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Welfare Reform Funding Option
Illustrative Ways Of Allocating Funds Over 5 Years

	(dollars in billions) 5 Years		
	Total	Fed Share	State Share
Offsets			
Parental Responsibility			
Net Child Support savings	0.5	-0.2	0.6
Minor mothers provisions	0.1	0.0	0.1
Family cap	0.7	0.2	0.4
Cap Emergency Assistance	2.1	2.1	0.0
Sponsor to alien deeming			
5 year deeming	2.7	1.9	0.9
extending to 7 year deeming	0.7	0.5	0.2
Family Day Care Homes	0.6	0.6	0.0
Social Security: Eliminate dependent benefits for retirees with minor children	3.6	3.6	0.0
Total Offsets	11.0	8.7	2.3
Illustrative uses of funding			
Transitional assistance and work			
Current estimate	6.7	6.3	0.4
With current law TCC*	6.2	5.8	0.4
Two-parent provision	2.2	1.2	1.1
Demonstrations and improving government assistance	2.6	1.9	0.7
Subtotal with current law TCC	11.0	8.9	2.1
Maintaining Fiscal Shares**		-0.2	0.2
Total funding	11.0	8.8	2.3
Net State and Federal Costs	0.1	0.1	0.0

*Legislative changes in matching rates or requirements for case management could increase the utilzation rate in Transitional Child Care (TCC), and add scorable costs.

**Modifications to fiscal shares could include match rate adjustments or other changes to the mix of Federal and State costs or savings.

Estimates for most offsets are unreviewed HHS estimates. Estimates for the Social Security provision are 5 year CBO estimates extrapolated to 10 years.

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Non-AFDC Day Care Funding
Possible Financing Source

	(dollars in billions) 5 years	10 years
Offset		
3% Gambling excise tax	2.4	5.5
Total Offsets	2.4	5.5
Possible use of funding		
Non-AFDC Day Care	2.4	5.5
Net Federal Costs	0.0	0.0

Gambling tax revenues prorated from Treasury 5-year and HHS 10-year numbers for a 4% excise tax. OTA staff indicate that prorating downward in this manner will slightly underestimate revenues.

Limit the Growth in Emergency Assistance

The little known AFDC/Emergency Assistance program had been constant at a relatively modest at roughly $100 million for many years. Its original intent was to help with emergency needs that would likely push them onto AFDC. Yet in the last few years states have discovered that the program to help fund a wide range of activities formerly funded almost entirely out of state funds, especially child welfare services and some homeless services, that may not be consistent with the original intent of EA, but which are legal under the extremely vague wording of current law. As a result the program is projected to grow from $x in FY1992 to $y in FY1999. Especially with the passage of Family Support and Preservation last year, this sort of entitlement growth and cost shifting ought to be checked. The proposal would cap each state's EA expenditures at 3% of AFDC benefits. The few states such as New Jersey and New York which already exceed this level would be grandfathered at their current expenditure level.

Savings in 1999:
Five year savings:

Deem Sponsor's Income Until Citizenship for New Immigrants

The Republicans have offered a bill to restrict all means tested benefit to citizens, eliminating legal immigrants who are not citizens from support. By 1999 such a proposal would save $x billion. It would also restrict support to a variety of immigrants who have chosen not to become citizens (yet). The vast majority of legal immigrant/non-citizens are here to work and establish a new future, rather than become a public trust. Immigration is generally restricted to people who are not likely to become a public trust. These include ...These legal immigrants work and pay taxes, contribute to and are eligible for employment insurance and Social Security according to the same rules as citizens, and generally are expected to contribute as citizens would.

Yet there are a significant number who apparently do not come to work. Remarkably, over 20% of persons on the SSI-Aged program are non-citizens. Most appear to be elderly parents or relatives of legal immigrants and citizens who came under a policy whereby American citizens and legal immigrants can, in limited numbers, bring in relatives to the U.S. Partly to prevent people from becoming a public such immigrants must be sponsored by the relative. Current law generally requires that a portion of sponsor's income be deemed available to the immigrant for the first three years of residency in determining eligibility and benefits for SSI and other programs. A significant portion of the SSI-Aged population seem to go on SSI in their 4th year. As part of the UI extension, such deeming was extended to 5 years for SSI until 1995.

This proposal would extend deeming until persons became citizens. (Immigrants are eligible to become citizens in 5 years.) Only persons emigrating with a sponsor would be affected. Virtually all savings are from SSI. This seems a sensible and defensible policy.

Savings in 1999:
Five year savings:

Eliminate the Late Baby Bonus for Social Security Retirees

Retirees who have children receive a 50% higher Social Security benefit for as long as their child remains under 18 and lives at home. Since this requires that the beneficiary have children after the age of 47 (44 if they take early retirement), this policy almost exclusively benefits male beneficiaries who have children late in life. Moreover, the mother of these children also qualify for a sizable Social Security benefit even if they are much younger than 62 so long as they are caring for the child and not working. (If such mothers work, they face the Social Security earnings test.) Clint Eastwood who just had a child at age 63 will be eligible for a 50% higher Social Security benefit for the next 18 years. Note since the benefit is available only until the child reaches 18, this also provides a powerful incentive for those with late babies to retire early to collect the higher benefit longer. Donald Trump will qualify for a higher benefit if he retires at age 62, but by the time he turns 65, his child with Marla will turn 18.

Virtually no one knows this benefit currently exists. This proposal calls for eliminating the late baby bonus prospectively. Current beneficiaries will not be affected.

Savings in 1999:
Five year savings:

Coordinate Tax and Transfer Systems

There is virtually no coordination between the current tax and transfer systems. There are significant differences in the treatment of dependents and others under the tax and transfer systems, opening the possibility of gaming the system. It is currently legal for a mother and children to receive AFDC and food stamp benefits while a man living with her claims the children for purposes of collecting the ETC. (The Working Group met such a family in one of its focus groups). In addition, our tax system is based on annual income, while the means-tested transfers are based on monthly income. In a modest number of cases, persons with very high income part of the year, collect AFDC or food stamps during another part. If such persons received unemployment insurance, the UI would be treated as taxable income an a portion of it would be taxed back. But there is no attempt to recapture means tested payments in any form, even if people have very high annual incomes.

Closer coordination of tax and transfer systems would allow both more appropriate rules regarding the ETC and measures to reduce fraud in that program. And it would allow a policy whereby a portion of transfer benefits would be "clawed back" in cases where annual income was well above poverty. The proposed policy would effectively require that people above the tax threshold (110-125% of poverty) to pay back up a portion of the "excess benefits" up to a maximum of 25% of their benefits above poverty to be paid along with taxes. Note this is still a more favorable treatment than currently accorded unemployment insurance or earnings which are both taxed. (The effective tax rate on earnings or UI is roughly 33% of income above the tax threshold--including the ETC phase out). Because taxes on earnings are collected as though persons earned that amount all year long, and because of the ETC, nearly all families would not owe money and rather get a smaller refund at the end of the year.

Savings from ETC coordination in 1999: still being estimated
Five year savings:

Savings from claw back 1999: $3.2 billion
Five year savings:

CONFIDENTIAL TVS Revised 11/30/93

ENTITLEMENT REFORM REVENUE OPTIONS

		FY 95	96	97	98	99	FY 95-99
1.1	Emergency Assistance Cap	0.3	0.3	0.5	0.5	0.5	2.1
1.2	Coordinate Tax and Transfer programs[1]	0.0	0.0	3.2	3.4	3.6	10.2
1.3	Minor Children and Young Spouses of Retires	0.2	0.5	0.8	1.0	1.2	3.7
1.4	Adjust SSI Child Benefits Rates[2]	1.2	1.3	1.4	1.5	1.6	7.0
1.5	Sponsorship of Aliens and Eligibility	0.1	0.4	0.9	1.5	1.8	4.7
	Total	1.8	2.5	6.8	7.9	8.7	27.7

1. Preliminary ASPE estimates based on TRIM simulations. Official Treasury estimates will revise them when they become available.

2. Preliminary ASPE estimates. The Social Security Administration is reestimating them.

March 11, 1994

MEMORANDUM FOR ISABEL SAWHILL

From: Mark Menchik

Subject: Potential Revenue for Welfare Reform: State Sales Tax on Interstate Mail-Order Sales

Copies to: J. Minarik, B. Selfridge, K. Fontenot, S. Dean, W. New

Background. Currently, mail-order merchants without a branch in the purchaser's State need not collect sales tax on interstate transactions. If the mail-order merchants were required to collect those sales taxes for the purchasers' home States, the home-state treasuries would not be the only beneficiaries. Home-state merchants would also benefit, since they would gain some sales that had been lost to mail order. Along with most governors, the home-state merchants are the principal supporters of changing the law.

Summary. A Federal law that required mail-order merchants with at least $5 million in annual sales to collect State sales tax on interstate purchases would yield approximately $2.6 billion to the States (1995). Those sales-tax proceeds could, in turn, compensate for increased State costs of welfare reform.

- In-state merchants would benefit even if increased State welfare share exhausted the gain in State tax revenue.

- Alternatively, the State-by-State calculation could allow States to retain, say, 20 percent of the added tax proceeds.

This revenue proposal is not an offset at the Federal level and requires State-by-State calculation of added revenues and welfare cost. Despite the substantial complexity, this revenue source does have appeal because it would also close an unfair tax loophole. I suggest that it be considered further.

Burden of the Revenue Increase. Although it is usually believed that most sales taxes are ultimately passed on to the purchaser, this may not be the case in highly competitive markets, particularly in the short term. If so, and if all interstate sales were taxed, then some mail-order merchants might have to absorb the tax. (Mail-order industry groups have successfully argued against this long-standing proposal thus far.) In the long run, however, consumers would probably bear most of the added tax collection. At present, two very different groups of consumers probably benefit most from the tax not being collected:

- o Relatively upscale metropolitan residents who buy specialty items, such as outdoor clothing from L.L. Bean.

- o Comparatively low-income rural residents buying items not available locally (or available only at high prices), such as auto or truck parts from J.C. Whitney in Chicago. (The consumers' mail-order business to Ward's, Sears, Penney's and the like is taxed, because these large concerns generally maintain branches in the purchaser's State.)

As a result of the preceding uncertainties, figures on the incidence of collecting the tax on interstate sales are unknown, whether 1) business vs. consumer, 2) among consumers at different income levels, or 3) rural vs. metropolitan.

Without comparing specific alternatives, there are pros and cons to taxing interstate sales for welfare reform.

Pro.

- o Changing the tax law closes a loophole that can give mail-order merchants an unfair advantage.

- o The revenue is likely to increase in time. From 1990-1992 the potential revenue gain was estimated to grow at 6 percent a year.

- o Unlike many other financing possibilities, there would be no cut in services for low-income persons.

- o A 1992 Supreme Court decision (Quill v. North Dakota) invited Congress to legislate on State taxation of interstate mail-order sales. Congress may soon be tempted to take up this invitation, perhaps to compensate the States for an otherwise unfunded mandate.

Con.

- o Five States (none populous) do not levy a general sales tax. They are Alaska, Delaware, Montana, New Hampshire, and Oregon.

- o These added revenues can help the Federal Government pay for welfare reform only indirectly and not simply. State cost shares must be increased and this increase must relate to an estimate of each State's added tax proceeds.

- o A subtle Federalism issue lurks, perhaps a near mandate. The Federal Government traditionally has avoided

Federal excise taxes are levied on very specific items, such as tobacco.) But to offset the increased payment for welfare, States would have to tax interstate sales. Presumably, States would not be averse to taxing merchants outside their borders, but what if the State ever wanted to reduce or eliminate (as Alaska did) its sales tax in general? (A reduction might accompany a higher State income tax.) Perhaps the State-by-State calculation in Federal law would derive from last year's tax rate, but this adds complexity.

Revenue Estimates for Different Variants.

(1995. Added collections, billions of dollars)

State tax only, no small-merchant exemption	3.6	
State tax only, merchants with >$5 m ann. sales	2.6	(Quoted above)
State tax only, merchants with >$10 m ann. sales	2.4	
State tax plus local sales tax levied uniformly, no small-merchant exemption	3.8	
State tax plus all local sales taxes, no small-merchant exemption	4.3	

The figures derive from estimates made by the U.S. Advisory Commission on Intergovernmental Relations. Those estimates were not prepared for costing, but for policy discussion. The estimates do not incorporate any behavioral effects, such as reduced mail-order sales after being taxed. The estimates for 1992 were updated by OMB staff.

- o Estimates above are available on a State-by-State basis.

- o The mail-order industry disputes the estimates above. It once estimated tax gains that were only one-third of the earlier version of those estimates.

- o The exemption of mail-order merchants with annual business under $5 million is from a study that interviewed a firm making computer software to handle different sales tax rates.

  -- The firm said that merchants above the $5 million threshold could use its software efficiently.

  -- SBA, however, makes small business loans available to mail-order merchants with annual sales of less than $12.5 million, according to the same study.

- Applying local sales taxes -- not just State tax -- to interstate sales would raise additional revenue, but with added complexity. In many local-sales-tax States, the rate varies from place to place.

  -- An alternative also appears above. It would collect only those local taxes levied uniformly by counties (e.g., California), or by other jurisdictions of a single kind.

  -- Because the States grant authority for local sales taxation, a Federal law could raise federalism concerns, depending on how the law is written.

Current Legislation. Last month, Senator Dale Bumpers (D-Ark.) introduced the "Tax Fairness for Main Street Business Act," S.1825. He chairs the Small Business Committee but the bill was referred to the Finance Committee, which has not acted on it.

- The bill allows States to tax mail-order merchants beyond their borders, with certain protections and exemptions, and capitalizes on the 1992 Quill decision.

- There were six original co-sponsors, including one Republican, Sen. Cochran (MS). Cochran has introduced similar legislation in previous years.

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

11-Mar-1994 02:35pm

TO: Isabel Sawhill

FROM: Richard B. Bavier
Office of Mgmt and Budget, HRVL

CC: Stacy L. Dean
CC: Wendy C. New

SUBJECT: Discussions with ASPE and ACR re: participation & job search

I met with Don Oellerich, Donna Pavetti, and Howard Rolston to talk about how to score up-front job search and how to think about participation levels in JOBS under welfare reform.

Up-front job search - We identified three models of up-front job search:

1. Pure applicant job search. (You apply for AFDC on Thursday, you report for job search on Monday.) AFDC eligibility begins only after completion of 30 days of job search. There are administrative savings from this approach, along the lines Mike drew, because initial AFDC checks are delayed. San Diego 1 seems to be the best evidence on which to base estimates of behavioral effects from people getting jobs. ASPE said they would not be able to estimate this using their current models.

2. Immediate job search for AFDC eligibles. (You find out you are eligible on Thursday and report for job search the next Monday.) This approach tries to avoid spending job search funds on the many applicants who, for one reason or another, don't end up on AFDC. However, it makes job search automatic for those without a prima facie deferring condition (like 60 or older, or a non-parental caretaker). It doesn't wait for an assessment and employability plan to be drawn up.

The staff people at the meeting seemed to agree that this approach might be targeted on all applicants above the phase-in age. Two arguments were offered. First, a SWIM-like effect, based on a lot of job search, was already being claimed for the phased-in. A prior round of job-search probably wouldn't add much scorable savings. Second, the large welfare savings impacts of job search have tended to be for mothers with older children and some work experience (i.e., neither the least job-ready nor the most job-ready). Targeting on applicants over 25 would hit a rich mix of parents with these characteristics.

Although most work force attachment demos with rigorous evaluations did not get people into job search the first week of eligibility, a number, such as SWIM and GAIN and Florida's FIP, route a lot there within a few weeks. It appears that savings could be justified based on the evidence from these programs. ASPE will try to model some of this.

3. ASPE was interested in something closer to making job search the first activity in most employability plans. They intend to estimate impacts from a third model along these lines.

The savings from any of these models would be influenced by whether funding was coming out of the current JOBS baseline, or form new money. We agreed to start thinking about job search for not-phased-in applicants being funded from the share of the JOBS baseline not allocated to the phased-in. That would involve requiring up-front job search for current JOBS mandatories and trying to estimate and claim savings for the difference between the impacts of the current JOBS use of these funds and the more effective use we would be proposing.

Participation levels - There was no real argument to my explanation of why ASPE modeling of JOBS under reform was much more ambitious than SWIM. Don indicates that he expects to end up with total monthly participation around 50 percent. ? (To this point, ASPE has been modeling countable participation around 50 percent, and total participation around 77 percent.)

Don was unwilling to say that ASPE's JOBS estimates would fall by about one-third. However, we went through the way ASPE derives annual unit cost data from current JOBS data, and all present seemed pretty comfortable with it. It seems to follow that JOBS costs will have to drop to around the levels we've been calling the less-intensive. This would still be far above the 35 percent monthly participation in arranged or self-initiated activities SWIM managed in its second year.

The discussion walked around the issue of whether there would be an intensity measure like the current 20-hour-rule. Policy officials need to address this, although a pros and cons staff paper would be helpful.

Phase-in - I also brought up, as an issue for future discussion, the ASPE phase-in scenario. The idea that a lot of states will come in a year early is based on the JOBS experience. But states won't have state-level programs like WORK the way GAIN was already like JOBS. Further, in my mind, the likelihood of a richer federal match is supposed to entice states into early implementation. But this may run into another policy goal - reducing federal matching for cases the longer cases stay on the rolls.

I asked ASPE to think about how they would justify their assumption about early phase-in. We also should know what costs and phase-in would look like if states don't come in early.

WORK overhead - Don had a copy of the tables you sent over to HHS showing our options. He asked about several points. There didn't seem to be any objections about the way the technical re-estimate was done. In explaining the WORK overhead cap, I noted that I had asked several times to have HHS find out about the overhead of large scale workfare programs, like NYC and Ohio. ASPE suggested that OMB follow-up on this.

04/12/94

TABLE 1 – PRELIMINARY SUMMARY COST ESTIMATES (FEDERAL AND STATE) FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Federal Package 1	5 Year Federal Package 2
PARENTAL RESPONSIBILITY		
Minor Mothers	(30)	(30)
No Additional Benefits for Additional Children	(220)	(220)
Child Support Enforcement		
Paternity Establishment (Net)	(90)	(90)
Enforcement (Net)	(160)	(160)
Computer Costs	370	370
SUBTOTAL, PARENTAL RESPONSIBILITY	**(130)**	**(130)**
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK		
JOBS-Prep	0	300
Additional JOBS Spending	2,295	2,295
Additional Child Care for JOBS	1,610	1,610
WORK Program	1,330	1,330
Additional Child Care for WORK	610	610
Savings from Child Care and Other Expansion	(100)	(100)
Transitional Child Care	445	445
Enhanced Teen Case Management	170	170
Savings - Caseload Reduction	(215)	(215)
ADP Federal and State Systems/Admin Efficiency	545	545
SUBTOTAL, JOBS/WORK	**6,690**	**6,990**
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	**6,560**	**6,860**
WORKING POOR CHILD CARE	**1,500**	**3,500**
REMOVE TWO PARENT (UP) RESTRICTIONS	**495**	**495**
Comprehensive Grants	200	200
Non-Custodial Parent JOBS/WORK Programs	130	390
Access Grants and Parenting Demonstrations	30	70
Child Support Assurance Projects	120	290
IDA and Microenterprise Projects	60	145
SUBTOTAL SPECIAL INITIATIVES	**540**	**1,095**
IMPROVING GOVERNMENT ASSISTANCE (IGA)		
State Flexibility on Earned Income and Child Support Disregards	385	385
Generally Conform Assets to Food Stamps	0	100
Increase Territories' Caps	0	185
All Others	(5)	(5)
SUBTOTAL IGA	**380**	**665**
GRAND TOTAL	**9,475**	**12,615**

President's Table with Full Phase-In in FY 1996 with Further Adjustments in IGA, Working Poor Child Care, and Demonstrations; UP Two-Parent Provision as State Option. Comparisons between Package 1 and Package 2

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.
Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

SUMMARY OF COSTS FOR WELFARE REFORM PACKAGES
(Dollars in Millions)

PACKAGE 1 COSTS	FY 1999 Total	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
PARENTAL RESPONSIBILITY	(625)	(1,220)	(130)	(1,090)	(8,055)	(1,980)	(6,075)
TRANSITIONAL ASSISTANCE	3,305	8,170	6,690	1,480	25,185	22,030	3,155
WORKING POOR CHILD CARE	900	1,875	1,500	375	6,930	5,545	1,385
TWO PARENT (UP) PROVISIONS	375	895	495	400	2,875	1,580	1,295
SPECIAL INITIATIVES	225	625	540	85	1,830	1,530	300
IMPROVING GOVERNMENT ASSISTANCE	265	635	380	255	2,060	845	1,215
TOTAL COSTS FOR PACKAGE 1	4,445	10,980	9,475	1,505	30,825	29,550	1,275

PACKAGE 2 COSTS	FY 1999 Total	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
PARENTAL RESPONSIBILITY	(625)	(1,220)	(130)	(1,090)	(8,055)	(1,980)	(6,075)
TRANSITIONAL ASSISTANCE	3,415	8,545	6,990	1,555	26,555	23,125	3,430
WORKING POOR CHILD CARE	1,875	4,375	3,500	875	14,945	11,955	2,990
TWO PARENT (UP) PROVISIONS	375	895	495	400	2,875	1,580	1,295
SPECIAL INITIATIVES	505	1,315	1,095	220	3,945	3,225	720
IMPROVING GOVERNMENT ASSISTANCE	400	1,085	665	420	3,250	1,620	1,630
TOTAL COSTS	5,945	14,995	12,615	2,380	43,515	39,525	3,990

Note 1: Parentheses denote savings.

Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.

Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

TABLE Package 1 – DETAILED SUMMARY COST ESTIMATES (FEDERAL AND STATE) FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
PARENTAL RESPONSIBILITY				
Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
Paternity Establishment (Net)	(535)	(90)	(2,080)	(400)
Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	370	1,085	870
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(130)	(8,055)	(1,980)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	0	0	0	0
Additional JOBS Spending	2,870	2,295	7,110	5,690
Additional Child Care for JOBS	2,010	1,610	4,910	3,930
WORK Program	1,660	1,330	11,490	9,190
Additional Child Care for WORK	760	610	5,240	4,190
Savings from Child Care and Other Expansion	(185)	(100)	(1,480)	(815)
Transitional Child Care	555	445	2,565	2,050
Enhanced Teen Case Management	210	170	595	475
Savings - Caseload Reduction	(390)	(215)	(6,070)	(3,340)
ADP Federal and State Systems/Admin Efficiency	680	545	825	660
SUBTOTAL, JOBS/WORK	8,170	6,690	25,185	22,030
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	6,950	6,560	17,130	20,050
WORKING POOR CHILD CARE (Capped at $900 million in net spending).	1,875	1,500	6,930	5,545
REMOVE TWO PARENT (UP) RESTRICTIONS	895	495	2,875	1,580
Comprehensive Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK Programs	165	130	815	650
Access Grants and Parenting Demonstrations	35	30	75	60
Child Support Assurance Projects	150	120	415	330
IDA and Microenterprise Projects	20	15	175	140
SUBTOTAL SPECIAL INITIATIVES	570	495	1,830	1,530
IMPROVING GOVERNMENT ASSISTANCE (IGA)				
State Flexibility on Earned Income and Child Support Disregards	710	385	2,225	850
Generally Conform (but not Increase)				
Assets to Food Stamps	0	0	0	0
All Others	(75)	(5)	(165)	(5)
SUBTOTAL IGA	635	380	2,060	845
GRAND TOTAL	10,925	9,430	30,825	29,550

President's Table with Full Phase-In in Fy 1996 with Further Adjustments in IGA, Working Poor Child Care, and Demonstrations; UP Two-Parent Provision as State Option; Eliminate Increase in Territories' Cap; Conform Asset Rules to Food Stamps but no Increase in Limits.

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.
Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

TABLE Package 2 – DETAILED SUMMARY COST ESTIMATES (FEDERAL AND STATE)
FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
PARENTAL RESPONSIBILITY				
Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
Paternity Establishment (Net)	(535)	(90)	(2,080)	(400)
Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	370	1,085	870
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(130)	(8,055)	(1,980)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	375	300	1,370	1,095
Additional JOBS Spending	2,870	2,295	7,110	5,690
Additional Child Care for JOBS	2,010	1,610	4,910	3,930
WORK Program	1,660	1,330	11,490	9,190
Additional Child Care for WORK	760	610	5,240	4,190
Savings from Child Care and Other Expansion	(185)	(100)	(1,480)	(815)
Transitional Child Care	555	445	2,565	2,050
Enhanced Teen Case Management	210	170	595	475
Savings - Caseload Reduction	(390)	(215)	(6,070)	(3,340)
ADP Federal and State Systems/Admin Efficiency	680	545	825	660
SUBTOTAL, JOBS/WORK	8,545	6,990	26,555	23,125
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	7,325	6,860	18,500	21,145
WORKING POOR CHILD CARE (Capped at $1.9 billion in net spending).	4,375	3,500	14,945	11,955
REMOVE TWO PARENT (UP) RESTRICTIONS	895	495	2,875	1,580
Comprehensive Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK Programs	490	390	2,000	1,600
Access Grants and Parenting Demonstrations	85	70	180	145
Child Support Assurance Projects	360	290	995	795
IDA and Microenterprise Projects	180	145	420	335
SUBTOTAL SPECIAL INITIATIVES	1,315	1,095	3,945	3,225
IMPROVING GOVERNMENT ASSISTANCE (IGA)				
State Flexibility on Earned Income and Child Support Disregards	710	385	2,225	850
Generally Conform Assets to Food Stamps	265	100	655	240
Increase Territories' Caps	185	185	535	535
All Others	(75)	(5)	(165)	(5)
SUBTOTAL IGA	1,085	665	3,250	1,620
GRAND TOTAL	14,995	12,615	43,515	39,525

President's Table with Full Phase-In in FY 1996 with Adjustments in IGA, Working Poor Child Care, Demonstrations; UP Parent Provision as State Option.

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.
Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

Welfare Reform Financing Options

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
Summary:						
A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Welfare Reform Financing Options

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
A. Program Savings						
• Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
• Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.80	0.40	8.70	6.90	1.80
• Income Test Meal Reimbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
• Limit Deficiency Payments to Those Making $100K or More from Off-Farm Income per Year	0.61	0.61	0.00	1.31	1.31	0.00
• Fair Transaction Costs with Graduated Interest Rates for Early Redemption of Savings Bonds	.31 0.76	0.76	0.00	.65 1.10	1.10	0.00
Subtotal	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings						
EITC:						
• Deny to Non-Resident Aliens *	0.13	0.13	0.00	0.33	0.33	0.00
• Require Reporting for DOD Personnel	0.16	0.16	0.00	0.40	0.40	0.00
Gambling:						
• Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
• Withholding Rate of 28% on Keno, Bingo, Slots	0.25	0.25	0.00	0.32	0.32	0.00
• Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.61	0.61	0.00

Dollars in Billions

* Treasury currently reviewing this estimate.

Welfare Reform Financing Options

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities	0.80	0.80	0.00	1.83	1.83	0.00
Subtotal	2.07	2.07	0.00	4.27	4.27	0.00

C. Extend Expiring Provisions*

90 Rem bill

• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep	0.05	0.05	0.00	0.12	0.12	0.00
• Fees for Passenger Processing and other Customs Services NAFTA	0.00	0.00	0.00	1.04	1.04	0.00
• Extend Railroad Safety User Fees OBRA 90	0.16	0.16	0.00	0.41	0.41	0.00
~~*Veterans:*~~ O						
• Guarantee the Securities Issued in Connection with VA's Direct Loan Sales	0.08	0.08	0.00	0.16	0.16	0.00
• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment	0.03	0.03	0.00	0.14	0.14	0.00
• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)	0.14	0.14	0.00	0.78	0.78	0.00
• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it	0.02	0.02	0.00	0.09	0.09	0.00
• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers	0.39	0.39	0.00	2.95	2.95	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care	0.05	0.05	0.00	0.31	0.31	0.00
• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA	0.21	0.21	0.00	1.35	1.35	0.00
• Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits	0.19	0.19	N/A *	1.30	1.30	N/A *
• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program	0.64	0.64	0.00	1.98	1.98	0.00
• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93	0.15	0.15	0.00	0.83	0.83	0.00
Subtotal	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Possible Alternative

	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
• Gambling Excise Tax at 4%	3.16	3.16	0.00	7.21	7.21	0.00

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

A. Program Savings

Limit Emergency Assistance

- 5 year Federal savings: $1.5 B 10 year Federal savings: $ 4.0 B
- cap each State's AFDC emergency assistance expenditure at FY1993 levels (with inflation adjustments for future years), <u>or</u>
  limit spending to 3% of a State's total AFDC benefit payments from the past year (a grandfather clause could protect States with large funding drops).
- specifics of this proposal are still under development.

Tighten Sponsorship and Eligibility Rules for Non-Citizens

SSI, AFDC and Food Stamps require that part of a legal immigrant sponsor's income is deemed available to the immigrant for a limited time, should he/she need public assistance. The following tightens benefit eligibility for non-citizens:

- 5 year Federal savings: $ 1.8 B 10 year Federal savings: $6.9 B
- change the deeming period for AFDC and Food Stamps from three to five years, and permanently extend SSI's five year deeming provision, which reverts to three years until FY1997.
- deeming continues for another five years for those aliens whose sponsors have adjusted gross income over $40,000.
- Creates PRUCOL eligibility criteria in the SSI, AFDC, and Medicaid programs similar to the tighter Food Stamps criteria.

Income Test Meal Reimbursements to Family Day Care Homes

- 5 year Federal savings: $.57 B 10 year Federal savings: $ 1.72 B
- Family day care homes in low-income areas would receive reimbursement for all meals at the "free meal" rate.
- Other homes could choose between:

  (a) not means-testing and thus receiving "reduced price" rates, <u>or</u>
  (b) means-testing, in which case meals for children under 185% of poverty would be reimbursed at the "free meal" rate and meals for children above 185% of poverty would be reimbursed at the "reduced price" rate.

Limit Deficiency Payments to Those Making $100,000 or More Annually From Off-Farm Income

- 5 year Federal savings: $ .61 B 10 year Federal savings: $ 1.31 B
- Producers receiving $100,000 or more in off-farm adjusted gross income would be ineligible for Commodity Credit Corporation (CCC) crop subsidies.

Graduated Interest Rates for Early Redemption of Savings Bonds

- 5 year Federal savings: $ .76 B 10 year Federal savings: $ 1.1 B
- New savings bonds issued would initially yield 2% interest, which would gradually rise over 5 years to 4%.
- Current outstanding bonds unaffected.

B. Enforcement Savings

Deny EITC to Non-Resident Aliens

- 5 year Federal savings: $ .13B 10 year Federal savings: $ .33 B
- Deny EITC to nonresident aliens such as foreign students, professors, etc.

Require Income Reporting for DOD Personnel, for EITC Purposes

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .4 B
- Families living overseas and on active military duty would become EITC eligible.
- To finance this, and produce above savings, DOD would report nontaxable earned income (such as subsistence and living quarters allowances) paid to military personnel, overseas and stateside. This is counted for EITC purposes.

Increase Withholding Rate on Gambling Winnings

- 5 year Federal savings: $ .52 B 10 year Federal savings: $ .78 B
- Increase the withholding rate of 28% to 36% for gambling winnings over $50,000. The odds of winning would be irrelevant.

Withhold 28% From Keno, Bingo and Slot Machine Winnings

- 5 year Federal savings: $ .25 B 10 year Federal savings: $ .32 B
- Impose 28% withholding on winnings over $7,500, regardless of the odds. (No withholding is currently done.)

Information Reporting on Gambling Winnings

- 5 year Federal savings: $ .22 B 10 year Federal savings: $ .61 B
- Requires reporting on gambling, bingo, slot and keno winnings of $10,000 or more, regardless of the betting odds. (Reporting is currently required at various winning thresholds, if odds are 300:1 or more.)
- State lotteries exempt.

Limit Tax Deferred Interest Build-Up of Large Annuities

- 5 year Federal savings: $ .8 B 10 year Federal savings[1]: $ 1.83
- Prohibit tax deferral on interest accruing to annuities that pay annual incomes over $100,000 for couples, $50,000 for single persons.

C. Extend Expiring Provisions

Hold Constant the Food Stamps Overpayment Recoveries States May Keep

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .12 B
- Extend 1990 Farm Bill provision letting States keep 25% of Food Stamps recovered due to fraud/intentional program violations.
- Extend the provision letting States keep 10% of Food Stamps recovered due to other unintentional errors.
- This provision would extend the current recoveries rate structure which is set to expire in FY1996.

Fees for Passenger Processing and Other Customs Services

- 5 year Federal savings: $ 0 B 10 year Federal savings: $ 1.04 B
- Extend the flat rate charge for merchandise processing and other U.S. customs services.
- The current fee structure, extended by NAFTA, expires after FY2003.

Extend Railroad Safety User Fees

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .41 B
- Extend (and expand) railroad safety inspection fees.
- The provision would extend the fees through FY04. Currently they are set to expire in FY1996.

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1 Preliminary staff estimate, based on extrapolation of prior year savings.

Veterans:

Guarantee the Securities Issued in Connection with VA's Direct Loan Sales

- 5 year Federal savings: $ .08 B 10 year Federal savings: $ .16 B
- Currently, VA may sell its direct loans (i.e., mortgages held by VA) to the secondary market. Secondary market institutions package these mortgages into securities and sell them to investors. VA has the authority through December 1995 to guarantee investors the timely payment of principal and interest on the securities. Because this guarantee eliminates risk to the investors, the investors will pay a higher price for the securities.
- Savings are net of increased costs due to increased default liability of this proposal.
- Permanently extending this provision would sustain the current higher price paid to VA for their direct loans sold to the secondary market.

Increase Housing Loan Fee for Multiple Use of the Guaranteed Home Loan Program

- 5 year Federal savings: $ .03 B 10 year Federal savings: $ .14 B
- The loan guaranty program, established to promote home-ownership among returning WWII GI's, guarantees mortgages made by private lenders to veterans, active duty service persons, and selected reservists.
- There is no limit on how many times a beneficiary can use the Home Loan Program. OBRA 93 increased the fee to 3 percent through FY98 for multiple use of the guaranteed home loan program when there is less than a 5 percent downpayment.
- This proposal would permanently extend the 3 percent fee for multiple use when there is less than a 5 percent downpayment.

Increase Housing Loan Fee by .75 percent

- 5 year Federal savings: $ .14 B 10 year Federal savings: $ .78 B
- Fees on VA guaranteed home loans decrease as the downpayment increases and can be financed as part of the loan.
- OBRA 93 increased the fee on most guaranteed home loans by .75 percent through FY98 (e.g., the no-downpayment fee increased from 1.25 to 2 percent).
- This proposal would permanently extend the fee increase. Increasing the fee reduces the taxpayers' subsidy to this program while continuing to offer veterans a downpayment and fee package that would be below conventional loan requirements. (Because the fee can be financed over the life of the loan, i.e., thirty years, the cost would not be significant to beneficiaries.)

Extend VA's Authority to Consider Resale Losses on Loans

- 5 year Federal savings: $ .02 B 10 year Federal savings: $ .09 B
- When a private lender forecloses on a VA guarantee property, VA uses a formula to determine whether it is more cost-effective to: (1) acquire a foreclosed property from the lender and resell it, or (2) pay the guarantee to the lender. Under current law, this formula takes into consideration the potential for losses on the resale of a foreclosed property through FY98. This is consistent with the acquisition decisionmaking of private mortgage insurers who consider resale losses.
- This proposal would make permanent the inclusion of potential losses on the resale of a foreclosed property in the formula.

Medical Care Cost Recovery Program: Third Party Health Insurance Reimbursements.

- 5 year Federal savings: $ .39 B 10 year Federal savings: $ 2.95 B
- In 1986, VA received permanent authority to collect reimbursement for the cost of care from health insurers of nonservice-connected veterans. OBRA 1990 expanded this authority to allow VA to collect reimbursement from health insurers of <u>service-connected veterans</u> for treatment of <u>nonservice-connected</u> conditions.
- OBRA 1993 extended the service-connected authority to the end of FY 1998.
- This proposal would make this authority permanent.

Medical Care Cost Recovery Program: Per Diems and Prescription Copayments

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .31 B
- OBRA 1990 authorized VA to collect hospital and nursing home per diems and outpatient prescription copayments from certain veterans for treatment of their nonservice-connected conditions.
- OBRA 1993 extended this authority to the end of FY 1998.
- This proposal would make this authority permanent.

VA Pensions and Medical Care Cost Recovery Programs: Income Verification Match

- 5 year Federal savings: $ .21 B 10 year Federal savings: $ 1.35 B
- Under current authority, VA has access to IRS tax data to verify income reported by VA pension and medical care beneficiaries. VA's pension and medical care programs are means-tested.
- For pensions, the proposal would improve program integrity by reducing overpayments that occur when self-reported income is the only information

used to verify eligibility. For medical care, the proposal would allow VA to more effectively identify and collect copayments from higher income veterans.

- This proposal would make this authority permanent.

VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes

- 5 year Federal savings: $ .19 B 10 year Federal savings: $ 1.3 B
- VA pensions is a means-tested program which provides monthly cash support to eligible veterans or their survivors. OBRA 1993 extended through FY 1998 a provision that caps pension benefits at $90 per month for beneficiaries receiving Medicaid nursing home benefits.
- This proposal does not affect the pension beneficiaries. It reduces the amount of income that the beneficiary would have to turn over to the Medicaid program to help offset the costs of their nursing home care.
- These savings are: (1) net of the lost receipts to the Federal Medicaid program, and (2) represent less Federal Reimbursement of State Medicaid programs.
- This proposal would make permanent this provision which is currently scheduled to expire in FY1998.

Round down and Reduce COLA Adjustment for Death and Indemnity Compensation (DIC) Benefits

- 5 year Federal savings: $ .64 B 10 year Federal savings: $ 1.98 B
- The DIC program provides monthly cash benefits to survivors of service-connected veterans who died during military service, or after service from their service-connected condition.
- OBRA 1993 provided authority to round down the monthly benefit levels to the nearest dollar and reduce the COLAs by 50% to beneficiaries who were grandfathered into the new DIC program.. (The old DIC program based benefits on military rank; the new program pays a flat rate.)
- This proposal would make this authority permanent.

Maintain Montgomery GI Bill (MGIB) COLA at 50 Percent

- 5 year Federal savings: $ .15 B 10 year Federal savings: $ .83 B
- Servicemembers and veterans who have elected and contributed to the MGIB program receive $400 per month towards educational benefits. Under Title 38, MGIB recipients were to have begun receiving annual COLAs increases on their benefits for the first time in FY 1994. OBRA 1993, however, eliminated the FY 1994 COLA and reduced by 50 percent the FY 1995 COLA.
- This proposal would permanently reduce future COLA increases by 50 percent in FY 1996 and beyond for those beneficiaries who benefited by electing to stay in the old payment structure.

Possible Alternative

Excise Tax on Gambling Revenues

- 5 year Federal savings: $ 3.16 B 10 year Federal savings: $ 7.21 B
- Tax gross revenues (wagers minus winnings paid out) from all gambling activities at 4%. (Current Federal wager taxes range from .25%-2%.)
- State lotteries would be exempt from this tax.

