS BOOKS

The following memo, executive summaries, and binders of background memos are the result of the efforts of Bob Reich and the economic transition team. In the first binder you will find a summary memo written by Gene Sperling; tables of revenue estimates, savings estimates, and costs of investments; and executive summaries that highlight the most important issues. The other three binders contain more detailed back-up material.

The Sperling memo brings together an enormous amount of material into a discussion of the major challenges you face as you develop your economic plan. Where there are conclusions they represent the writers point of view, but they are intended primarily to provide a stimulus for discussing the issues.

The binders were sent to Altman, Bentsen, McLarty, Panetta, Rivlin, Tyson, Reich, Brown, Browner, and Stephanopoulos with a memo describing the highly sensitive nature of these materials.

TABLE OF CONTENTS

	TAB
INTRODUCTION	
ECONOMIC POLICY OPTIONS MEMO	1
BUDGET SUMMARIES	2
EXECUTIVE SUMMARIES	
A. STIMULUS OPTIONS	3
B. BUDGET PROCESS AND POLICY	4
C. DEFICIT REDUCTION OPTIONS	5
D. INFRASTRUCTURE POLICY	6
E. DEFENSE REDUCTION OPTIONS	7
F. DEFENSE CONVERSION POLICY	8
G. TECHNOLOGY, MANUFACTURING, SMALL BUSINESS	9
H. ENVIRONMENT, ENERGY AND NATURAL RESOURCES	10
I. DOMESTIC POLICY	11
J. HEALTH POLICY	12
K. INTERNATIONAL TRADE	13
L. FINANCIAL INSTITUTIONS	14
M. LABOR ECONOMICS	15

BOOKS I,II, AND III CONTAIN SUPPLEMENTAL MATERIALS