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AGENDA FOR 2/3 MEETING WITH OMB
ON COSTS AND FINANCING

1. Description of dynamic model and behavioral impacts

2. Comparison of OMB and HHS assumptions

3. Coordination of tax and transfer systems

4. Deadline for financing options

5. Other

WELFARE REFORM MODELLING
JOBS, WORK AND CHILD CARE

1. MODELLING ISSUES:

	STEADY STATE IMPACTS	PHASE-IN IMPACTS
BASELINE:		
EITC	5-10%	0
HEALTH CARE	8-10%	0
TREATMENT EFFECTS:		
JOBS IMPACT	7-10%	7-10
WORK IMPACT		
TIME LIMIT	<5%	<5% !
CHILD SUPPORT	<5%	0-5%

2. SAVINGS:
   - AFDC
   - FOOD STAMPS
   - MEDICAID

3. NEXT STEPS - PHASE IN STRATEGIES AND SYSTEM CAPACITY

AFDC CASELOAD AND JOBS

Year	Total AFDC	AFDC_UP	Mandator Cases	Average Monthly	Proposal (ACF)
1993	4.978	0.359		0.610	
1994	5.076	0.350		0.643	
1995	5.157	0.341	2.043	0.671	0.741
1996	5.260	0.334	2.063	0.689	0.785
1997	5.373	0.330	2.128	0.665	0.899
1998	5.485	0.327	2.172	0.658	1.041
1999	5.606	0.326	2.220	0.650	1.184

Year	New Appli Mandator	Particpati 50% (JOBS)	JOBS Extension	Work <24	Work >24	Total JOB+WORK (Active Part)
1995	0.201	0.101	0.000	0.000		0.101
1996	0.529	0.265	0.000	0.000		0.265
1997	0.745	0.373	0.005	0.010		0.388
1998	0.875	0.438	0.026	0.058		0.522
1999	0.962	0.481	0.054	0.123	0.000	0.658
Steady St	0.959	0.480	0.113	0.465	0.825	1.883
						2.362

PHASE-IN PLUS CURRENT PROJECTIONS

Year		
1995	0.772	0.772
1996	0.954	0.954
1997	1.043	1.053
1998	1.122	1.180
1999	1.185	1.308

31-Jan-94

from January 25 slide show - cases

	HHS /1	OMB rough estimate	
Total caseload	5.6	5.6	
Child only /caretaker	0.9	0.7	— grandmas - aunts
Total adult cases	4.7	4.9	
off welfare	1.0 /2	0.7 /3	
working while on welfare	0.7 /4		400,000 are currently working
JOBS/WORK program	1.8	3.2 /5	Michigan = 25%
Disabled/unable to work (exempt)	1.2	1.2	-Reduced AFDC + FS

Notes:

1. HHS is full implementation, described as 1999. However, full implementation cannot occur by 1999.
2. HHS "off welfare" includes 7 - 10 percent caseload (not exit rate) effect of health reform, EITC and 7 - 10 percent caseload effect of education and training in expanded JOBS.
3. OMB assumes 10 percent increase in exit effects for both exempt and nonexempt. Estimate to HHS "off welfare" about .5.
4. HHS assumes those working half-time but still income eligible will remain on AFDC or return and have no time limit, 17 percent of nonexempts.
5. Large difference in JOBS/WORK program estimates results mainly from HHS "working while on welfare" (.7) and larger "off welfare" (.3)

31-Jan-94

from January 25 slide show - costs in billions	HHS total	estimated federal	OMB 1/25 federal	OMB 1/31 federal
Promote parental responsibility and prevent teen pregnancy				
Improve child support enforcement	-1.5			
Provide services to noncustodial parents	0.5			
Child support assurance demonstrations	0.4			
Make work pay				
Expand child care for the working poor	2.5			
Provide access to education and training (JOBS) and work opportunities				
Increase funding for JOBS/WORK	4.6	2.8	2.7	2.8
Child care for JOBS/WORK recipients	2.0	1.2	1.2	0.6
Welfare savings from reduced caseload	-2.0	-1.1 /1	-3.9	-2.4 /2
Total	4.6	2.9	0.1	0.9
Reinvent government assistance				
Expand AFDC-UP and modify filing unit	0.7			
simplify asset rules and eamins disregards				
streamline other reporting requirements				
Total	7.2			

Notes:

1. HHS estimates represent AFDC savings from .5m caseload decline attributed to welfare reform.
2. OMB estimates represent AFDC and food stamps savings. 1/31 estimate nets out added food stamps and EITC due to impacts on work uptake.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN PLUS ONE OTHER INCOME EARNER IN NEW YORK, JULY 1993

Line	Other Adult in filing unit for:		Tax Filing Status		Mother & Children		Other Adult			Combined	Reduction In Combined Disposable Income					
	AFDC	In-Kind	Other Adult	Mother	AFDC + Food Stamps	Housing Subsidy	Earnings	EITC	Disposable Income	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThrshld	25% Claw Back of AGI + Total Benefits - TaxThrshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThrshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThrshld
1	-	-	S	dnf	9,420	0	5,000	286	4,403	13,823	0	0	0	0	0	0
2	-	-	HH	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	195	0	0	0
3	-	-	J	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	205	0	0	0
4	-	X	S	dnf	9,180	0	5,000	286	4,403	13,583	0	0	0	0	0	0
5	-	X	HH	dnf	9,180	0	5,000	2,000	6,118	15,298	0	0	155	0	0	0
6	-	X	J	J	9,180	0	5,000	2,000	6,118	15,298	0	0	145	0	0	0
7	X	X	J	J	7,608	0	5,000	2,000	6,118	13,726	0	0	0	0	0	0
8	-	-	S	dnf	9,420	0	10,000	0	7,643	17,063	0	0	0	0	0	0
9	-	-	HH	dnf	9,420	0	10,000	3,272	11,507	20,927	1,747	567	1,570	945	1,269	451
10	-	-	J	dnf	9,420	0	10,000	3,272	11,507	20,927	1,753	573	1,773	955	1,077	259
11	-	X	S	dnf	7,980	0	10,000	0	7,643	15,623	0	0	0	0	0	0
12	-	X	HH	dnf	7,980	0	10,000	3,272	11,507	19,487	1,400	423	1,330	705	1,029	211
13	-	X	J	J	7,980	0	10,000	3,272	11,507	19,487	1,334	357	1,413	595	717	0
14	X	X	J	J	2,940	0	10,000	3,272	11,507	14,447	270	0	153	0	0	0
15	-	-	S	dnf	9,420	0	15,000	0	11,454	20,874	0	0	0	0	0	0
16	-	-	HH	dnf	9,420	0	15,000	2,362	14,783	24,203	2,265	942	1,570	1,570	2,292	1,701
17	-	-	J	dnf	9,420	0	15,000	2,362	15,158	24,578	2,646	1,323	2,355	2,205	2,100	1,509
18	-	X	S	dnf	6,924	0	15,000	0	11,454	18,378	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	0	15,000	2,362	14,783	21,707	1,665	692	1,154	1,154	1,876	1,285
20	-	X	J	J	6,924	0	15,000	2,362	15,158	22,082	1,921	949	1,731	1,581	1,476	885
21	X	X	J	J	1,740	0	15,000	2,362	15,158	16,898	415	171	435	285	180	0

Notes: If the other adult claims the children for tax purposes, the mother's taxable income is set equal to 1/3 of her benefits (when benefits are taxed). However, when the other adult does not claim them, all tax related to benefits is withheld from the mother's benefits. When the other adult files jointly with the mother, his/her tax liability equals their combined tax minus the amount withheld from the mother's benefits--the increment in the other adult's tax liability from the children's share of benefits is subtracted from the EITC. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction is 25% of total benefits; when 125% of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN IN NEW YORK, JULY 1993