WELFARE REFORM OPTIONS 04/11/94

(Five Year Federal Cost in Millions of Dollars)

	Package 1		Package 2
	1A	1B	
Parental Responsibility	(130)	(130)	(130)
Transitional Assistance	6,690	6,990	6,990
Working Poor Child Care	1,500	400	3,500
UP provisions	495	495	495
Demonstrations	540	1,100	1,100
Improving Government Assistance	380	600	600
TOTAL	**9,475**	**9,455**	**12,555**

Jobs Prep

Regs

CARS -

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions 5 Year Total	Federal	State	10 Year Total	Federal	State
Summary:						
Program Savings	5.70	5.30	0.40	16.94	15.14	1.80
Enforcement Savings	1.30	1.30	0.00	2.56	2.56	0.00
Extend Expiring Provisions	2.40	2.40	0.00	12.94	12.94	0.00
Savings Within the Welfare Reform Package	1.22	0.09	1.14	8.06	2.10	5.97
Total: Financing Options	10.62	9.09	1.54	40.50	32.73	7.77

HHS: 1. 1/3 cut in AFDC living w/other person
2. 8 states ~~emergency~~ energy assistance

Welfare Reform Financing Options

4/7/94 10:43	Dollars in Billions 5 Year Total	Federal	State	10 Year Total	Federal	State
Program Savings						
Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.8	0.40	8.70	6.9	1.80
Income Test Meal Reminbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
Limit CCC Deficiency Payments to $50K per year, attributed directly to individuals	0.67	0.67	0.00	1.42	1.42	0.00
Charge a Penalty for Early Redemptions of Savings Bonds	0.76	0.76	0.00	1.10	1.10	0.00
Subtotal	5.70	5.30	0.40	16.94	15.14	1.80
Enforcement Savings						
EITC:						
Deny to Non-Resident Aliens	0.13	0.13	0.00	0.33	0.33	0.00
Require Reporting for DOD Personnel	0.19	0.19	0.00	0.50	0.50	0.00
Gambling:						
Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
Withholding Rate of 28% on Keno, Slots	0.25	0.25	0.00	0.32	0.32	0.00
Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.63	0.63	0.00
Subtotal	1.30	1.30	0.00	2.56	2.56	0.00

Welfare Reform Financing Options

4/7/94 10:43	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
Extend Expiring Provisions*						
Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Maintain.	0.05	0.05	0.00	0.12	0.12	0.00
Fees for Passenger Processing and other Customs Services.	0.00	0.00	0.00	1.04	1.04	0.00
Extend Railroad Safety User Fees.	0.16	0.16	0.00	0.41	0.41	0.00
Veterans: Guarantee the Securities Issued in Connection with VA's Direct Loan Sales.	0.08	0.08	0.00	0.16	0.16	0.00
Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loand program when there is less than a 5% downpayment.	0.03	0.03	0.00	0.14	0.14	0.00
Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%).	0.14	0.14	0.00	0.78	0.78	0.00
Extends DVA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it.	0.02	0.02	0.00	0.09	0.09	0.00
Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers.	0.39	0.39	0.00	2.95	2.95	0.00
Collect Per Diems and Copayments from Certain Veteran's for Non-service Care.	0.05	0.05	0.00	0.31	0.31	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/7/94 10:43	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA.	0.21	0.21	0.00	1.35	1.35	0.00
Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits.	0.31	0.31	N/A *	2.02	2.02	N/A *
Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program.	0.64	0.64	0.00	1.98	1.98	0.00
50% Eliminate GI Bill benefit COLAs, which were to have started in 1994 but were eliminated and reduced by 50% in 1995 in OBRA93.	0.32	0.32	0.00	1.59	1.59	0.00
Subtotal	2.40	2.40	0.00	12.94	12.94	0.00

Savings Within the Welfare Reform Package

	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
Minor Moms: Eliminate AFDC for Mothers Through Age 17 Living in Separate Household	0.09	0.03	0.06	0.21	0.09	0.13
Family Cap: No Additional Benefits for Additional Children	0.66	0.22	0.44	2.15	0.81	1.34
Child Support Enforcement (neg. indicates a cost):						
CSE Admin Costs (Net)	*-0.80*	*-0.70*	*0.00*	*-3.65*	*-3.99*	*0.44*
CSE Automation Costs (80% Federal Share)	*-0.46*	*-0.37*	*-0.09*	*-1.07*	*-0.86*	*-0.21*
CSE Increased AFDC Collections	*1.81*	*0.95*	*0.75*	*10.52*	*5.95*	*4.58*
Net CSE and Paternity Savings (includes automation -- Totals are rounded)	0.48	-0.16	0.64	5.70	1.20	4.50
Subtotal	1.22	0.09	1.14	8.06	2.10	5.97

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

4/7/94 10:43	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
Total: Financing Options	10.62	9.09	1.54	40.50	32.73	7.77
Other Options Not Being Considered						
Gambling Excise Tax at 4%	3.16	3.16	0.00	7.34	7.34	0.00
Defer COLAs for CSRS and Military Retirement Until Age 62	5.21	5.21	0.00	28.01 *	28.01 *	
One-half COLA's for Federal Retirement Until Age 62						
CSRS	0.61	0.61	0.00	1.00	1.00	0.00
Military	2.15	2.15	0.00	11.00	11.00	0.00
subtotal	2.76	2.76	0.00	12.00	12.00	0.00
and Move Military COLA up 6 Months - Oct. to April - For Those Age 62 and over to Conform to CSRS	-2.09	-2.09	0.00	-2.09	-2.09	0.00
Sub-total	0.67	0.67	0.00	9.91	9.91	0.00

* Highly Preliminary Staff Pricing.

Financing Options

	5 Year	10 Year			
Cap EA	1.5	4.0			
Target Food Program	.6	1.7			
Aliens (5 Years) and New Rule	2.0	7.0			
Repayment by Social Security to General Fund Where it has Taken Advantage of General Fund	5.0	22.0	Late Baby Student Earnings	3.7	13.7
EITC and Tax Comp	1.3	2.7			
TOTAL	10.4	37.4			

Cost

~~8~~

~~10~~

12 — 5 yr IGA minus 300, WP minus $1B (cap at 1.5)

10 yr Saves IGA 680, WP minus $4.1 = 36.8 B

10.4 — 5 yr Save another IGA 300, save another $1.4 in WPCC, ~~Add~~ Jobs Prep 900

Phase-in 1.3b

8 — 5 yr Slower phase-in 1.3b, IGA & Prep ~~[illegible]~~ = 750, cut demos by 50% = 400, WPCC at ~~[illegible]~~ 1.5 B

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

04-Apr-1994 12:23pm

TO: Isabel Sawhill

FROM: Bruce N. Reed
Domestic Policy Council

SUBJECT: $ for WR

Happy birthday again! It was nice to meet your husband.

Have you had any thoughts about where to look for money? I went over Rob Shapiro's paper and found a few possibilities, although nothing jumps out as really attractive.

Over the weekend, I invented a handful of two-year time limits for rich people. They're probably all bad policy and a pain for the IRS to enforce, but here goes:

1. 2-yr limit on subsidy payments for wealthy farmers. (Shapiro's paper says eliminating these payments would save $1 bill. over 5)

2. 2-yr lifetime limit on capital gains over $100,000. (Or to put it another way, a total of two such gains in a lifetime. That leaves people room to sell a house and the stocks they inherited, but not chalk up huge gains year after year. But I suppose it would create a whole industry in capital gains of $99,999 or less. And yes, it discriminates against rich two-parent families. I have no idea how much it would raise.)

3. 2-yr limit on the deductability of home equity loans over $50k. (Don't you have to be pretty well off to borrow more than that in a second mortgage? Shapiro says eliminating the deductability of such loans altogether would save $12.8 bill over 5, but he admitted to me that he had come up with that number himself.)

4. 2-yr limit on the deductability of tobacco and alcohol advertising. (In other words, this kind of advertising will no longer be deductable after 1996. Since we're losing to the tobacco industry on the tobacco tax, we should go after them on another front. I don't know whether denying a deduction for one kind of advertising but not another is a violation of the First Amdt, but if we can prohibit tobacco ads on TV, shouldn't we be able to single them out in the tax code? Alcohol ads must be worth a lot of $.)

5. 2-yr limit on the deductability of margin interest. (I don't

understand why you can deduct unlimited costs of borrowing $ to play the market but not to buy a car or send your kid to college. If we go after the home equity loan deal, we should go after this too. Of course, we'd be reopening sacred pacts from '86 tax reform, etc., but this is just our opening bid. And the stock market is already plunging anyway.)

6. 2-yr limit on annuities over $100k. (I don't know the specifics on this, but Gene says it's on the GATT list.)

7. Cap 401 (k) deductions at $100k. (Is there a cap now? I don't think so. This probably wouldn't raise much money, but I'd be curious.) (This one is not a 2 yr limit.)

8. 2-yr limit on the LIHTC. (Make Chris's day.)

If we looked through the CBO book, we could probably come up with others. Putting a two-year limit on something is easier than actually eliminating it. Gene is willing to help if we need him.

ADDITIONAL ENTITLEMENT AND REVENUE OPTIONS

(In millions of dollars)

	1995-99	
In FY95 Budget		
Impose 8 percent royalty on hardrock minerals removed from Federal lands	346	
Extend railroad safety user fees	169	
Impose Bureau of Alcohol, Tobacco and Firearms fees	194	
Extension of Current Fees or Sunset Provisions		
Eliminate all sunset dates on Veterans' provisions in OBRA 1993 (FY99)	545	3.3
Extend patent and trademark fees (FY99)	100	.6
Extend NRC fees (FY99)	500	3.0
From DOL		
Limit $70,000 exclusion on income earned abroad to 2 years	?	
Apply current AMT to individuals twice → corporate AMT	?	
GATT Revenue Items		
Distribution of marketable securities to be treated as cash	225	
Cap on tax-deferred annuities per couple, set at $100,000	800	
Extend superfund tax	2,300	
Permit employers to offer employees tax-free parking or cash, which would be taxable	500	

From CBO Document

Charge market prices for electricity sold by power marketing administrations	4,800
Raise recreation fees at Federal facilities	720
Index nuclear waste disposal fees for inflation	255
Disqualify from price support programs people whose gross revenue from commodity sales exceeds $500,000 at 50K per person	670
Increase FCC user fees	575
Charge a penalty for early redemptions of savings bonds	240
Raise the corporate AMT rate to 25 percent	14,400
Limit mortgage interest deductions for second homes	2,600
Decrease limit for deferrals in salary reduction plans to $4,000	2,900
Impose a minimum tax on foreign-owned businesses	2,600
Tax lifetime capital gains from home sales in excess of $125,000	1,400
Tax credit unions with more than $10 million in assets like other thrift institutions	3,400
Repeal alcohol fuels credit and partial excise tax exemption	3,200

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

23-Mar-1994 01:41pm

TO: (See Below)

FROM: Isabel Sawhill
Office of Mgmt and Budget, HRVL

SUBJECT: Costs and financing ideas

Here's a possible solution to the WR financing issue that doesn't rely on revenues, doesn't hit just the poor, and pays for a core plus program (but without any child care for working poor).

Costs (total over 5 years):

$6.7	core program
1.2	add-ons from demos, IGA (very limited)
$7.9	total costs

Offsets

$4.5	(current list minus 130% pov. and including 1.8 for alien deeming)
1.2	parental responsibility
2.2	eliminate school lunch subsidies for affluent kids (above $50,000)
$7.9	total offsets

Please let me know what you think, and if seems reasonable, will discuss with Leon tomorrow

Distribution:

TO: Richard B. Bavier
TO: Stacy L. Dean
TO: Keith J. Fontenot
TO: Michael E. Ruffner
TO: Lester D. Cash
TO: Barbara S. Selfridge
TO: Wendy C. New

PROPOSAL FOR REDUCING BUDGET TO $10B over 5; $30B over 10

	TOTAL SAVINGS OPTIONS I-V	REVISED TOTAL SPENDING
Five Year (total)	7,350	11,095
Five Year (federal)	6,445	9,670
Ten Year (total)	23,100	35,360
Ten Year (federal)	24,267	30,443

I. SHAVE THE BASIC PACKAGE

- o Provide no additional funds for JOBS-Prep
- o Fold Trans Child Care into proposal below on child care
- o No additional funds for teen case management; fund out of JOBS money

SAVINGS:	TOTAL	FED
Five Year	1,075	970
Ten Year	4,400	3,960

II. RECAPTURE SAVINGS TO STATES

The savings in Parental Responsibility seem to go disproportionately to the states. We propose considering that the basic package + parental responsibility should break even for the states rather than providing a transfer from the federal government to the states.

POTENTIAL FEDERAL SAVINGS:	
Five Year	740
Ten Year	6,000

III. CUT BACK WORKING POOR CHILD CARE

Phase in the expanded child care program to the same age group that is in the new Transitional System - born after 1971. Consider additional limitation to children under six.

Fold in transitional child care and provide all child care to this age group through one mechanism -- available only to people with jobs.

SAVINGS	TOTAL	FED
*** NEED ESTIMATE RUN BY HHS (Assume 1/2 as minimum) ***		
Five Year	2,500	2,250
Ten Year	8,135	7,322

IV. REDUCE DEMONSTRATIONS BY 50 PERCENT

Cut to fifty percent probably cutting some of the programs more than others. Exact allocation of cuts to be determined.

SAVINGS	TOTAL	FED
Five Year	780	710
Ten Year	2,345	2,125

V. LIMIT REINVENTING TO ASSET CHANGES

Limit to asset changes. No disregard changes. No territories adjustments.

SAVINGS	TOTAL	FED
Five Year	2,995	1,775
Ten Year	8,220	4,860

POSSIBLE VI. (Estimate not included in totals)

CUTBACK TWO PARENT RESTRICTIONS

Make UP changes a state option or limit to same phase in group as child care and transitional assistance.

*** NEED TO REQUEST ESTIMATES OF SAVINGS FROM STATE OPTION OR PHASE IN ***

Welfare Reform Funding Option
Illustrative Ways Of Allocating Funds Over 5 Years

	(dollars in billions) 5 Years		
	Total	Fed Share	State Share
Offsets			
Parental Responsibility			
Net Child Support savings	0.5	-0.2	0.6
Minor mothers provisions	0.1	0.0	0.1
Family cap	0.7	0.2	0.4
Cap Emergency Assistance	2.1	2.1	0.0
Sponsor to alien deeming			
5 year deeming	2.7	1.9	0.9
extending to 7 year deeming	0.7	0.5	0.2
Family Day Care Homes	0.6	0.6	0.0
Social Security: Eliminate dependent benefits for retirees with minor children	3.6	3.6	0.0
Total Offsets	11.0	8.7	2.3
	8-9 Fed core program Regs change to avoid scoring 2 parent + others as state options		
Illustrative uses of funding			
Transitional assistance and work			
Current estimate	6.7	6.3	0.4
With current law TCC*	6.2	5.8	0.4
Two-parent provision	2.2	1.2	1.1
Demonstrations and improving government assistance	2.6	1.9	0.7
Subtotal with current law TCC	11.0	8.9	2.1
Maintaining Fiscal Shares**	___	-0.2	0.2
Total funding	11.0	8.8	2.3
Net State and Federal Costs	0.1	0.1	0.0

*Legislative changes in matching rates or requirements for case management could increase the utilzation rate in Transitional Child Care (TCC), and add scorable costs.

**Modifications to fiscal shares could include match rate adjustments or other changes to the mix of Federal and State costs or savings.

Estimates for most offsets are unreviewed HHS estimates. Estimates for the Social Security provision are 5 year CBO estimates extrapolated to 10 years.

3/28/94 9:42 AM

Non-AFDC Day Care Funding
Possible Financing Source

	(dollars in billions)	
	5 years	10 years
Offset		
3% Gambling excise tax	2.4	5.5
Total Offsets	2.4	5.5
Possible use of funding		
Non-AFDC Day Care	2.4	5.5
Net Federal Costs	0.0	0.0

Gambling tax revenues prorated from Treasury 5-year and HHS 10-year numbers for a 4% excise tax. OTA staff indicate that prorating downward in this manner will slightly underestimate revenues.

3/28/94 9:43 AM

Possible Welfare Reform Package–Federal/State Costs

	(dollars in billions)					
	5 Years			10 Years		
	Total	Fed. Share	State Share	Total	Fed. Share	State Share
PROGRAM SPENDING						
Transitional Assistance & Work	6.685	6.285	0.4	25.64	25.46	0.18
Improving Govt. Assistance:						
• Two Parent Provision						
• Other@						
Sub Total IGA	2.475	1.26	1.215	8.915	4.576	4.339
Demonstrations	0.5	0.5	0	0.5	0.5	0
Total Costs	9.66	8.045	1.615	35.05	30.53	4.519
OTHER POSSIBLE CHANGES						
No Legis. Changes for Trans. Child- Care Match or Admin.*	-0.48	-0.46	-0.02	-2.22	-2.12	-0.11
State Option for Two Parent (UP) Provision**	?	?	?	?	?	?
New Total Costs	9.18	7.58	1.60	32.83	28.42	4.41

@ Conform Food Stamps and AFDC asset limits.

* Legislative changes in matching rates or requirements for case management could increase the percent of people leaving AFDC who use TCC, and may add scoreable costs.

** HHS has not scored this option, and we are unaware of past legislation proposing it. However, 12 States (incl. Florida, Wisc., Maryland and Pennsylvania), have current waivers or requested waivers to the current two parent statutes. As of July, 1992, 13 States (incl. Florida, Texas and Virginia) had more restrictive UP eligibility provisions than other States, and limited benefits to 6 of the past 12 months for UP families. This represented about 19% of total 1992 AFDC caseload.

Possible Offsets For Welfare Reform
Federal/State Costs & Savings

(dollars in billions)

	5 Years			10 Years		
	Total	Fed. Share	State Share	Total	Fed. Share	State Share
Tier 1 Offsets						
Parental Responsibility:						
Resulting Lower Benefits	1.22	0.08	1.14	8.06	1.88	6.18
Cap Emergency Assistance	2.12	2.12	0.00	5.65	5.65	0.00
5 year sponsor to alien deeming	2.74	1.85	0.89	9.11	6.11	3.00
Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
Tier 1 Subtotal	6.65	4.62	2.03	24.54	15.36	9.18
Tier 2 Offsets						
Extend sponsor to alien deeming from 5 to 7 years	0.71	0.47	0.24	2.89	1.88	1.01
Social Security: Dependent benef. for retirees between 62 and 65	1.73	1.73	0.00	4.23	4.23	0.00
Tier 2 Subtotal	2.44	2.20	0.24	7.12	6.11	1.01
Tier 1 + Tier 2	9.09	6.82	2.27	31.66	21.47	10.19
Tier 3 Offsets						
EITC: non-resident aliens and DOD reporting	0.32	0.32		0.90	0.90	
Gambling withholding and reporting requirements	0.99	0.99		1.76	1.76	
4% gambling excise tax	3.16	3.16		7.34	7.34	
Dependent Care Tax Credit phase out for AGI of $90,000-$110,000	0.78	0.78		1.67	1.67	
Tier 3 subtotal	5.25	5.25		11.67	11.67	
Tier 1 + Tier 2 + Tier 3	14.34	12.07	2.27	43.33	33.14	10.19

Estimates for Tier 1 and Tier 2 alien deeming are unreviewed HHS estimates. Estimates for the Social Security provision are 5-year CBO estimates extrapolated to 10 years. First five year revenue estimates are from Treasury. Second five year numbers are from HHS.

3/25/94 11:51 AM

Comparison of Tier I Offsets to Welfare Reform Option I
Federal/State Costs & Savings

(dollars in billions)

	5 Years			10 Years		
	Total	Fed. Share	State Share	Total	Fed. Share	State Share
Tier 1 Offsets	6.65	4.62	2.03	24.54	15.36	9.18
Welfare Reform Option 1	6.69	6.29	0.40	25.64	25.46	0.18
Net Costs	0.03	1.67	-1.63	1.10	10.10	-9.00
Possible Matching Rate Adjust.		-1.63	1.63		-9.00	9.00
Net Costs With Matching Rate Adjustment	0.03	0.04	0.00	1.10	1.10	0.00

Estimates are unreviewed HHS estimates.

Comparison of Tier I & 2 Offsets to Possible Welfare Reform Package
Federal/State Costs & Savings

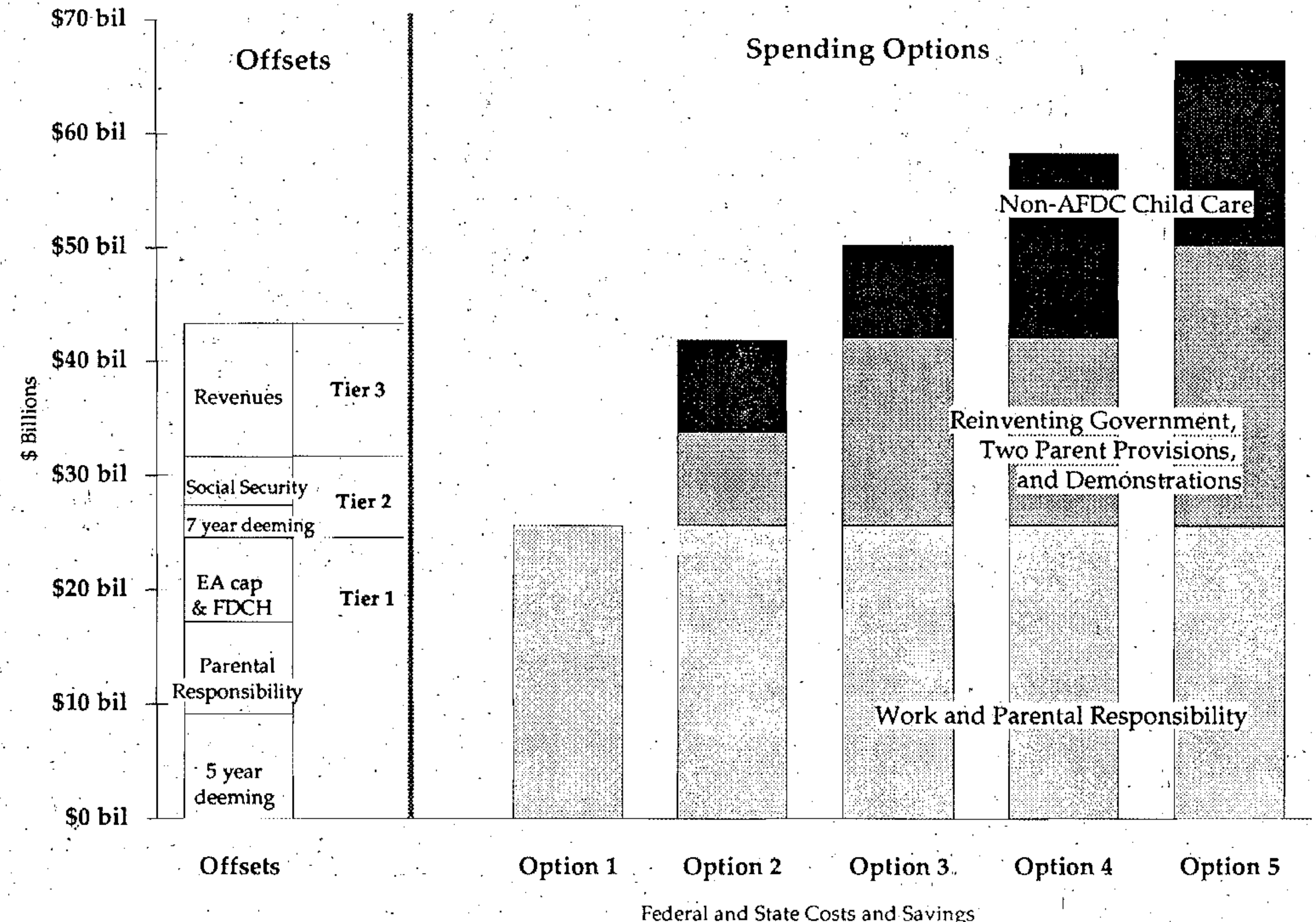
(dollars in billions)

	5 Years			10 Years		
	Total	Fed. Share	State Share	Total	Fed. Share	State Share
Tier 1 & 2 Offsets	9.09	6.82	2.27	31.66	21.47	10.19
Possible Welfare Reform Package	9.18	7.58	1.60	32.83	28.42	4.41
Net Costs	0.09	0.76	-0.67	1.17	6.95	-5.78
Possible Matching Rate Adjust.		-0.67	0.67		-5.78	5.78
Net Costs With Matching Rate Adjustment	0.09	0.09	0.00	1.17	1.17	0.00

Estimates are unreviewed HHS estimates.

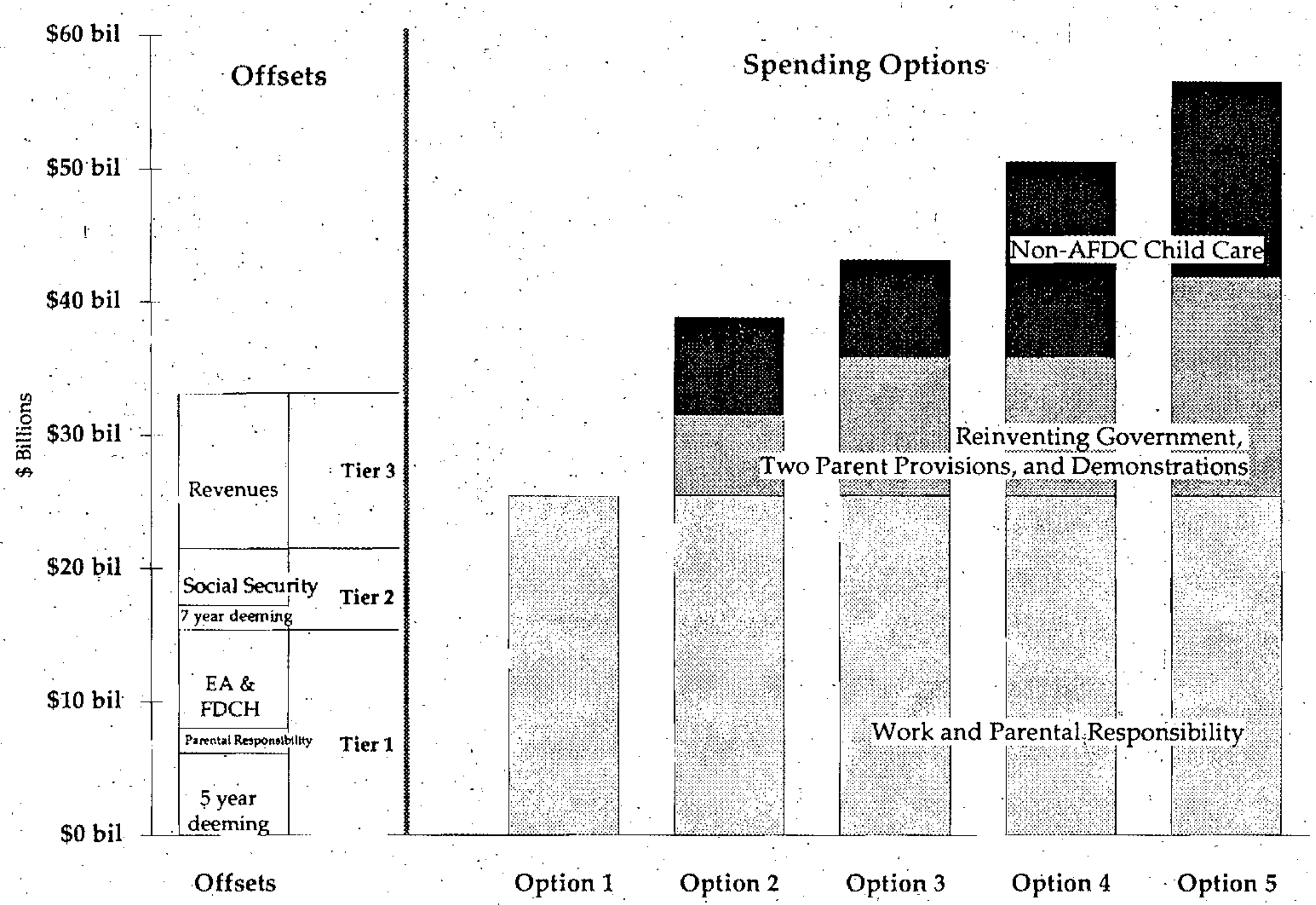
6.2 Base
1.1 UP
1.2 IG Ar Demos
8.5

Total Offsets For Welfare Reform Compared to Net Costs Over 10 Years



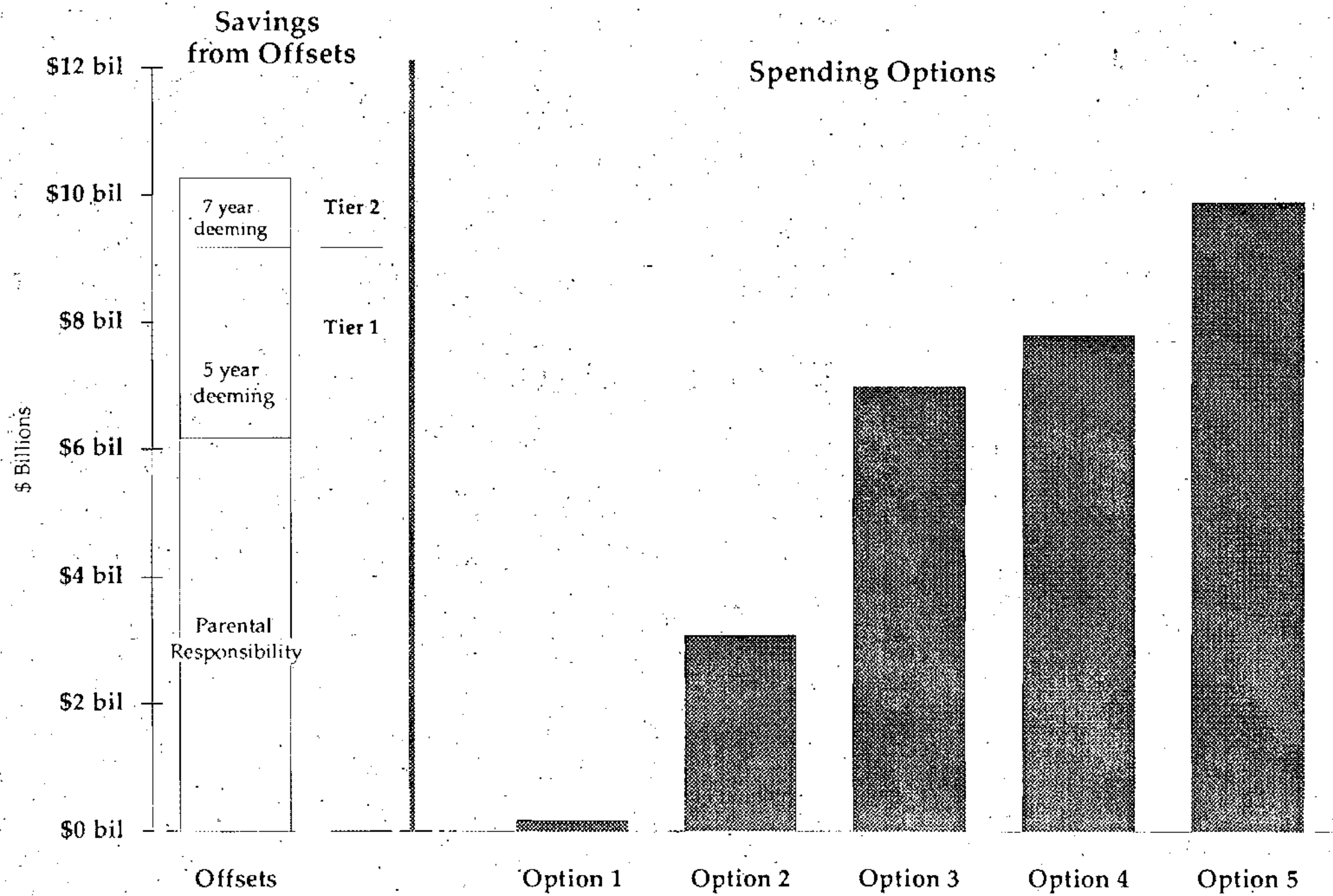
March 21 PM unreviewed estimates

Federal Offsets For Welfare Reform Compared to Federal Costs Over 10 Years



March 21 PM unreviewed estimates

State Savings Resulting Offsets For Welfare Reform Compared to State Costs Over 10 Years



March 21 PM unreviewed estimates

Maintaining Fiscal Shares

- Make full Federal Financial Participation contingent on States moving people into private sector jobs in a timely manner. For example,

  - Over time match rates in JOBS and WORK could decline for people on the rolls for excessive lengths of time to encourage placement of AFDC recipients in private sector jobs.

  - Matching rates could be based on the length of time it takes a State to establish paternity.

- Maintain current matching rates for JOBS and apply the same rates to the WORK program.

- Maintain automation match rates at the standard administrative matching rates to encourage efficient use of federal funds and guard against cost allocation schemes.

- Maintain current law CSE match rates of 66%. Retarget current incentive payments to reward States for achieving desired outcomes.

Bonus

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
Summary:						
A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions 5 Year Total	Federal	State	10 Year Total	Federal	State
A. Program Savings						
• Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
• Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.80	0.40	8.70	6.90	1.80
• Income Test Meal Reimbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
• Limit Deficiency Payments to Those Making $100K or More from Off-Farm Income per Year	0.61	0.61	0.00	1.31	1.31	0.00
• Fair Transaction Costs with Graduated Interest Rates for Early Redemption of Savings Bonds	.31 0.76	0.76	0.00	.65 1.10	1.10	0.00
Subtotal	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings						
EITC:						
• Deny to Non-Resident Aliens *	0.13	0.13	0.00	0.33	0.33	0.00
• Require Reporting for DOD Personnel	0.16	0.16	0.00	0.40	0.40	0.00
Gambling:						
• Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
• Withholding Rate of 28% on Keno, Bingo, Slots	0.25	0.25	0.00	0.32	0.32	0.00
• Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.61	0.61	0.00

* Treasury currently reviewing this estimate.

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions 5 Year Total	Federal	State	10 Year Total	Federal	State
• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities	0.80	0.80	0.00	1.83	1.83	0.00
Subtotal	2.07	2.07	0.00	4.27	4.27	0.00

C. Extend Expiring Provisions*

• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep 90 farm bill	0.05	0.05	0.00	0.12	0.12	0.00
• Fees for Passenger Processing and other Customs Services NAFTA	0.00	0.00	0.00	1.04	1.04	0.00
• Extend Railroad Safety User Fees OBRA 90	0.16	0.16	0.00	0.41	0.41	0.00
~~*Veterans:*~~						
• Guarantee the Securities Issued in Connection with VA's Direct Loan Sales	0.08	0.08	0.00	0.16	0.16	0.00
• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment	0.03	0.03	0.00	0.14	0.14	0.00
• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)	0.14	0.14	0.00	0.78	0.78	0.00
• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it	0.02	0.02	0.00	0.09	0.09	0.00
• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers	0.39	0.39	0.00	2.95	2.95	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions 5 Year Total	Federal	State	10 Year Total	Federal	State
• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care	0.05	0.05	0.00	0.31	0.31	0.00
• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA	0.21	0.21	0.00	1.35	1.35	0.00
• Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits	0.19	0.19	N/A *	1.30	1.30	N/A *
• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program	0.64	0.64	0.00	1.98	1.98	0.00
• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93	0.15	0.15	0.00	0.83	0.83	0.00
Subtotal	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Possible Alternative

	5 Year Total	Federal	State	10 Year Total	Federal	State
• Gambling Excise Tax at 4%	3.16	3.16	0.00	7.21	7.21	0.00

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

A. Program Savings

Limit Emergency Assistance

- 5 year Federal savings: $1.5 B 10 year Federal savings: $ 4.0 B
- cap each State's AFDC emergency assistance expenditure at FY1993 levels (with inflation adjustments for future years), or
  limit spending to 3% of a State's total AFDC benefit payments from the past year (a grandfather clause could protect States with large funding drops).
- specifics of this proposal are still under development.

Tighten Sponsorship and Eligibility Rules for Non-Citizens

SSI, AFDC and Food Stamps require that part of a legal immigrant sponsor's income is deemed available to the immigrant for a limited time, should he/she need public assistance. The following tightens benefit eligibility for non-citizens:

- 5 year Federal savings: $ 1.8 B 10 year Federal savings: $6.9 B
- change the deeming period for AFDC and Food Stamps from three to five years, and permanently extend SSI's five year deeming provision, which reverts to three years until FY1997.
- deeming continues for another five years for those aliens whose sponsors have adjusted gross income over $40,000.
- Creates PRUCOL eligibility criteria in the SSI, AFDC, and Medicaid programs similar to the tighter Food Stamps criteria.

Income Test Meal Reimbursements to Family Day Care Homes

- 5 year Federal savings: $.57 B 10 year Federal savings: $ 1.72 B
- Family day care homes in low-income areas would receive reimbursement for all meals at the "free meal" rate.
- Other homes could choose between:

  (a) not means-testing and thus receiving "reduced price" rates, or
  (b) means-testing, in which case meals for children under 185% of poverty would be reimbursed at the "free meal" rate and meals for children above 185% of poverty would be reimbursed at the "reduced price" rate.

Limit Deficiency Payments to Those Making $100,000 or More Annually From Off-Farm Income

- 5 year Federal savings: $ .61 B 10 year Federal savings: $ 1.31 B
- Producers receiving $100,000 or more in off-farm adjusted gross income would be ineligible for Commodity Credit Corporation (CCC) crop subsidies.

Graduated Interest Rates for Early Redemption of Savings Bonds

- 5 year Federal savings: $ .76 B 10 year Federal savings: $ 1.1 B
- New savings bonds issued would initially yield 2% interest, which would gradually rise over 5 years to 4%.
- Current outstanding bonds unaffected.

B. Enforcement Savings

Deny EITC to Non-Resident Aliens

- 5 year Federal savings: $ .13B 10 year Federal savings: $ .33 B
- Deny EITC to nonresident aliens such as foreign students, professors, etc.

Require Income Reporting for DOD Personnel, for EITC Purposes

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .4 B
- Families living overseas and on active military duty would become EITC eligible.
- To finance this, and produce above savings, DOD would report nontaxable earned income (such as subsistence and living quarters allowances) paid to military personnel, overseas and stateside. This is counted for EITC purposes.

Increase Withholding Rate on Gambling Winnings

- 5 year Federal savings: $ .52 B 10 year Federal savings: $ .78 B
- Increase the withholding rate of 28% to 36% for gambling winnings over $50,000. The odds of winning would be irrelevant.

Withhold 28% From Keno, Bingo and Slot Machine Winnings

- 5 year Federal savings: $ .25 B 10 year Federal savings: $ .32 B
- Impose 28% withholding on winnings over $7,500, regardless of the odds. (No withholding is currently done.)

Information Reporting on Gambling Winnings

- 5 year Federal savings: $ .22 B 10 year Federal savings: $ .61 B
- Requires reporting on gambling, bingo, slot and keno winnings of $10,000 or more, regardless of the betting odds. (Reporting is currently required at various winning thresholds, if odds are 300:1 or more.)
- State lotteries exempt.

Limit Tax Deferred Interest Build-Up of Large Annuities

- 5 year Federal savings: $ .8 B 10 year Federal savings[1]: $ 1.83
- Prohibit tax deferral on interest accruing to annuities that pay annual incomes over $100,000 for couples, $50,000 for single persons.

C. Extend Expiring Provisions

Hold Constant the Food Stamps Overpayment Recoveries States May Keep

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .12 B
- Extend 1990 Farm Bill provision letting States keep 25% of Food Stamps recovered due to fraud/intentional program violations.
- Extend the provision letting States keep 10% of Food Stamps recovered due to other unintentional errors.
- This provision would extend the current recoveries rate structure which is set to expire in FY1996.

Fees for Passenger Processing and Other Customs Services

- 5 year Federal savings: $ 0 B 10 year Federal savings: $ 1.04 B
- Extend the flat rate charge for merchandise processing and other U.S. customs services.
- The current fee structure, extended by NAFTA, expires after FY2003.

Extend Railroad Safety User Fees

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .41 B
- Extend (and expand) railroad safety inspection fees.
- The provision would extend the fees through FY04. Currently they are set to expire in FY1996.

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[1] Preliminary staff estimate, based on extrapolation of prior year savings.

Veterans:

Guarantee the Securities Issued in Connection with VA's Direct Loan Sales

- 5 year Federal savings: $ .08 B 10 year Federal savings: $ .16 B
- Currently, VA may sell its direct loans (i.e., mortgages held by VA) to the secondary market. Secondary market institutions package these mortgages into securities and sell them to investors. VA has the authority through December 1995 to guarantee investors the timely payment of principal and interest on the securities. Because this guarantee eliminates risk to the investors, the investors will pay a higher price for the securities.
- Savings are net of increased costs due to increased default liability of this proposal.
- Permanently extending this provision would sustain the current higher price paid to VA for their direct loans sold to the secondary market.

Increase Housing Loan Fee for Multiple Use of the Guaranteed Home Loan Program

- 5 year Federal savings: $ .03 B 10 year Federal savings: $ .14 B
- The loan guaranty program, established to promote home-ownership among returning WWII GI's, guarantees mortgages made by private lenders to veterans, active duty service persons, and selected reservists.
- There is no limit on how many times a beneficiary can use the Home Loan Program. OBRA 93 increased the fee to 3 percent through FY98 for multiple use of the guaranteed home loan program when there is less than a 5 percent downpayment.
- This proposal would permanently extend the 3 percent fee for multiple use when there is less than a 5 percent downpayment.