		Current Law					Reduction in Disposable Income					
Line	Number of Months Worked	Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThrshld	25% Claw Back of AGI + Total Benefits - TaxThrshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThrshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThrshld
1	0	0	6,924	2,496	0	9,420	0	0	0	0	0	0
2	6	5,000	3,462	2,238	0	11,818	0	0	50	0	0	0
3	8	5,000	2,884	2,504	0	11,506	0	0	0	0	0	0
4	10	5,000	3,124	2,436	0	11,678	0	0	15	0	0	0
5	12	5,000	3,360	2,364	0	11,842	0	0	56	0	0	0
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,248	0	16,217	1,180	332	1,178	553	877	59
8	8	10,000	2,308	1,352	0	15,167	802	174	915	290	614	0
9	10	10,000	1,154	1,666	0	14,327	499	48	705	80	404	0
10	12	10,000	0	1,980	0	13,487	274	0	495	0	194	0
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,248	0	19,493	1,699	707	1,178	1,178	1,899	1,309
13	8	15,000	2,308	832	0	17,923	1,132	471	785	785	1,507	916
14	10	15,000	1,154	416	0	16,353	566	236	393	393	1,114	524
15	12	15,000	0	780	0	15,563	281	117	195	195	780	326
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,248	0	22,308	1,699	707	1,178	1,178	2,886	2,559
18	8	20,000	2,308	832	0	20,738	1,132	471	785	785	2,493	2,166
19	10	20,000	1,154	416	0	19,168	566	236	393	393	1,570	1,570
20	12	20,000	0	0	0	17,598	0	0	0	0	0	0
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of $88 per month. No child care expenses are assumed. The AFDC benefit assumes a $120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a $103.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of $819 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN PLUS ONE OTHER INCOME EARNER IN NEW YORK, JULY 1993

Line	Other Adult in filing unit for: AFDC	Other Adult in filing unit for: In-Kind	Tax Filing Status: Other Adult	Tax Filing Status: Mother	Mother & Children: AFDC + Food Stamps	Mother & Children: Housing Subsidy	Other Adult: Earnings	Other Adult: EITC	Other Adult: Disposable Income	Combined: Disposable Income	Reduction in Combined Disposable Income: Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThrshld	25% Claw Back of AGI + Total Benefits - TaxThrshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThrshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThrshld
1	-	-	S	dnf	9,048	7,894	5,000	286	4,403	21,345	666	666	1,111	1,111	617	617
2	-	-	HH	dnf	9,048	7,894	5,000	2,000	6,118	23,060	569	569	1,449	949	955	455
3	-	-	J	dnf	9,048	7,894	5,000	2,000	6,118	23,060	951	951	2,086	1,586	1,390	890
4	-	X	S	dnf	8,808	6,394	5,000	286	4,403	19,605	405	405	676	676	182	182
5	-	X	HH	dnf	8,808	6,394	5,000	2,000	6,118	21,320	395	395	1,159	659	665	165
6	-	X	J	J	8,808	6,394	5,000	2,000	6,118	21,320	690	690	1,651	1,151	955	455
7	X	X	J	J	7,236	7,068	5,000	2,000	6,118	20,422	556	556	1,426	926	730	230
8	-	-	S	dnf	9,048	7,894	10,000	0	7,643	24,585	666	666	1,111	1,111	617	617
9	-	-	HH	dnf	9,048	7,894	10,000	3,272	11,507	28,449	3,555	1,319	2,824	2,199	2,523	1,705
10	-	-	J	dnf	9,048	7,894	10,000	3,272	11,507	28,449	3,937	1,701	3,653	2,836	2,958	2,140
11	-	X	S	dnf	7,608	4,894	10,000	0	7,643	20,145	0	0	1	1	0	0
12	-	X	HH	dnf	7,608	4,894	10,000	3,272	11,507	24,009	2,488	875	2,084	1,459	1,783	965
13	-	X	J	J	7,608	4,894	10,000	3,272	11,507	24,009	2,648	1,035	2,543	1,726	1,848	1,030
14	X	X	J	J	2,568	6,972	10,000	3,272	11,507	21,047	1,787	591	1,803	985	1,107	289
15	-	-	S	dnf	9,048	7,894	15,000	0	11,454	28,396	666	666	1,111	1,111	617	617
16	-	-	HH	dnf	9,048	7,894	15,000	2,362	14,783	31,725	4,056	1,694	2,824	2,824	3,545	2,955
17	-	-	J	dnf	9,048	7,894	15,000	2,362	15,158	32,100	4,813	2,451	4,236	4,086	3,980	3,390
18	-	X	S	dnf	6,924	3,394	15,000	0	11,454	21,772	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	3,394	15,000	2,362	14,783	25,101	2,481	1,032	1,720	1,720	2,441	1,851
20	-	X	J	J	6,924	3,394	15,000	2,362	15,158	25,476	2,907	1,458	2,580	2,430	2,324	1,734
21	X	X	J	J	1,368	5,472	15,000	2,362	15,158	21,998	1,896	936	1,710	1,560	1,455	864

Notes: If the other adult claims the children for tax purposes, the mother's taxable income is set equal to 1/3 of her benefits (when benefits are taxed). However, when the other adult does not claim them, all tax related to benefits is withheld from the mother's benefits. When the other adult files jointly with the mother, his/her tax liability equals their combined tax minus the amount withheld from the mother's benefits--the increment in the other adult's tax liability from the children's share of benefits is subtracted from the EITC. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction is 25% of total benefits; when 125% of the poverty threshold is used, 100% of benefits can be clawed back.