Increase Housing Loan Fee by .75 percent

- 5 year Federal savings: $ .14 B 10 year Federal savings: $ .78 B
- Fees on VA guaranteed home loans decrease as the downpayment increases and can be financed as part of the loan.
- OBRA 93 increased the fee on most guaranteed home loans by .75 percent through FY98 (e.g., the no-downpayment fee increased from 1.25 to 2 percent).
- This proposal would permanently extend the fee increase. Increasing the fee reduces the taxpayers' subsidy to this program while continuing to offer veterans a downpayment and fee package that would be below conventional loan requirements. (Because the fee can be financed over the life of the loan, i.e., thirty years, the cost would not be significant to beneficiaries.)

Extend VA's Authority to Consider Resale Losses on Loans

- 5 year Federal savings: $ .02 B 10 year Federal savings: $ .09 B
- When a private lender forecloses on a VA guarantee property, VA uses a formula to determine whether it is more cost-effective to: (1) acquire a foreclosed property from the lender and resell it, or (2) pay the guarantee to the lender. Under current law, this formula takes into consideration the potential for losses on the resale of a foreclosed property through FY98. This is consistent with the acquisition decisionmaking of private mortgage insurers who consider resale losses.
- This proposal would make permanent the inclusion of potential losses on the resale of a foreclosed property in the formula.

Medical Care Cost Recovery Program: Third Party Health Insurance Reimbursements.

- 5 year Federal savings: $ .39 B 10 year Federal savings: $ 2.95 B
- In 1986, VA received permanent authority to collect reimbursement for the cost of care from health insurers of nonservice-connected veterans. OBRA 1990 expanded this authority to allow VA to collect reimbursement from health insurers of service-connected veterans for treatment of nonservice-connected conditions.
- OBRA 1993 extended the service-connected authority to the end of FY 1998.
- This proposal would make this authority permanent.

Medical Care Cost Recovery Program: Per Diems and Prescription Copayments

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .31 B
- OBRA 1990 authorized VA to collect hospital and nursing home per diems and outpatient prescription copayments from certain veterans for treatment of their nonservice-connected conditions.
- OBRA 1993 extended this authority to the end of FY 1998.
- This proposal would make this authority permanent.

VA Pensions and Medical Care Cost Recovery Programs: Income Verification Match

- 5 year Federal savings: $ .21 B 10 year Federal savings: $ 1.35 B
- Under current authority, VA has access to IRS tax data to verify income reported by VA pension and medical care beneficiaries. VA's pension and medical care programs are means-tested.
- For pensions, the proposal would improve program integrity by reducing overpayments that occur when self-reported income is the only information

used to verify eligibility. For medical care, the proposal would allow VA to more effectively identify and collect copayments from higher income veterans.

- This proposal would make this authority permanent.

VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes

- 5 year Federal savings: $ .19 B 10 year Federal savings: $ 1.3 B
- VA pensions is a means-tested program which provides monthly cash support to eligible veterans or their survivors. OBRA 1993 extended through FY 1998 a provision that caps pension benefits at $90 per month for beneficiaries receiving Medicaid nursing home benefits.
- This proposal does not affect the pension beneficiaries. It reduces the amount of income that the beneficiary would have to turn over to the Medicaid program to help offset the costs of their nursing home care.
- These savings are: (1) net of the lost receipts to the Federal Medicaid program, and (2) represent less Federal Reimbursement of State Medicaid programs.
- This proposal would make permanent this provision which is currently scheduled to expire in FY1998.

Round down and Reduce COLA Adjustment for Death and Indemnity Compensation (DIC) Benefits

- 5 year Federal savings: $ .64 B 10 year Federal savings: $ 1.98 B
- The DIC program provides monthly cash benefits to survivors of service-connected veterans who died during military service, or after service from their service-connected condition.
- OBRA 1993 provided authority to round down the monthly benefit levels to the nearest dollar and reduce the COLAs by 50% to beneficiaries who were grandfathered into the new DIC program. (The old DIC program based benefits on military rank; the new program pays a flat rate.)
- This proposal would make this authority permanent.

Maintain Montgomery GI Bill (MGIB) COLA at 50 Percent

- 5 year Federal savings: $ .15 B 10 year Federal savings: $ .83 B
- Servicemembers and veterans who have elected and contributed to the MGIB program receive $400 per month towards educational benefits. Under Title 38, MGIB recipients were to have begun receiving annual COLAs increases on their benefits for the first time in FY 1994. OBRA 1993, however, eliminated the FY 1994 COLA and reduced by 50 percent the FY 1995 COLA.
- This proposal would permanently reduce future COLA increases by 50 percent in FY 1996 and beyond for those beneficiaries who benefited by electing to stay in the old payment structure.

Possible Alternative

Excise Tax on Gambling Revenues

- 5 year Federal savings: $ 3.16 B 10 year Federal savings: $ 7.21 B
- Tax gross revenues (wagers minus winnings paid out) from all gambling activities at 4%. (Current Federal wager taxes range from .25%-2%.)
- State lotteries would be exempt from this tax.

April 11, 1994

Income Maintenance Branch

Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Please route to:

Keith Fontenot
Bernie Martin
Belle Sawhill

Decision needed	___
Please comment	___
For your information	___
Per your request	___
Take necessary action	x

With informational copies for: BM, KF, SD, MR, LC, CE, RB, VA, Menth, J. Minarik, New, Binder

Subject: Welfare Reform Financing

From: Stacy Dean & Chris Ellertson

Phone: 202/395-4686
Fax: 202/395-3910
Room: #7026

Here's round two of the Welfare Reform Financing Options package. It should address most of your comments and queries, with the exception of provisions affecting Treasury. We were singularly unsuccessful in getting answers from this quarter, but will provide updates as soon as they come through.

Attachments

A--Table
B--Bullet Points
C--Text

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
Summary:						
A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
A. Program Savings						
• Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
• Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.80	0.40	8.70	6.90	1.80
• Income Test Meal Reimbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
• Limit Deficiency Payments to Those Making $100K or More from Off-Farm Income per Year	0.61	0.61	0.00	1.31	1.31	0.00
• Fair Transaction Costs with Graduated Interest Rates for Early Redemption of Savings Bonds	.31 0.76	0.76	0.00	.65 1.10	1.10	0.00
Subtotal	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings						
EITC:						
• Deny to Non-Resident Aliens *	0.13	0.13	0.00	0.33	0.33	0.00
• Require Reporting for DOD Personnel	0.16	0.16	0.00	0.40	0.40	0.00
Gambling:						
• Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
• Withholding Rate of 28% on Keno, Bingo, Slots	0.25	0.25	0.00	0.32	0.32	0.00
• Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.61	0.61	0.00

* Treasury currently reviewing this estimate.

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions 5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities	0.80	0.80	0.00	1.83	1.83	0.00
Subtotal	2.07	2.07	0.00	4.27	4.27	0.00

C. Extend Expiring Provisions*

• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep 90 farm bill	0.05	0.05	0.00	0.12	0.12	0.00
• Fees for Passenger Processing and other Customs Services NAFTA	0.00	0.00	0.00	1.04	1.04	0.00
• Extend Railroad Safety User Fees OBRA 90	0.16	0.16	0.00	0.41	0.41	0.00
~~*Veterans:*~~ O						
• Guarantee the Securities Issued in Connection with VA's Direct Loan Sales	0.08	0.08	0.00	0.16	0.16	0.00
• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment	0.03	0.03	0.00	0.14	0.14	0.00
• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)	0.14	0.14	0.00	0.78	0.78	0.00
• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it	0.02	0.02	0.00	0.09	0.09	0.00
• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers	0.39	0.39	0.00	2.95	2.95	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care	0.05	0.05	0.00	0.31	0.31	0.00
• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA	0.21	0.21	0.00	1.35	1.35	0.00
• Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits	0.19	0.19	N/A *	1.30	1.30	N/A *
• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program	0.64	0.64	0.00	1.98	1.98	0.00
• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93	0.15	0.15	0.00	0.83	0.83	0.00
Subtotal	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Possible Alternative

• Gambling Excise Tax at 4%	3.16	3.16	0.00	7.21	7.21	0.00

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

A. Program Savings

Limit Emergency Assistance

- 5 year Federal savings: $1.5 B 10 year Federal savings: $ 4.0 B
- cap each State's AFDC emergency assistance expenditure at FY1993 levels (with inflation adjustments for future years), <u>or</u>
  limit spending to 3% of a State's total AFDC benefit payments from the past year (a grandfather clause could protect States with large funding drops).
- specifics of this proposal are still under development.

Tighten Sponsorship and Eligibility Rules for Non-Citizens

SSI, AFDC and Food Stamps require that part of a legal immigrant sponsor's income is deemed available to the immigrant for a limited time, should he/she need public assistance. The following tightens benefit eligibility for non-citizens:

- 5 year Federal savings: $ 1.8 B 10 year Federal savings: $6.9 B
- change the deeming period for AFDC and Food Stamps from three to five years, and permanently extend SSI's five year deeming provision, which reverts to three years until FY1997.
- deeming continues for another five years for those aliens whose sponsors have adjusted gross income over $40,000.
- Creates PRUCOL eligibility criteria in the SSI, AFDC, and Medicaid programs similar to the tighter Food Stamps criteria.

Income Test Meal Reimbursements to Family Day Care Homes

- 5 year Federal savings: $.57 B 10 year Federal savings: $ 1.72 B
- Family day care homes in low-income areas would receive reimbursement for all meals at the "free meal" rate.
- Other homes could choose between:

  (a) not means-testing and thus receiving "reduced price" rates, <u>or</u>
  (b) means-testing, in which case meals for children under 185% of poverty would be reimbursed at the "free meal" rate and meals for children above 185% of poverty would be reimbursed at the "reduced price" rate.

Limit Deficiency Payments to Those Making $100,000 or More Annually From Off-Farm Income

- 5 year Federal savings: $ .61 B 10 year Federal savings: $ 1.31 B
- Producers receiving $100,000 or more in off-farm adjusted gross income would be ineligible for Commodity Credit Corporation (CCC) crop subsidies.

Graduated Interest Rates for Early Redemption of Savings Bonds

- 5 year Federal savings: $ .76 B 10 year Federal savings: $ 1.1 B
- New savings bonds issued would initially yield 2% interest, which would gradually rise over 5 years to 4%.
- Current outstanding bonds unaffected.

B. Enforcement Savings

Deny EITC to Non-Resident Aliens

- 5 year Federal savings: $ .13B 10 year Federal savings: $ .33 B
- Deny EITC to nonresident aliens such as foreign students, professors, etc.

Require Income Reporting for DOD Personnel, for EITC Purposes

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .4 B
- Families living overseas and on active military duty would become EITC eligible.
- To finance this, and produce above savings, DOD would report nontaxable earned income (such as subsistence and living quarters allowances) paid to military personnel, overseas and stateside. This is counted for EITC purposes.

Increase Withholding Rate on Gambling Winnings

- 5 year Federal savings: $ .52 B 10 year Federal savings: $ .78 B
- Increase the withholding rate of 28% to 36% for gambling winnings over $50,000. The odds of winning would be irrelevant.

Withhold 28% From Keno, Bingo and Slot Machine Winnings

- 5 year Federal savings: $ .25 B 10 year Federal savings: $ .32 B
- Impose 28% withholding on winnings over $7,500, regardless of the odds. (No withholding is currently done.)

Information Reporting on Gambling Winnings

- 5 year Federal savings: $ .22 B 10 year Federal savings: $ .61 B
- Requires reporting on gambling, bingo, slot and keno winnings of $10,000 or more, regardless of the betting odds. (Reporting is currently required at various winning thresholds, if odds are 300:1 or more.)
- State lotteries exempt.

Limit Tax Deferred Interest Build-Up of Large Annuities

- 5 year Federal savings: $ .8 B 10 year Federal savings[1]: $ 1.83
- Prohibit tax deferral on interest accruing to annuities that pay annual incomes over $100,000 for couples, $50,000 for single persons.

C. Extend Expiring Provisions

Hold Constant the Food Stamps Overpayment Recoveries States May Keep

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .12 B
- Extend 1990 Farm Bill provision letting States keep 25% of Food Stamps recovered due to fraud/intentional program violations.
- Extend the provision letting States keep 10% of Food Stamps recovered due to other unintentional errors.
- This provision would extend the current recoveries rate structure which is set to expire in FY1996.

Fees for Passenger Processing and Other Customs Services

- 5 year Federal savings: $ 0 B 10 year Federal savings: $ 1.04 B
- Extend the flat rate charge for merchandise processing and other U.S. customs services.
- The current fee structure, extended by NAFTA, expires after FY2003.

Extend Railroad Safety User Fees

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .41 B
- Extend (and expand) railroad safety inspection fees.
- The provision would extend the fees through FY04. Currently they are set to expire in FY1996.

1 Preliminary staff estimate, based on extrapolation of prior year savings.

Veterans:

Guarantee the Securities Issued in Connection with VA's Direct Loan Sales

- 5 year Federal savings: $ .08 B 10 year Federal savings: $ .16 B
- Currently, VA may sell its direct loans (i.e., mortgages held by VA) to the secondary market. Secondary market institutions package these mortgages into securities and sell them to investors. VA has the authority through December 1995 to guarantee investors the timely payment of principal and interest on the securities. Because this guarantee eliminates risk to the investors, the investors will pay a higher price for the securities.
- Savings are net of increased costs due to increased default liability of this proposal.
- Permanently extending this provision would sustain the current higher price paid to VA for their direct loans sold to the secondary market.

Increase Housing Loan Fee for Multiple Use of the Guaranteed Home Loan Program

- 5 year Federal savings: $ .03 B 10 year Federal savings: $ .14 B
- The loan guaranty program, established to promote home-ownership among returning WWII GI's, guarantees mortgages made by private lenders to veterans, active duty service persons, and selected reservists.
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used to verify eligibility. For medical care, the proposal would allow VA to more effectively identify and collect copayments from higher income veterans.

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- These savings are: (1) net of the lost receipts to the Federal Medicaid program, and (2) represent less Federal Reimbursement of State Medicaid programs.
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- This proposal would permanently reduce future COLA increases by 50 percent in FY 1996 and beyond for those beneficiaries who benefited by electing to stay in the old payment structure.

Possible Alternative

Excise Tax on Gambling Revenues

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- Tax gross revenues (wagers minus winnings paid out) from all gambling activities at 4%. (Current Federal wager taxes range from .25%-2%.)
- State lotteries would be exempt from this tax.

WELFARE REFORM FINANCING OPTIONS

The proposed financing for welfare reform comes from three areas: (a) reductions in entitlement programs (see "Program Savings"); (b) better enforcement of revenue raising measures and reductions in tax expenditures (see "Enforcement Savings"); and (c) extensions of various savings provisions set to expire in the future (see "Extending Expiring Provisions"). An optional provision, should additional financing be called for, is the excise tax on gambling (see "Possible Alternative").

A. Program Savings

Limit the Emergency Assistance Program The little known AFDC-Emergency Assistance Program (EA) is an uncapped entitlement program which is out of control. In FY1990, expenditures totalled $189 million, in FY1995, it is estimated that expenditures will be $644 million and by FY1999 almost $1 billion. While the intent of the EA program is to meet short-term emergency needs and help keep people off welfare, States currently have wide latitude to determine the scope of their EA programs. Recently States have realized that the definition of the program is so broad that it can fund almost any critical services to low-income persons. Since the EA program has a Federal match, States have rapidly begun shifting costs from programs which the States fund on their own such as foster care, family preservation, and homeless services into the matched EA program. States appear to be funding services that address long-term problems as well as true emergency needs.

EA could be modified by establishing a Federal matching cap for each State's EA expenditures. Two alternatives might be used in setting the cap: Payments could be capped at the FY1993 level for all States and then adjusted for inflation. The alternative would be to set a cap equal to 3 percent of the State's total AFDC benefit payments incurred during the previous fiscal year, and grandfather States with FY1993 EA spending higher than the cap amount.[1] (The FY1993 expenditures would be used for setting caps and grandfather provisions, since using FY1994 figures may encourage States to spend more this year to increase the baseline.) The Federal match would continue at 50 percent up to the cap. Under the new capped program, States would also be given the flexibility to determine their own definition of

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[1] The current grandfather proposal would help the District of Columbia, Massachusetts, New Jersey, New York and Oklahoma. Under the 3% limit proposal, the States most affected, absent the grandfather clause, are Massachusetts and New Jersey. Total spending levels for these two States would drop by $20-$30 million, absent the clause.

emergency services. This would give the States flexibility to address various special emergency problems.

Critics of this proposal point to the fact that much of the money is now going to programs such as child welfare and homeless relief. They also note that capping at the FY1993 level may hurt States whose spending rose in FY1994.

Tighten Sponsorship and Eligibility Rules for Non-Citizens In recent years, the number of non-citizens lawfully residing in the U.S. who collect SSI has risen very dramatically. Aliens rose from 5 percent of the SSI aged caseload in 1982 to over 25 percent of the caseload in 1992. Since 1982, applications for SSI from legal aliens have tripled, while immigration rose by only about 50 percent over the period. Most of these applicants enter the country sponsored by their relatives. Currently 47 percent of aliens on SSI apply in their fourth year in the U.S. Until this year, current law required that for 3 years, the portion of the sponsor's income in excess of 110 percent of poverty be "deemed" as available to help support the legal aliens should they need public assistance. Last fall, to pay for Unemployment Insurance (UI) extensions, Congress extended the SSI deeming period from 3 years to 5 years until FY1997, when it reverts to 3 years.

The House Republican welfare reform bill finances its reforms by denying all means-tested benefits to non-citizens other than refugees and immigrants over 75 who have been in the U.S. for over 5 years. This proposal, which cuts off AFDC, Medicaid, Food Stamp and other program benefits in FY1996, would save about $21 billion over five years in combined State/Federal dollars. Since undocumented immigrants are already barred from collecting most benefits (except emergency medical services, child nutrition, and, in some cases, AFDC), this proposal mostly affects legal immigrants who have not yet become citizens. Such a policy is extremely difficult to defend as legal aliens are required to pay taxes and may contribute to the economy with their labor and technical expertise.

The most modest proposal would be to extend the 5 year deeming provision permanently for the SSI program and apply the same 5 year rule to Food Stamps and AFDC programs. (Currently, Food Stamps and AFDC deem for 3 years.) After the first 5 years of deeming, deeming would continue for an additional 5 years only for those aliens whose sponsors have annual income greater than $40,000. Unlike the House Republican proposal, this option, which would affect only those immigrants who applied for stays after the date of enactment. Current recipients would be grandfathered, as long as they remained continuously eligible for benefits. Those currently in the deeming period would not have this period extended.

Another option would be to deem until the immigrant became a citizen. This latter option has the virtue that it draws a clear and logical policy line--deem to citizenship. If such a policy were adopted, Immigration and Naturalization Service

(INS) proposals to speed and simplify the citizenship process might need to be modified by dropping cumbersome language requirements for the elderly. Under both proposals, aliens' Medicaid eligibility could be affected due to the categorical eligibility of AFDC and Food Stamps recipients for Medicaid.

Those who support changes to immigrants' benefit eligibility argue they are based on long-standing immigration policy that immigrants should not become public charges. Sponsored immigrants are different from most citizens in that the latter typically spent their life working and paying taxes in the U.S. At the same time the proposal ensures that truly needy sponsored immigrants will not be denied welfare benefits if they can establish that their sponsors are no longer able to support them. The policy would not affect refugees or asylees.

Critics of this proposal argue that it feeds the already heightened hostility toward immigrants. A sizeable fraction of the immigrants come from poor countries, especially Mexico, and while the sponsoring family may not be poor (in which case deeming would have no effect), their incomes may not be particularly high. Attaining citizenship can be especially difficult for elderly persons. The Hispanic Caucus and a sizeable number of immigrant and religious groups are deeply troubled by any proposals affecting immigrants.