DISPOSABLE INCOME, A MOTHER WITH TWO CHILDREN IN NEW YORK, JULY 1993

Line	Number of Months Worked	Current Law: Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Reduction in Disposable Income: Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThrshld	25% Claw Back of AGI + Total Benefits - TaxThrshld	25% Claw Back of AGI + EITC + Total Benefits - 1.25*PovThrshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThrshld
1	0	0	6,924	2,124	7,894	16,942	666	666	1,111	1,111	617	617
2	6	5,000	3,462	1,866	7,433	18,879	1,009	789	1,815	1,315	1,322	822
3	8	5,000	2,884	2,132	7,606	18,740	959	768	1,781	1,281	1,287	787
4	10	5,000	3,124	2,064	7,534	18,840	995	783	1,806	1,306	1,312	812
5	12	5,000	3,360	1,992	7,464	18,934	1,029	797	1,829	1,329	1,335	835
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,062	5,933	21,964	3,253	1,194	2,614	1,989	2,313	1,496
8	8	10,000	2,308	980	6,279	21,074	2,932	1,060	2,392	1,767	2,091	1,273
9	10	10,000	1,154	1,294	6,626	20,581	2,754	986	2,268	1,643	1,968	1,150
10	12	10,000	0	1,608	6,972	20,087	2,576	912	2,145	1,520	1,844	1,026
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,062	4,433	23,740	3,230	1,344	2,239	2,239	2,961	2,371
13	8	15,000	2,308	708	4,779	22,579	2,811	1,169	1,949	1,949	2,671	2,080
14	10	15,000	1,154	354	5,126	21,417	2,392	995	1,658	1,658	2,380	1,790
15	12	15,000	0	408	5,472	20,663	2,120	882	1,470	1,470	2,192	1,601
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,062	3,947	26,069	2,579	1,271	2,118	2,118	3,826	3,499
18	8	20,000	2,308	708	3,279	23,893	2,253	944	1,574	1,574	3,282	2,955
19	10	20,000	1,154	354	3,626	22,731	1,851	770	1,283	1,283	2,992	2,665
20	12	20,000	0	0	3,972	21,570	1,432	596	993	993	2,701	2,374
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of $88 per month. No child care expenses are assumed. The AFDC benefit assumes a $120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a $103.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of $819 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

2.5 (1)

14000

TABLE 1
USAGE OF THE EITC, 1986 THROUGH 1991
ACTUAL DATA VS. TRIM2 SIMULATED DATA

Number of units taking the EITC
(in thousands)

	Actual	TRIM2	TRIM2/Act.
1986	7,156	4,928	-31.1%
1987	8,738	6,941	-20.6%
1988	11,148	8,979	-19.5%
1989	11,696	8,971	-23.3%
1990	12,612	9,508	-24.6%
1991	13,665	10,280	-24.8%

Total Amount of the EITC
(in millions of current dollars)

	Actual	TRIM2	TRIM2/Act.
1986	$2,009	$1,412	-29.7%
1987	$3,931	$2,818	-28.3%
1988	$5,896	$4,409	-25.2%
1989	$6,595	$4,655	-29.4%
1990	$6,928	$5,061	-26.9%
1991	$11,105	$7,940	-28.5%

Average amount of the EITC
(current dollars)

	Actual	TRIM2	TRIM2/Act.
1986	$281	$287	2.1%
1987	$450	$406	-9.8%
1988	$529	$491	-7.2%
1989	$564	$519	-8.0%
1990	$549	$532	-3.1%
1991	$813	$772	-5.0%

Actual Data:
Actual data for 1986-1990 are from the 1993 Green Book, page 1058, a table prepared by the Joint Committee on Taxation. Data for 1991 are from unpublished IRS tabulations, which gave higher figures for 1991 usage of the EITC than the preliminary 1991 numbers in the Green Book. We need to confirm that the 1986-90 vs. 1991 figures are consistent.