The second element of this proposal conforms eligibility criteria for all categories of noncitizens under the four Federal programs. Currently, due to different eligibility criteria in statute, and litigation over how to interpret statutory language, the four Federal programs do not cover the same categories of noncitizens. The Food Stamp program has the most restrictive definition of which categories of noncitizens are eligible for benefits (i.e., the eligibility criteria encompass a fewer number of immigration statuses). SSI and Medicaid have the most expansive definition of which categories of noncitizens are eligible for benefits, and the AFDC program falls between these extremes. This proposal creates eligibility criteria in the SSI, Medicaid, and AFDC programs similar to the criteria that currently exist in the Food Stamp program. The new list of immigration statuses required for potential eligibility for the SSI, Medicaid, and AFDC programs would also be the same as those listed in the Health Security Act. Savings from conforming the various welfare eligibility rules for different classes of immigrants to the Food Stamps rules are included in the cost estimates for extending deeming.

Income Test Meal Reimbursements to Family Day Care Homes The Child Care Food program provides food subsidies for children in two types of settings: child care centers and family day care homes.[2] They are administered quite

[2] The subsidy rate for lunch served in family day care homes is $1.48 in the 1994 school year. The subsidy rate for a child care center lunch is $1.87 in the 1994 school year.

differently. The subsidies in centers are well targeted because they are means tested. USDA estimates that over 90 percent of Federal dollars are paid to centers on behalf of low-income children. The family day care part of the program is not well targeted because it has no means test. A USDA-commissioned study estimates that 71 percent of Federal dollars support meals for children above 185 percent of the poverty line. While the child care center funding levels have been growing at a modest rate, the family day care funding levels are growing rapidly--16.5 percent between 1991 and 1992.

The following approach better targets the family day care funding to low-income children and creates minimal administrative requirements for providers.

- Family day care homes located in low-income areas (e.g., census tracts where half of the children are below 200 percent of the poverty line) would receive $.84 and $1.67 in breakfast and lunch reimbursements, respectively, during school year 1995. This is roughly equivalent to the "free meal" rate paid on behalf of low-income children in day care centers, whose families have incomes under 130% of poverty.
- All other homes would have a choice. They could elect not to use a means-test. If they elect this option, they would receive breakfast and lunch reimbursements at the reduced levels of $.54 and $1.27, respectively. Alternatively, a family day care home could administer a simplified, two-part means-test. Meals served to children below 185 percent of the poverty line would be reimbursed at the "free meal" rate. Meals served to children above 185 percent of the poverty line would be reimbursed at the reduced price rate.
- Intermediaries that serve family day care homes in low-income areas would be reimbursed an extra $10 per month for ongoing administrative costs and a $5 million setaside would help such day care homes to become licensed (or registered).

Critics of this proposal will argue that it may hurt children because family day care programs may drop out of the program. However, since the reimbursement would fall only slightly, and only for homes in well-to-do-areas, this seems rather unlikely.

Limit Deficiency Payments to Those Making $100,000 or More From Off-Farm Income Per Year USDA farm programs are criticized for unfairly supporting large farms and wealthy producers rather than smaller farms and lower-income farmers. The Congressional Office of Technology Assessment concluded that most big farms "do not need direct government payments and/or subsidies to compete and survive." One option is to make producers receiving $100,000 or more in off-farm adjusted gross income ineligible for Commodity Credit Corporation (CCC) crop subsidies (price support loans and income support payments). The proposed targeting of subsidies would direct farm payments to smaller, family farms, which deserve Federal financial help more than large agricultural enterprises. It would cause an estimated 1-2 percent of program participants to drop out of USDA farm programs. Most of these wealthiest participants include corporations and individuals for whom farming is not a primary occupation or source of income.

Graduated Interest Rates for Early Redemption of Savings Bonds The Savings Bond program is intended to provide a safe and attractive long-term investment opportunity for individual savers, and a cost effective form of public debt financing. Savings Bonds pay at least 4 percent interest (possibly higher after 5 years if market rates are higher) and may be redeemed on demand, without penalty, after 6 months. Each year, 40 percent of the bonds redeemed were outstanding for one year or less (65 percent were 3 years or less). For these "early redeemers," the Savings Bond program is overly generous and, due to the relatively high transaction costs, is not a cost-effective means of debt financing. Although Treasury does not maintain statistics on who purchases savings bonds, there is no reason to believe that a disproportionate share of such investors are low-income.

This proposal would eliminate the 4 percent interest floor, enacted in 1976, below which Treasury cannot lower the guaranteed rate. Treasury would issue new bonds with a 2 percent guaranteed rate that would rise, over a 5 year period, so that the cumulative percentage yield would reach 4 percent at the end of the fifth year. Graduated guaranteed rates have been used successfully in the past to make the yield to early redeemers similar to private market alternatives. It would have no effect on (a) Savings Bonds already outstanding or (b) Savings Bonds held for at least 5 years. No change is proposed to the market-based rates that apply after 5 years. Preliminary indications are that Treasury supports this proposal.

B. Enforcement Savings

Deny EITC to Nonresident Aliens Under current law, non-resident aliens may receive the Earned Income Tax Credit (EITC). Because non-resident taxpayers are not required to report their worldwide income, it is currently impossible for the IRS to determine whether ineligible individuals (such as high income non-resident aliens) are claiming the EITC. The proposal would deny the EITC to non-resident aliens completely. It is estimated that about 50,000 taxpayers would be affected, mainly visiting foreign students and professors.

Require Income Reporting for DOD Personnel, for EITC Purposes Under current law, families living overseas are ineligible for the EITC. The first part of this proposal would extend the EITC to active military families living overseas. To pay for this proposal, and to raise net revenues, the DOD would be required to report the nontaxable earned income paid to military personnel (both overseas and states-side) on Form W-2. Such nontaxable earned income includes basic allowances for subsistence and quarters. Because current law provides that in determining earned income for EITC purposes such nontaxable earned income must be taken into account, the additional information reporting would enhance compliance with the EITC rules. The proposal is supported by DOD.

Withholding on Gambling Winnings Current rules require withholding at a rate of 28 percent on proceeds from a wagering transaction if the proceeds (amount received over amount wagered) exceed $5,000 and are at least 300 times the amount wagered (i.e., odds of 300:1 or higher). For lotteries, sweepstakes or wagering pools, proceeds from a wager of over $5,000 are subject to withholding at a rate of 28 percent regardless of the odds. No withholding is imposed on winnings from keno, bingo, or slot machines. There are three components to this revenue raising proposal, as follows:

- *Increase Withholding Rate on Gambling Winnings Over $50,000* The first component of this proposal would increase the withholding rate on certain gambling winnings from 28 percent to 36 percent. The higher rate would apply only to winnings in excess of $50,000. In addition, it would apply to such winnings regardless of the odds. This is estimated to raise $516 million over 5 years. The increased revenues result from a speedup in collection of tax and enhanced compliance.
- *Expand Withholding to Other Winnings* The second component of the proposal would impose withholding on gambling winnings of over $7,500 from keno, bingo, and slot machines regardless of the odds. This is estimated to raise $248 million over 5 years.
- *Require Information Reporting on Gambling Winnings* Currently, information reporting is required on gambling winnings in excess of $600 (except that in the case of bingo and slot machines the threshold is $1,200 and, in the case of keno, $1,500) but only if the payout is based on betting odds of 300:1, or higher. The proposal would extend the information reporting requirement to any winnings of $10,000 or more regardless of the betting odds. This would raise $215 million over 5 years.

Limit Tax Deferred Interest Build-Up on Large Annuities Interest on the principal amounts of certain annuities is allowed to accumulate free of tax until paid to the beneficiary--like the interest in an IRA. The proposal would prohibit such tax deferral on annuities that would pay an annual income greater than $100,000 for couples, or $50,000 for single persons.

Proponents of the proposal argue that the tax deferral allows a substantial benefit for persons who have large amounts of wealth to purchase such annuities. It is possible to make unlimited annuity contributions. By contrast, the contribution to an IRA is capped at $2,000 per worker per year for people who work for their livelihood. On the other hand, such annuities are often purchased to benefit surviving spouses who receive insurance proceeds upon the death of the other spouse, and new retirees who receive lump-sum distributions. A powerful lobby that may oppose the provision is insurance agents, who stand to lose the tax inducement for a lucrative product.

C. Extend Expiring Provisions

Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Retain This proposal would extend the 1990 Farm Bill provision which reduced the percentage of recovered Food Stamp overissuances retainable by State agencies for FY1991-1995. Under this provision, which would be extended to FY1996-FY2004, States could retain 25% of recoveries from fraud/intentional program violations (previously 50%) and 10% of other recoveries (previously 25%). States are permitted to keep some portion of the 100% Federal Food Stamp recoveries as an incentive payment for pursuing fraud cases.

Extend Fees for Passenger Processing and Other Customs Services A flat rate merchandise processing fee (MPF) is charged by U.S. Customs for processing of commercial and non-commercial merchandise that enters or leaves U.S. warehouses. The fee, adopted by OBRA 1986, generally is set at .19% of the value of the good. Other variable customs fees are charged for: passenger processing; commercial truck arrivals; railroad car arrivals; private vessel or private aircraft entries; dutiable mail; broker permits; and barge/bulk carriers. NAFTA extended the MPF and other fees through September, 2003. The proposal would extend the fees charged permanently.

Extend Railroad Safety User Fees Railroad safety inspection fees were enacted in the Omnibus Budget Reconciliation Act of 1990 to pay for the costs of the Federal rail safety inspection program. The railroads are assessed fees according to a formula based on three criteria: road miles, as a measure of system size; train miles as a measure of volume; and employee hours as a measure of employee activity. The formula is applied across the board to all railroads to cover the full costs of the Federal railroad safety inspection program. The fees are set to expire in 1996. The 1995 President's Budget proposed to extend the fees through 1999 and expand them, effective in 1995, to cover other railroad safety costs. To help finance welfare reform, the fees could be extended permanently.

Veterans Provisions:

Guarantee the Securities Issued in Connection with VA's Direct Loan Sales Under current law, VA has the authority to sell its direct loans (i.e., mortgages held by VA) to the secondary market. Secondary market institutions package these mortgages into securities and sell them to investors. VA has the authority through December 1995 to guarantee investors the timely payment of principal and interest on the securities. Because this guarantee eliminates risk to the investors, the investors will pay a higher price for the securities. Permanently extending this provision would sustain the current higher price paid to VA for their direct loans sold to the secondary market.

Increase Housing Loan Fee for Multiple Use of the Guaranteed Home Loan Program The loan guaranty program was established to promote home-ownership among returning WWII GI's, most of whom were drafted into the military. This program guarantees mortgages made by private lenders to veterans, active duty service persons, and selected reservists. There is no limit on how many times a beneficiary can use the Home Loan Program. OBRA 1993 increased the fee to 3 percent through FY98 for multiple use of the guaranteed home loan program when there is less than a 5 downpayment. This proposal would permanently extend this 3 percent fee.

Increase Housing Loan Fee by .75 percent Fees on VA guaranteed home loans decrease as the downpayment increases and can be financed as part of the loan. OBRA 1993 increased the fee on most guaranteed home loans by .75 percent through FY98 (e.g., the no-downpayment fee increased from 1.25 to 2 percent). This proposal would permanently extend the fee increase. Increasing the fee reduces the taxpayers subsidy to this program while continuing to offer veterans a downpayment and fee package that would be below conventional loan requirements. Because the fee can be financed over the life of the loan (i.e., thirty years), the cost would not be significant to beneficiaries.

Resale Losses on Loans When a private lender forecloses on a VA guarantee property, VA uses a formula to determine whether it is more cost-effective to: (1) acquire a foreclosed property from the lender and resell it, or (2) pay the guarantee to the lender. Under current law, this formula takes into consideration the potential for losses on the resale of a foreclosed property through FY98. This is consistent with the acquisition decision making of private mortgage insurers who consider resale losses. This proposal would make permanent the inclusion of potential losses on the resale of a foreclosed property in the formula.

Medical Care Cost Recovery Program: Third Party Health Insurance Reimbursements. In 1986, VA received permanent authority to collect reimbursement for the cost of care from health insurers of non service-connected veterans. OBRA 1990 expanded this authority to allow VA to collect reimbursement from health insurers of <u>service-connected veterans</u> for treatment of <u>non service-connected</u> conditions. OBRA 1993 extended this authority through FY1998. This proposal would permanently extend collection authority beyond FY1998.

Medical Care Cost Recovery Program: Per Diems and Prescription Copayments OBRA 1990 authorized VA to collect hospital and nursing home per diems and outpatient prescription copayments from certain veterans for treatment of their non service-connected conditions. OBRA 1993 extended this authority to the end of

FY1998. This proposal would permanently extend collection authority beyond FY1998.

VA Pensions and Medical Care Cost Recovery Programs: Income Verification Match Under current authority, VA has access to IRS tax data to verify income reported by VA pension and medical care beneficiaries. VA's pension and medical care programs are means-tested. For pensions, the proposal would improve program integrity by reducing overpayments that occur when self-reported income is the only information used to verify eligibility. For medical care, the proposal would allow VA to more effectively identify and collect copayments from higher income veterans. The current provision expires at the end of FY1998. This proposal would permanently extend collection authority beyond FY1998.

VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes VA pensions is a means-tested program which provides monthly cash support to eligible veterans or their survivors. OBRA 1993 extended through FY 1998 a provision that caps pension benefits at $90 per month for beneficiaries receiving Medicaid nursing home benefits. This proposal maintains the $90 monthly cap, reducing the amount of income that the beneficiary would have to turn over to the Medicaid program to help offset the costs of their nursing home care. On the other hand, savings accrue to VA, which reimburses the Medicaid program less. These savings are: (1) net of the lost receipts to the Federal Medicaid program, and (2) represent lost receipts in the States' Medicaid programs. This proposal would permanently extend this OBRA provision.

Round Down Benefit and Reduce COLA Adjustment for Death and Indemnity Compensation (DIC) Benefits The DIC program provides monthly cash benefits to survivors of service-connected veterans who died during military service, or after service from their service-connected condition. OBRA 1993 provided authority to round down the monthly benefit levels to the nearest dollar and reduce the COLAs by 50% to beneficiaries who were grandfathered into the new DIC program. (The old DIC program based benefits on military rank; the new program pays a flat rate.) This proposal would permanently extend VA's authority to round down the benefit levels to the nearest dollar and reduce future COLAs by 50% for grandfathered beneficiaries.

Reduce Future Montgomery GI Bill (MGIB) COLA Increases Service members and veterans who have elected and contributed to the MGIB program receive $400 per month towards educational benefits. Under Title 38, MGIB recipients were to have begun receiving annual COLAs increases on their benefits for the first time in FY 1994. OBRA 1993, however, eliminated the FY 1994 COLA and reduced by 50% the FY 1995 COLA. This proposal would permanently reduce future COLA increases by 50% in FY 1996 and beyond.

Possible Alternative

4 Percent Excise Tax on Revenues from Gambling Certain wagers authorized by State law are currently taxed at a rate of 0.25 percent, and unauthorized wagers at a rate of 2 percent. That tax is calculated as a percentage of the amount wagered. Only wagers on sporting events or contests, and pools and lotteries conducted for profit, are subject to tax. The tax does not apply to drawings conducted by nonprofit organizations, games where winnings are determined in the presence of all persons placing wagers (such as table games, bingo, and keno), parimutuel betting licensed under State law, wagers made using coin-operated devices, and State lotteries. The proposal is to place an excise tax on gross revenues (wagers less winnings paid out) from all gambling activities except State lotteries. If the rate was set at 4 percent, this proposal would raise approximately $3.2 billion over 5 years. (A 5 percent rate would raise roughly $4 billion, while a 3 percent rate would raise roughly $2.4 billion.)

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Welfare Reform Financing Options

4/11/94 16:45	5 Year			10 Year		
Dollars in Billions	Total	Federal	State	Total	Federal	State
Summary:						
A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
A. Program Savings						
• Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
• Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsers with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.80	0.40	8.70	6.90	1.80
• Income Test Meal Reimbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
• Limit Deficiency Payments to Those Making $100K or More from Off-Farm Income per Year	0.61	0.61	0.00	1.31	1.31	0.00
• Fair Transaction Costs with Graduated Interest Rates for Early Redemption of Savings Bonds	.31 0.76	0.76	0.00	.65 1.10	1.10	0.00
Subtotal	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings						
EITC:						
• Deny to Non-Resident Aliens *	0.13	0.13	0.00	0.33	0.33	0.00
• Require Reporting for DOD Personnel	0.16	0.16	0.00	0.40	0.40	0.00
Gambling:						
• Increase Withholding on Gambling Winnings > $50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
• Withholding Rate of 28% on Keno, Bingo, Slots	0.25	0.25	0.00	0.32	0.32	0.00
• Require Information Reporting on Winnings > $10K from Gambling	0.22	0.22	0.00	0.61	0.61	0.00

* Treasury currently reviewing this estimate.

Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities	0.80	0.80	0.00	1.83	1.83	0.00
Subtotal	2.07	2.07	0.00	4.27	4.27	0.00

C. Extend Expiring Provisions*

• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep (90 farm bill)	0.05	0.05	0.00	0.12	0.12	0.00
• Fees for Passenger Processing and other Customs Services (NAFTA)	0.00	0.00	0.00	1.04	1.04	0.00
• Extend Railroad Safety User Fees (OBRA 90)	0.16	0.16	0.00	0.41	0.41	0.00
~~Veterans:~~ O						
• Guarantee the Securities Issued in Connection with VA's Direct Loan Sales	0.08	0.08	0.00	0.16	0.16	0.00
• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment	0.03	0.03	0.00	0.14	0.14	0.00
• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)	0.14	0.14	0.00	0.78	0.78	0.00
• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it	-0.02	-0.02	0.00	0.09	0.09	0.00
• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers	0.39	0.39	0.00	2.95	2.95	0.00

* Some savings require additional administrative effort which may have discretionary costs.

Welfare Reform Financing Options

4/11/94 16:45	5 Year Total	5 Year Federal	5 Year State	10 Year Total	10 Year Federal	10 Year State
	Dollars in Billions					
• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care	0.05	0.05	0.00	0.31	0.31	0.00
• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA	0.21	0.21	0.00	1.35	1.35	0.00
• Cap means-tested pension benefits at $90 per month for veterans and survivors who receive Medicaid nursing home benefits	0.19	0.19	N/A *	1.30	1.30	N/A *
• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program	0.64	0.64	0.00	1.98	1.98	0.00
• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93	0.15	0.15	0.00	0.83	0.83	0.00
Subtotal	2.10	2.10	0.00	11.46	11.46	0.00
Total: Financing Options	9.82	9.42	0.40	32.56	30.76	1.80

Possible Alternative

• Gambling Excise Tax at 4%	3.16	3.16	0.00	7.21	7.21	0.00

* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.

Welfare Reform Financing Options

A. Program Savings

Limit Emergency Assistance

- 5 year Federal savings: $1.5 B 10 year Federal savings: $ 4.0 B
- cap each State's AFDC emergency assistance expenditure at FY1993 levels (with inflation adjustments for future years), or
  limit spending to 3% of a State's total AFDC benefit payments from the past year (a grandfather clause could protect States with large funding drops).
- specifics of this proposal are still under development.

Tighten Sponsorship and Eligibility Rules for Non-Citizens

SSI, AFDC and Food Stamps require that part of a legal immigrant sponsor's income is deemed available to the immigrant for a limited time, should he/she need public assistance. The following tightens benefit eligibility for non-citizens:

- 5 year Federal savings: $ 1.8 B 10 year Federal savings: $6.9 B
- change the deeming period for AFDC and Food Stamps from three to five years, and permanently extend SSI's five year deeming provision, which reverts to three years until FY1997.
- deeming continues for another five years for those aliens whose sponsors have adjusted gross income over $40,000.
- Creates PRUCOL eligibility criteria in the SSI, AFDC, and Medicaid programs similar to the tighter Food Stamps criteria.

Income Test Meal Reimbursements to Family Day Care Homes

- 5 year Federal savings: $.57 B 10 year Federal savings: $ 1.72 B
- Family day care homes in low-income areas would receive reimbursement for all meals at the "free meal" rate.
- Other homes could choose between:

  (a) not means-testing and thus receiving "reduced price" rates, or
  (b) means-testing, in which case meals for children under 185% of poverty would be reimbursed at the "free meal" rate and meals for children above 185% of poverty would be reimbursed at the "reduced price" rate.

Limit Deficiency Payments to Those Making $100,000 or More Annually From Off-Farm Income

- 5 year Federal savings: $ .61 B 10 year Federal savings: $ 1.31 B
- Producers receiving $100,000 or more in off-farm adjusted gross income would be ineligible for Commodity Credit Corporation (CCC) crop subsidies.

Graduated Interest Rates for Early Redemption of Savings Bonds

- 5 year Federal savings: $ .76 B 10 year Federal savings: $ 1.1 B
- New savings bonds issued would initially yield 2% interest, which would gradually rise over 5 years to 4%.
- Current outstanding bonds unaffected.

B. Enforcement Savings

Deny EITC to Non-Resident Aliens

- 5 year Federal savings: $ .13B 10 year Federal savings: $ .33 B
- Deny EITC to nonresident aliens such as foreign students, professors, etc.

Require Income Reporting for DOD Personnel, for EITC Purposes

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .4 B
- Families living overseas and on active military duty would become EITC eligible.
- To finance this, and produce above savings, DOD would report nontaxable earned income (such as subsistence and living quarters allowances) paid to military personnel, overseas and stateside. This is counted for EITC purposes.

Increase Withholding Rate on Gambling Winnings

- 5 year Federal savings: $ .52 B 10 year Federal savings: $ .78 B
- Increase the withholding rate of 28% to 36% for gambling winnings over $50,000. The odds of winning would be irrelevant.

Withhold 28% From Keno, Bingo and Slot Machine Winnings

- 5 year Federal savings: $ .25 B 10 year Federal savings: $ .32 B
- Impose 28% withholding on winnings over $7,500, regardless of the odds. (No withholding is currently done.)

Information Reporting on Gambling Winnings

- 5 year Federal savings: $ .22 B 10 year Federal savings: $ .61 B
- Requires reporting on gambling, bingo, slot and keno winnings of $10,000 or more, regardless of the betting odds. (Reporting is currently required at various winning thresholds, if odds are 300:1 or more.)
- State lotteries exempt.

Limit Tax Deferred Interest Build-Up of Large Annuities

- 5 year Federal savings: $ .8 B 10 year Federal savings[1]: $ 1.83
- Prohibit tax deferral on interest accruing to annuities that pay annual incomes over $100,000 for couples, $50,000 for single persons.

C. Extend Expiring Provisions

Hold Constant the Food Stamps Overpayment Recoveries States May Keep

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .12 B
- Extend 1990 Farm Bill provision letting States keep 25% of Food Stamps recovered due to fraud/intentional program violations.
- Extend the provision letting States keep 10% of Food Stamps recovered due to other unintentional errors.
- This provision would extend the current recoveries rate structure which is set to expire in FY1996.

Fees for Passenger Processing and Other Customs Services

- 5 year Federal savings: $ 0 B 10 year Federal savings: $ 1.04 B
- Extend the flat rate charge for merchandise processing and other U.S. customs services.
- The current fee structure, extended by NAFTA, expires after FY2003.

Extend Railroad Safety User Fees

- 5 year Federal savings: $ .16 B 10 year Federal savings: $ .41 B
- Extend (and expand) railroad safety inspection fees.
- The provision would extend the fees through FY04. Currently they are set to expire in FY1996.

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[1] Preliminary staff estimate, based on extrapolation of prior year savings.

Veterans:

Guarantee the Securities Issued in Connection with VA's Direct Loan Sales

- 5 year Federal savings: $ .08 B 10 year Federal savings: $ .16 B
- Currently, VA may sell its direct loans (i.e., mortgages held by VA) to the secondary market. Secondary market institutions package these mortgages into securities and sell them to investors. VA has the authority through December 1995 to guarantee investors the timely payment of principal and interest on the securities. Because this guarantee eliminates risk to the investors, the investors will pay a higher price for the securities.
- Savings are net of increased costs due to increased default liability of this proposal.
- Permanently extending this provision would sustain the current higher price paid to VA for their direct loans sold to the secondary market.

Increase Housing Loan Fee for Multiple Use of the Guaranteed Home Loan Program

- 5 year Federal savings: $ .03 B 10 year Federal savings: $ .14 B
- The loan guaranty program, established to promote home-ownership among returning WWII GI's, guarantees mortgages made by private lenders to veterans, active duty service persons, and selected reservists.
- There is no limit on how many times a beneficiary can use the Home Loan Program. OBRA 93 increased the fee to 3 percent through FY98 for multiple use of the guaranteed home loan program when there is less than a 5 percent downpayment.
- This proposal would permanently extend the 3 percent fee for multiple use when there is less than a 5 percent downpayment.

Increase Housing Loan Fee by .75 percent

- 5 year Federal savings: $ .14 B 10 year Federal savings: $ .78 B
- Fees on VA guaranteed home loans decrease as the downpayment increases and can be financed as part of the loan.
- OBRA 93 increased the fee on most guaranteed home loans by .75 percent through FY98 (e.g., the no-downpayment fee increased from 1.25 to 2 percent).
- This proposal would permanently extend the fee increase. Increasing the fee reduces the taxpayers' subsidy to this program while continuing to offer veterans a downpayment and fee package that would be below conventional loan requirements. (Because the fee can be financed over the life of the loan, i.e., thirty years, the cost would not be significant to beneficiaries.)

Extend VA's Authority to Consider Resale Losses on Loans

- 5 year Federal savings: $ .02 B 10 year Federal savings: $ .09 B
- When a private lender forecloses on a VA guarantee property, VA uses a formula to determine whether it is more cost-effective to: (1) acquire a foreclosed property from the lender and resell it, or (2) pay the guarantee to the lender. Under current law, this formula takes into consideration the potential for losses on the resale of a foreclosed property through FY98. This is consistent with the acquisition decisionmaking of private mortgage insurers who consider resale losses.
- This proposal would make permanent the inclusion of potential losses on the resale of a foreclosed property in the formula.

Medical Care Cost Recovery Program: Third Party Health Insurance Reimbursements.

- 5 year Federal savings: $ .39 B 10 year Federal savings: $ 2.95 B
- In 1986, VA received permanent authority to collect reimbursement for the cost of care from health insurers of nonservice-connected veterans. OBRA 1990 expanded this authority to allow VA to collect reimbursement from health insurers of <u>service-connected veterans</u> for treatment of <u>nonservice-connected</u> conditions.
- OBRA 1993 extended the service-connected authority to the end of FY 1998.
- This proposal would make this authority permanent.

Medical Care Cost Recovery Program: Per Diems and Prescription Copayments

- 5 year Federal savings: $ .05 B 10 year Federal savings: $ .31 B
- OBRA 1990 authorized VA to collect hospital and nursing home per diems and outpatient prescription copayments from certain veterans for treatment of their nonservice-connected conditions.
- OBRA 1993 extended this authority to the end of FY 1998.
- This proposal would make this authority permanent.

VA Pensions and Medical Care Cost Recovery Programs: Income Verification Match

- 5 year Federal savings: $ .21 B 10 year Federal savings: $ 1.35 B
- Under current authority, VA has access to IRS tax data to verify income reported by VA pension and medical care beneficiaries. VA's pension and medical care programs are means-tested.
- For pensions, the proposal would improve program integrity by reducing overpayments that occur when self-reported income is the only information

used to verify eligibility. For medical care, the proposal would allow VA to more effectively identify and collect copayments from higher income veterans.

- This proposal would make this authority permanent.

VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes

- 5 year Federal savings: $.19 B 10 year Federal savings: $1.3 B
- VA pensions is a means-tested program which provides monthly cash support to eligible veterans or their survivors. OBRA 1993 extended through FY 1998 a provision that caps pension benefits at $90 per month for beneficiaries receiving Medicaid nursing home benefits.
- This proposal does not affect the pension beneficiaries. It reduces the amount of income that the beneficiary would have to turn over to the Medicaid program to help offset the costs of their nursing home care.
- These savings are: (1) net of the lost receipts to the Federal Medicaid program, and (2) represent less Federal Reimbursement of State Medicaid programs.
- This proposal would make permanent this provision which is currently scheduled to expire in FY1998.

Round down and Reduce COLA Adjustment for Death and Indemnity Compensation (DIC) Benefits

- 5 year Federal savings: $.64 B 10 year Federal savings: $1.98 B
- The DIC program provides monthly cash benefits to survivors of service-connected veterans who died during military service, or after service from their service-connected condition.
- OBRA 1993 provided authority to round down the monthly benefit levels to the nearest dollar and reduce the COLAs by 50% to beneficiaries who were grandfathered into the new DIC program. (The old DIC program based benefits on military rank; the new program pays a flat rate.)
- This proposal would make this authority permanent.

Maintain Montgomery GI Bill (MGIB) COLA at 50 Percent

- 5 year Federal savings: $.15 B 10 year Federal savings: $.83 B
- Servicemembers and veterans who have elected and contributed to the MGIB program receive $400 per month towards educational benefits. Under Title 38, MGIB recipients were to have begun receiving annual COLAs increases on their benefits for the first time in FY 1994. OBRA 1993, however, eliminated the FY 1994 COLA and reduced by 50 percent the FY 1995 COLA.
- This proposal would permanently reduce future COLA increases by 50 percent in FY 1996 and beyond for those beneficiaries who benefited by electing to stay in the old payment structure.

Possible Alternative

Excise Tax on Gambling Revenues

- 5 year Federal savings: $ 3.16 B 10 year Federal savings: $ 7.21 B
- Tax gross revenues (wagers minus winnings paid out) from all gambling activities at 4%. (Current Federal wager taxes range from .25%-2%.)
- State lotteries would be exempt from this tax.

NATIONAL WOMEN'S LAW CENTER

20 YEARS ADVANCING WOMEN'S RIGHTS

April 21, 1994

Honorable Donna E. Shalala
Secretary
Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20410

Re: Imposing an Income Ceiling on the Dependent Care Tax Credit to Finance Welfare Reform

Dear Secretary Shalala:

As advocates for issues concerning women and children, the undersigned organizations are very concerned about a proposal to finance the Administration's welfare plan by imposing an income ceiling on the Dependent Care Tax Credit. This proposal, which would phase out the credit for taxpayers with household incomes above $90,000 -- amounts as low as $65,000 are also being considered -- is problematic because it raises serious issues of equity and because it will result in one important federal child care program receiving funding at the expense of another. While we applaud the Administration's efforts to increase child care support for the working poor and understand the difficulty in locating the resources to fund such initiatives, we believe financing should be accomplished in an equitable manner. Accordingly, we urge you to reject the proposed income ceiling on the credit.

No other work-related expense recognized by the tax code is subject to an income ceiling. Taxpayers at the very highest income levels deduct business meals and entertainment expenses, depreciate their automobiles, and attend taxpayer-subsidized conventions on cruise ships. Failure to subject these expenses to an income ceiling, while focusing on expenditures for child and dependent care, sends the message that such care is less important than lunches in four-star restaurants, oriental rugs for offices, or Caribbean cruises.

1616 P Street, NW • Suite 100 • Washington, DC 20036 • (202) 328-5160 • FAX (202) 328-5137

WR Financing

Limiting favorable tax treatment for other work-related expenses would be more profitable than targeting the credit and would not have an adverse impact on women and their families. Phasing out the credit at incomes above $90,000 would result in approximately $800 million in savings over five years. Targeting meals and entertainment or other work-related deductions for taxpayers at even higher income levels would generate similar revenues. For example, in 1988 Senator Bill Bradley (D-NJ) proposed phasing out the meals and entertainment deduction for individuals with family incomes over $360,000, to finance the Family Support Act. Senator Bradley's proposal would have raised an estimated $800 million over five years at that time by just focusing on the upper one-tenth of one percent of taxpayers. Lowering the income ceiling for this deduction to $250,000 would likely result in similar savings today, despite the fact that the deduction for these expenses was reduced in 1993 from 80 percent to 50 percent. Thus, by focusing on other work-related expenses and on those taxpayers at the highest income levels, additional revenues can be found without cutting a tax benefit that legitimately recognizes the importance of child care to working families.

WR $

Alternatively, reducing work-related tax benefits across the board would be a more equitable means of financing welfare reform. If such an approach were taken, including the credit would be appropriate. However, unless and until all such tax benefits are subject to an income ceiling, focusing upon the Dependent Care Tax Credit remains an inequitable option.

In addition, the credit is already a very limited tax benefit. Unlike most other tax benefits for work-related expenses, the credit is allowed for only a portion of child and dependent care expenses. Depending upon income, taxpayers may receive a credit ranging from 20 percent to 30 percent of expenditures up to $2,400 if they have one dependent and $4,800 if they have two or more dependents. On average, families paid $3,000 in 1990 to obtain care for a child under age five. Thus, while taxpayers may deduct all of their expenses to decorate their offices, for example, they may only deduct a maximum of 30 percent of their child care expenses.

Finally, the credit is already appropriately targeted to provide low-income families greater assistance. Taxpayers with incomes less than $10,000 may offset 30 percent of their expenses, phasing down to 20 percent at incomes of $28,000 and above. With the limitations on the amount of qualifying expenses that may be claimed, the maximum credit available to families with incomes greater than $28,000 is $480 for one dependent, and $960 for two or more dependents.

The proposal under consideration amounts to financing welfare reform and its important child care components at the expense of another significant child care program. Focusing upon the Dependent Care Tax Credit is inequitable, particularly in light of the plethora of work-related tax benefits not presently subject to an income ceiling. To limit this credit while allowing taxpayers to continue to take full deductions for luxurious office furnishings, for example, marginalizes the importance of child and dependent care. We urge you consider other more equitable means of financing this important initiative.

Sincerely,

Nancy Duff Campbell

Nancy Duff Campbell
Co-President

Verna L. Williams

Verna L. Williams
Senior Counsel

On behalf of:

American Association of University Women
American Federation of State, County, and Municipal Employees
Association of Junior Leagues International
BPW/USA
Center for Advancement of Public Policy
Center for Research on Women at Wellesley College, School Age Child Care Project
Center for Women Policy Studies
Child Care Action Campaign
Child Care Law Center
Child Welfare League of America
Early Childhood Policy Research
Federally Employed Women
National Association for the Education of Young Children
National Association for Female Executives
National Association of Child Care Resource and Referral Agencies
National Black Child Development Institute
National Council of Jewish Women
National Organization for Women
National Political Congress of Black Women
National Women's Law Center
National Women's Political Caucus
NOW Legal Defense & Education Fund
Older Women's League
The Children's Foundation
Wider Opportunities for Women
Women's Legal Defense Fund

cc: David Ellwood, Assistant Secretary for Planning and Evaluation
Mary Jo Bane, Assistant Secretary for the Administration for Children and Families
Bruce Reed, Deputy Assistant to the President for Domestic Policy

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WED 202-265-1179
FAX 202-387-3447
WR-Financing

Earned Income Tax Credit: Another Benefit For Illegal Aliens

a story idea
15MAR94
(also phone 202-265-1179)

TIMING: Good at any time. Especially strong hook for April 15.

BASIC THESIS: When American taxpayers mail their returns by April 15, they may be disconcerted by the fact that some of the money they send to Washington will be sent back out immediately as a direct federal cash payment to illegal aliens.

QUOTE: "Illegal aliens can get Earned Income Credit refunds, even if they have paid no taxes; nothing in the tax form asks if they are illegal." Amanda Michanczyk, public affairs official of the Internal Revenue Service (11MAR94).

THE CONTRADICTION: Congress and its laws suggest a public stance against illegal immigration. They say that:
1. a citizen of another country must not enter the U.S. without official U.S. permission;
2. a foreign citizen with official permission to enter the U.S. may not stay longer than a visa allows;
3. foreign citizens who violate #1 or #2 may not hold a job in the U.S.

BUT . . . .
if foreign citizens succeed in violating those prohibitions while working at low-income jobs, Congress has written a law that will reward them with annual cash payments of up to hundreds of dollars.

IMAGES:

♦ Cover of IRS EIC publication with noted irony that the words apply equally to U.S. citizens and illegal aliens.
Title: "Did you Know? The Government May Owe You Money!!"
Copy in cover box: "In 1993, if You . . .

- Had a Job,
- Earned Less Than $23,050, and
- Had a Child Who Lived With You

You may qualify for the Earned Income Credit"
Voiceover could be something like: But you don't have to be an American. In fact, if you are a foreign citizen who entered the United States illegally, the government still feels it owes you money and will give you hundreds of dollars if you file the proper form.

♦ Locate an illegal alien, protect his or her identity and show filling out Earned Income Tax Credit form. Show later with IRS check.

♦ Additional or alternate option: Show illegal alien being helped to file an electronic return. The money should arrive within no more than a few days. EIC for an illegal alien can seem better than an ATM machine.

♦ Show steps of the process as described below: the Social Security number computer matchup. The Unpostables Unit. Assigning of new national identification number.

♦ Contrast shots of a more typical American taxpayer filling out tax forms with footage of illegal aliens scaling the walls on the San Diego border (with the very real prospect of having the IRS reward them for their efforts).

QUICK SUMMARY: The jarring image of the federal government using Americans' tax payments to provide a gift to illegal aliens is made possible because of the way Congress set up the Earned Income Credit.

The credit is designed to give low-income American workers a cash payment at tax time to help ensure that they make more by working than do Americans who rely solely on public welfare assistance. Some of the credit payment to the workers is a refund of income taxes that were withheld from their pay checks. But many workers have not made high enough income to have had any income taxes withheld; they get a credit refund regardless.

But the Earned Income Credit also is quite easily available to illegal aliens – those foreign citizens expressly forbidden by law to be in the United States or to hold a job.

There is a slight hitch. Because most illegal aliens obtain jobs by using phony Social Security cards, the names and Social Security numbers on their tax returns don't match in the federal computer. After a short delay, however, the IRS works things out by assigning the illegal aliens a temporary, legal number and paying them their cash credit.

The IRS apparently has no choice but pay the illegal aliens. As with many other federal benefits, Congress has chosen not to prohibit foreign citizens from obtaining the U.S. Earned Income Credit.

THE DETAILED STORY

1. Source: Amanda Michancyk, spokeswoman for the Internal Revenue Service

In the office of Public Affairs
202-622-4050
Interviews on 11MAR94 and 14MAR94.

All on the record. These comments were made with ease and in response to conversational questioning, without prodding. I have no reason to believe she would answer any differently at another time.

Notes from Amanda Michancyk comments:

A. Tax Rules & Illegal Aliens

There is nothing in the tax codes that suggests the IRS should wonder if a person is an illegal alien.

(***)(THE NEXT 3 PARAGRAPHS ARE BACKGROUND INFO PROBABLY TOO TECHNICAL TO BE INCLUDED IN A TV REPORT) The only question is whether a person is a "citizen," a "resident" or a "non-resident." The latter categories are determined according to the number of days the person resided in the U.S. the previous three years. The IRS has no way of knowing -- and no interest in knowing -- whether a "resident" or "non-resident" is living and working legally in the U.S.

(***) A "resident" pays income taxes on all income earned worldwide. A "non-resident" pays income taxes only on income earned in the U.S. Most illegal aliens probably work enough in the U.S. to have to be considered "residents."

(***) Non-citizens are considered "residents" if they lived at least 183 days in 1993 -- or if all the days lived in the U.S. in 1993 (minimum of 31), plus one-third of such days in 1992, plus one-sixth of such days in 1991, add up to at least 183.

The job of the IRS is to collect taxes. A person's immigration status doesn't matter. If the person earned income in the U.S., that person should pay the proper tax on the income.

(***)(ROY'S NOTE: I doubt viewers would contest the idea that the IRS doesn't want to scare illegal aliens away from paying their taxes. Obviously, that is what would happen if the IRS actually asked people to note that they are illegal aliens. Most Americans probably also would agree with the IRS that it has an ethical obligation to send refunds that illegal aliens have coming to them from over-withheld income taxes. The controversial move, however, comes with the Earned Income Credit because it is federal money given to a person not only from taxes paid by that person but above those taxes.)

"Illegal aliens can get Earned Income Credit refunds, even if they have paid no taxes; nothing in the tax form asks if they are illegal."

If an illegal alien:
- earned less than $23,050 in 1993
- had a job that paid at least $1
- lived together with a child (but not necessarily providing for the child's support) for at least 183 days in 1993 in the U.S.

THEN that illegal alien can get Earned Income Credit of up to $2,364.

And even if illegal aliens don't have a child living with them, they can get an IRS check for up to $300.

The above criteria is the same for legal immigrants and for U.S. citizens, but they are being stated here in such a way as to make clear what is available to illegal aliens.

EIC payments go up with income until peaking at incomes between $7,750 and $12,200. After that the EIC payments decline until they reach zero at $23,050.

B. Fake Social Security Numbers

When an illegal alien has used a phony Social Security number, that number shows up on forms filed with the IRS by the employer. That number probably also appears on the illegal alien's form filed to collect the Earned Income Credit.

♦ All tax forms are cross-checked with Social Security computers to make sure the SS number and the name match in the computers.

♦ If the name and SS number don't match (and those of illegal aliens are unlikely to), the tax forms are sent to the IRS's Unpostable Unit. The job of the unit is to make certain that a taxpayer's contributions to Social Security are credited to the proper account.

♦ If the Unpostable Unit is unable to resolve the discrepancy (often it is just a matter of the taxpayer having transposed numbers), a letter is sent to the illegal alien.

♦ If the illegal alien is unable to provide documentation to clear up the discrepancy between name and number, the Unpostable Unit assigns the illegal alien a Temporary Identification Number. This comes from a long list of unused numbers provided by the Social Security Administration. The temporary number is not technically a Social Security number but acts the same way, providing an official account and number for the illegal alien's Social Security contributions to be credited to.

♦ The Unpostable Unit sends the new legal national identification number to the illegal alien and signals the IRS computer to send the Earned Income Credit check to the illegal alien.

At no point does the IRS attempt to determine if the reason for the Social Security discrepancies is because the taxpayer is an illegal alien who has illegally made up or purchased a counterfeit number in order to get a job. It would violate the tax code for the IRS to share information in any way with the Immigration and Naturalization Service.

Even though the Earned Income Credit typically is larger (even much larger) than the amount of income taxes paid by the illegal alien, it is treated by the IRS as if it were a refund. Therefore, the IRS sees its primary task as one of making certain that the illegal alien gets his refund.

2. SOURCE: **Publication 596, Earned Income Credit, Internal Revenue Service, Catalog Number 15173A**

Pg. 2: "If you think you qualify for the basic part of the earned income credit, you should also read about the other two credits. (1) The Health Insurance Credit--it's for your qualifying child, and (2) The Extra Credit For A Child Born in 1993--it's for a child under age 1."

Pg. 3: "The total amount of the overall credit you can receive has increased from $2,211 in 1992 to $2,364 in 1993."

"The earned income credit and the advance earned income credit payments you receive will not be used to determine whether you are eligible for certain benefit programs . . . (or) how much you can receive. . . (They include) AFDC, Medicaid, SSI, Food Stamps, and Low-income Housing."

Pg. 24: The IRS will figure the credit for the illegal alien if he fills in a few blanks on the form.

Pg. 25: An illegal alien applying for a low-wage job can ask at that time for the employer to add his share of Earned Income Credit into each weekly pay check. The federal government will in effect reimburse the employer. (ROY's NOTE: This easily becomes another subsidy for employers who choose to pay very low wages. The employer can offer a wage package that will seem higher than it actually is because it includes the federal subsidy of the Earned Income Credit.

3. SOURCE: **David Simcox, fellow of the Center for Immigration Studies, a retired State Department official, Ph.D. student in urban studies.**

502-244-9869 (Simcox phone in Louisville).

202-466-8185 (Center for Immigration Studies)

The following information is from an 8FEB94 telephone call and from Simcox writings. Simcox says he would be happy to provide background help or appear on camera concerning this issue.

As outrageous as is the practice of illegal aliens collecting "bonus" checks from U.S. taxpayers through the Earned Income Credit program, EIC actually constitutes an even bigger problem: its use by LEGAL immigrants.

Legal immigrants disproportionately qualify for EIC. "EIC has become another case study in the baffling dilemma of operating and funding complex income transfer programs for poor residents, while the number of these residents in continuously being expanded by mass illegal immigration and legal immigration and refugee policies which import about half a million additional needy people each year."

According to 1990 census data, legal immigrants were 23 percent more likely than U.S. citizens to have incomes below $15,000 a year. And they are 72.6 percent more likely than citizen households to have annual earnings of less than $10,000, the range of peak EITC cash benefits.

In 1990, immigrants received an estimated $1.57 billion in Earned Income Credit. Of that, an estimated $260 million went to illegal aliens.

"Now there is an active network of immigrant aid groups to publicize the credit and help aliens file their returns and claim it."

"Federally-funded legal aid groups assist migrant farmworkers, whether legal or illegal. Following the 1990 changes in the credit, the IRS worked with a network of non-profit groups, such as the Farm Bureau Federation, Hispanic organizations and the U.S. Catholic Bishops Conference to publicize the availability of the credit."

"Farm labor contractors, some unscrupulous employers, and ethnic crime rings have been reported to purchase claimants' prospective credits at a discount or charge sizable fees to collect the credit for them."

"The EIC works as a subsidy to low-skill, low-wage workers, and indirectly to their employers, as it cushions them from some upward pressure on wages."

"Thus the EIC further increases the prospective return for working in the United States to those who are considering migration and helps stabilize wages for the marginal employers who employ migrants."

Simcox has worked through data and created charts looking at immigrants in Los Angeles County. His finding heavily refute the arguments of some immigrant advocates that even though immigrants don't pay nearly their share of local taxes to cover their social costs, they overpay into the federal Social Security system.

Simcox finds that the average legal immigrant with two or more children paid $644 into Social Security in 1990 but got more than $1,600 in Earned Income Credits.

The comparable average for illegal aliens was found to be $337 into Social Security and more than $1,000 in Earned Income Credits.

Simcox states that the comparable average for the rest of Los Angeles County's population was $1,641 into Social Security and no Earned Income Credits. (ROY NOTE: I don't understand why the average EIC was none and need to quiz Simcox further on that point.)

The use by aliens of the EIC is just going to go up because the numbers of foreign-born continue to rise quickly and because President Clinton favors using EIC as a major vehicle to carry out other programs on his wish list.

4. SOURCE: **Unnamed mid-level official in IRS, speaking off-the-record to provide background. Much of this should be able to be confirmed by IRS officials.**

"EIC fraud is a big problem because the dollars are so low for each person." The cost of prosecuting is quite high compared with the money defrauded. And when you win in court, it is very difficult to ever actually collect the money because the person is so poor.

A bad loophole in the EIC system is that a rich kid of a rich family in a foreign country can come to the U.S. to some school like Georgetown. That college student fairly easily can qualify for EIC as a "non-resident." As a non-resident, only the money made by the rich foreign college student has to be reported and that rich foreign kid can have U.S. taxpayers foot a nice EIC bonus check at the end of the year.

The same loophole also can work for a member of a foreign embassy who manages to make a few dollars during the year on the U.S. economy.

"EIC is for the working poor, not for rich foreign kids with U.S. scholarships while going to Georgetown."

IRS had a case of some 2,000 returns from Texas that were a sample of the problem of SS numbers not matching with names. Finally released all of them and paid the EIC payments.

Whatever problems there are with EIC payments to illegal aliens are responsibility of Congress, not IRS. If Congress would set up better border control and require counterfeit-proof Social Security cards, illegal aliens would not be getting the low-paying jobs that enable them to collect the EIC bonus.

WR-$

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ENTITLEMENT REFORM OPTIONS TO FINANCE WELFARE PROPOSALS

The Welfare Reform proposals will make a major contribution to improving the targeting, efficiency, and effectiveness of income transfer entitlement programs for low-income Americans. Many of these programs have grown unabated over the years without much thought to their interactions and to their effects on recipient work behavior. In reshaping these programs, we have produced savings directly attributed to the Welfare Reform plan, such as those derived from time limits and reconciling filing units, as described at the end of this revenue section. We will identify later such direct savings and use them to help offset the plan's costs.

To provide the additional needed funding, we have explored closely related income transfer programs and identified reforms that would improve their targeting, efficiency, and effectiveness, while providing savings. This effort was based on the idea that this money could be better used to help low-income families and individuals through different supports--such as employment and training services and child care--which will lead to long term self-sufficiency. We believe the proposals below are certainly justifiable and, with those resulting from direct changes to the welfare and child support systems, will provide the necessary funding for Welfare Reform.

Cap the Emergency Assistance Program: The Emergency Assistance Program is an uncapped entitlement program which is out of control. In FY 1990 expenditures totalled $189 million; in FY 1995, it is estimated that expenditures will be $644 million. While the intent of the EA program is the meet short-term emergency needs, states currently have wide latitude to determine the scope of their EA programs, leading them to fund many services that can also be funded under different authorities. Indeed, the dramatic rise in costs is primarily attributed to states shifting program costs from Social Security Act programs--title IV-E, title IV-B, title XIX, and title XX--and unmatched state programs. In addition, states appear to be funding services that address long-term problems as well as true emergency issues.

We propose to repeal the current Emergency Assistance program and replace it with a Federal matching cap for each state's EA expenditures. The cap will be 3 percent of the state's total AFDC benefit payments incurred during the previous fiscal year. The Federal match will continue at 50 percent up to the cap. This will give the states flexibility to address various special emergency problems. There will be a hold harmless provision to protect the seven states that would be hurt by the cap. Under the new capped program, states will also be given the flexibility to determine their own definition of emergency services.

Cost (millions) **ACF Estimates**

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Baseline	$644	$745	$850	$910	$975
Savings	-$260	-$351	-$452	-$502	-$555
Proposal	$384	$389	$398	$408	$420

Reform of the Family Day Care Home Component of the Child Care Food Program. The Child Care Food Program provides food subsidies for children in child care centers and family day care homes. The subsidies in centers are well targeted; USDA believes that over 90% of federal dollars support meals served to low income children. The family day care part of the program is not well targeted because it has no means test (due to the lack of administrative ability of the providers); a USDA study estimates that 71% of federal dollars support meals for children above 185% of the poverty line. While the child care center funding levels have been growing at a modest rate, the family day care funding levels are growing quickly (16.5% between 1991 and 1992).

The following approach better targets the family day care funding to low income children and creates minimal administrative requirements for providers:

A. Family day care homes located in low-income areas (e.g., census tracts where a third or half of the children are below 200% of the poverty line) would not have to use a means test and would receive reimbursement for all meals at reimbursement rates equivalent to those provided for "free meals" served to low-income children in schools and day care centers.

B. All other homes would have a choice. They could elect not to use a means-test; if they elect this option, they would receive reimbursement for all meals at rates equivalent to the "reduced price" rates provided to schools and day care centers for meals provided to children with incomes between 130% and 185% of the poverty line. Alternatively, a family day care home could administer a simplified, two-part means-test. Meals serve to children below 185% of the poverty line would be reimbursed at the higher rate. Meals served to children above 185% of the poverty line would be reimbursed at the "reduced price" rate.

C. The administrative payment rates provided to the family day care home sponsoring organizations would remain at the same level as under current law for homes in non-low-income areas. For homes in low-income areas, these payment rates would be raised significantly. The purpose would be to provide an incentive for sponsors to enlist and serve day care homes in low-income areas.

Cost (millions) **USDA is reviewing**

FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
-$160	-$210	-$230	-$270	-$300

Alter SSI Deeming Rules. Currently, the income of parent(s) may be "deemed" as available to a child to determine whether the child is eligible for SSI and--if so--to determine the monthly benefit amount. This parent-to-child deeming is a computational process that determines whether--and how much--to consider parent income as available to the eligible child, taking into account the needs of other persons in the household (e.g., other ineligible children). Thus, in deciding whether a child is eligible for SSI and what the benefit amount may be, some portion of an ineligible parent's income may be deemed as available to the applicant.

Under current law, earned income is treated more generously than unearned income, a situation that has existed since the inception of the program. For example, there is a general exclusion in the deeming computation of 50 percent of all earned income. There is no such exclusion for unearned income. This different treatment of earned income was intended to serve as a work incentive. However, as a result, allowable family income--plus the SSI benefit amount--can result in total family income that is nearly 190 percent of the poverty guidelines (see attached chart). Most programs for low income beneficiaries begin to phase out much earlier (well below the poverty line) and end by 120 percent of poverty.

This proposal would alter the SSI parent-to-child deeming rules so that for any given family size, one-half of the countable income that exceeded 50 percent to 66 percent of the poverty guidelines for that family size would be deemed as available to the eligible child(ren). The proposed policy would replace the current computational deeming process, and would treat earned and unearned income identically. Families with little or no income would not be affected by this proposal (i.e., they would continue to receive the maximum benefit amount as they do under current law).

This proposal would bring total family income--including the SSI benefit amount--closer to, but still above, the poverty guidelines. In no case will this proposal bring total family income below the poverty guidelines. Approximately 235,000 children--or about 30 percent of all children--would be potentially affected by the proposal in the first year of implementation.

Since the current deeming rules--in comparison to this proposal--are relatively generous to families that have income, the proposal may be perceived as penalizing working families with disabled children. On the other hand, the proposal would ensure that one-parent and two-parent families of the same size are treated equally, unlike under current law.

In order to maintain Medicaid coverage for this population, we propose to begin to phase out benefits earlier, continuing benefits to the same cut-off; this will result in no reduction in the number of beneficiaries. The levels of state supplemental payments would be adjusted so that states would not be required to increase their levels of payments.

Cost (millions) **ASPE Estimates**

FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
-$175	-$190	-$210	-$230	-$250

Mandated Re-application for Most Likely to Improve SSI Cases. The SSI program provides aid for low-income individuals who are elderly, blind, or disabled. Disabled individuals are those unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or that has lasted, or can be expected to last, for a continuous period of at least 12 months. Upon application, a prognosis is made about the likihood for improvement of the disabling condition (which would result in a loss of eligibility for SSI); a time estimate for improvement is also made and coded on the intake form. Codes for the SSI adult disabled population reveal that perhaps X percent would be inelgible for further benefits less than three years after application. Codes on 10% of existing SSI/childhood disability applications indicate that improvement in the child's condition should lead to termination of benefits within three years of the application. Conditions that might be noted as likely to improve include, for adults, injury or a curable disease; such conditions among children include low birthweight and attention deficit disorder.

Currently, termination of benefits requires that SSA re-evaluate the condition (conducting Continuing Disability Reviews) and, if appropriate, take action to terminate benefits. Resources in SSA make such timely reviews rare, potentially leaving both adults and children on the SSI roles far beyond the time in which they are actually eligible.

We propose for SSI beneficiaries identified to be temporarily disabled, to establish a re-application procedure. Upon allowance of a claim for disability benefits, a determination would be made by the DDS (for each applicant on an individual basis) of how long the disability is likely to continue (interfere with age-appropriate functioning). After the time period is established, a notice would be sent to the beneficiary stating that benefits will be awarded until the date determined and will then be terminated unless re-application is made. Six months before the expiration of the benefits, a notice would again be sent stating the date of benefit termination and providing information about re-application.

This would shift the burden to the applicant, after a specified period of time, to prove continued eligibility for benefits. It would assure that benefits are paid only to those who are truly disabled.

Arguments against this proposal are: (1) it could encourage people not to seek treatment for themselves or their children; (2) there would be strong resistance from the disability legal and advocacy community; and (3) if implemented, legal challenges would likely be raised.

Cost (millions) **ASPE Estimates** (retrospectively starting 10/95, based on three-year disability)

FY 1995	FY1996	FY 1997	FY 1998	FY 1999
-$72	-$156	-$264	-$372	-$492

Alien Deeming, Extending Deeming Requirements as Long as the Alien Remains in Permanent Legal Resident--or Immigrant--Status. Currently, for those aliens who have a sponsor, the income and resources of the alien's sponsor are "deemed" attributable to the alien for three years if the alien is applying for benefits from three Federal programs (AFDC, SSI, and food stamps). A sponsor is a person who has signed an affidavit of support on behalf of an alien seeking permanent residence, and who has thus agreed in writing to the three-year alien deeming provisions. Deeming does not necessarily prevent an alien from receiving benefits. If the sponsor's income and resources are reduced to a certain level, then the alien may become eligible for benefits--subject to meeting other program eligibility requirements. Sponsor-to-alien deeming is not used in cases where the alien is applying for benefits based on blindness or disability that has occurred after entry into the U.S.

There have been cases publicized recently of legal resident aliens or citizens sponsoring their older parents for immigration into the U.S., and after the three year deeming period the parents immediately apply for SSI benefits on the basis of age. The perception exists that these families are abusing the system since the children sponsors often have sufficient income and resources to continue to support their immigrant parents, but instead take advantage of the current rules to gain access to entitlement benefits. SSI program data confirms that this type of situation is occurring. Of all current alien SSI recipients who have been--or are--potentially subject to the alien deeming rules, fully 25 percent--or 107,470 individuals--applied for benefits in their fourth year of residency in the U.S. Of these recipients, almost 85 percent--or 89,510 individuals--applied for benefits based on age.

This proposal would maintain the alien deeming rules in SSI, AFDC, and food stamps for as long as the alien remained in immigrant status. This proposal would place greater responsibility on the sponsor--who agrees in writing to ensure that the immigrant will not become a "public charge"--but it would link the termination of alien deeming rules to the alien becoming a naturalized citizen. At a minimum, this proposal would extend the period of time for alien deeming from three years to five years, although if an immigrant decided not to become a naturalized citizen, the alien deeming rules could apply indefinitely. The proposal would affect all applications after date of enactment (i.e., would grandfather current recipients as long as they remained continuously eligible), and would result in savings in the SSI, AFDC, Medicaid, and food stamp programs.

[NOTE: Estimates assume enactment of P.L. 103-152, the Emergency Unemployment Compensation amendments, signed into law on November 24, 1993 and containing a provision extending the sponsor-to-alien deeming period in the SSI program from 3 to 5 years, beginning 1/1/94 and ending 10/1/96.]

<u>Cost</u>: (millions) **ASPE Estimates**

Program	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
SSI	-$66	-$148	-$418	-$654	-$805
AFDC	-$10	-$15	-$15	-$20	-$20
Medicaid	-$60	-$135	-$380	-$620	-$800
Food Stamp	-$96	-$134	-$182	-$231	-$281
Total	-$232	-$432	-$995	-$1525	-$1906

<u>Uniform Definition for Alien Eligibility</u>. Currently, there is no common definition of PRUCOL (permanently residing in the U.S. under color of law) in the Social Security Act that is applied to all three of our programs (AFDC, SSI, and Medicaid) that reference PRUCOL for program eligibility purposes. Litigation and separate legislative amendments have resulted in the three programs using three different definitions to determine which aliens are defined as PRUCOL, and hence eligible for program benefits. In general terms, AFDC has a more restrictive definition of PRUCOL (i.e., encompasses a fewer number of aliens) than both SSI and Medicaid.

Under the SSI program, litigation has led to the current practice of providing benefits to aliens who in most respects resemble illegal--or undocumented--aliens. If these individuals have been discovered by the INS to be in the U.S., but--for whatever reason--the INS is not acting to deport them, then these individuals currently must be considered to be PRUCOL for SSI eligibility purposes.

This proposal would delete reference to PRUCOL in the Social Security Act as a term used for determining alien eligibility. The proposal would specifically list the immigration statuses that would allow eligibility for benefits under SSI, AFDC, and Medicaid. The immigration statuses that would be necessary for eligibility would be the same as those listed in the Health Security Act providing eligibility for the Health Security Card, and are--

- immigrants lawfully admitted for permanent residence;
- refugees;
- asylees;
- immigrants granted parolee status for an indefinite period or granted extended voluntary departure as a member of a nationality group;
- immigrants granted a stay of deportation based on the threat of persecution if returned to their home country;
- certain undocumented immigrants legalized under the Immigration Reform and Control Act of 1986 and currently granted lawful temporary status; and
- immigrants residing in the U.S. as the spouse or unmarried child under 21 years of age of a citizen of the U.S., or the parent of such citizen if the citizen is over 21 years of age, and with respect to whom an application for adjustment to lawful permanent residence is pending.

This proposal would affect applications after date of enactment (i.e., would grandfather current recipients as long as they remained continuously eligible).

Cost: (millions) **ASPE Estimates**

Program	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
SSI	-$9	-$26	-$42	-$57	-$71
AFDC	-$5	-$5	-$5	-$5	-$5
Medicaid	-$25	-$55	-$85	-$115	-$155
Total	-$39	-$86	-$132	-$177	-$231

Improve EITC Targeting and Related Tax and Transfer Policies.

We propose also to explore ways to improve the targeting of the EITC and to use the tax system to assure (1) the payment of child support awards; (2) elimination of duplicate payments under various Federal support and tax programs; and (3) capture of all taxable income.