TRIM2 Data:
Over the period from 1986, variuos improvements were made to the simulation of the EITC. The improvements have all been in the direction of increasing the number of units considered by the model to be eligible for the EITC. Overall, we think the current methodology counts about 5 percent more tax units eligible for the EITC than the 1986 methodology. In a full-scale analysis, we would rerun 1986-1990 simulations using today's EITC methodology.

EITC - 20 (5)

Sabelhaus (1/28/94)
Preliminary Findings on Complex Households

1. A complex household is one in which (a) there are one or more people receiving AFDC/SSI in the baseline, and (b) there is at least one person not receiving AFDC/SSI, but receiving some other type of income. Overall we estimate there are about 3.5 million complex households.

2. The three subsets of complex are (a) one unrelated person of opposite sex plus or minus ten years of age living with AFDC/SSI recipients, (b) one or two grandparents living with AFDC/SSI unit, where both child and grandchild(ren) are present, and (c) all other. We estimate that about 11% of complex households (235 thousand) are type (a), about 16% (338 thousand) are type (b), and the large majority (73%, 2.6 million) are type (c).

3. The first panel in the table shows the distribution of complex households by income received in non-transfer unit. This gives an indication of how many non-transfer receiving people in complex households might be gaming taxes.

4. The next two panels show our estimates of the maximum number of households where gaming might be occurring, and the possible dollar value. We pseudo-simulated using the following rules: all non-transfer unit members jointly filed a head of household return, claiming all household members as exemptions. The EITC is computed using the non-transfer unit earned income, with 1996 rules deflated to 1991 dollars. (We messed up! Not having the number of kids on our extract meant we had to assume all complex households could take the EITC -- we need a new extract with presence of children indicated so we can screen some more people out) If the new computed tax was actually higher than the TRIM2 baseline, we assumed no gaming -- something was going on that caused taxes to be lower than what the pseudo-simulation could measure.

   The middle section shows the fraction of complex households who may be gaming. Overall, 14% of the complex could achieve lower than baseline taxes if they took all household members as exemptions and used the EITC. This is concentrated in the lower income groups because of the EITC.

   The final panel shows the possible gaming amounts for households. The possible EITC gaming dominates the personal exemption effect. Note the distribution and the average of the total and EITC piece.

a) EITC claimed

b) 847 0275

Child away from home

Trade Children

Sity

EITC claimed

Table 1, REVISED
Complex Housholds[1]: Percent Distribution By Non-Transfer Unit[2] AGI

	# Households (Thousands)	< $5,000	$5,000-9,999	$10,000-14,999	$15,000-19,999	$20,000-24,999	$25,000-29,999	$30,000-34,999	$35,000-39,999	$40,000-44,999	$45,000-49,999	$50,000	ALL
All Complex	3,529	29.4%	13.8%	13.5%	9.5%	6.5%	5.8%	3.9%	3.1%	2.6%	2.3%	9.8%	100.0%
Opposite-sex unrelated[3]	383	23.3%	21.6%	22.2%	11.8%	9.0%	3.8%	4.3%	1.4%	1.8%	0.0%	0.8%	100.0%
Grandparent[4]	554	21.7%	9.8%	10.8%	9.1%	7.3%	8.8%	5.0%	4.9%	3.7%	1.5%	17.5%	100.0%
Other complex	2,592	31.9%	13.5%	12.8%	9.2%	5.9%	5.5%	3.6%	2.9%	2.4%	2.9%	9.4%	100.0%

Table 2
Complex Housholds[1]: Percent Who Might Be Gaming

	# Households (Thousands)	< $5,000	$5,000-9,999	$10,000-14,999	$15,000-19,999	$20,000-24,999	$25,000-29,999	$30,000-34,999	$35,000-39,999	$40,000-44,999	$45,000-49,999	$50,000	ALL
All Complex	(A) 3,529	15.0%	36.1%	37.7%	40.7%	21.7%	20.7%	24.9%	20.6%	14.8%	4.7%	5.5%	23.6% (B)
Opposite-sex unrelated[1]	383	27.8%	55.8%	50.6%	48.6%	37.2%	60.6%	73.3%	0.0%	0.0%	n.a.	0.0%	44.3%
Grandparent[4]	554	15.4%	44.3%	30.9%	40.1%	15.3%	28.1%	20.9%	20.1%	12.5%	0.0%	5.5%	21.7%
Other complex	2,592	13.6%	30.2%	35.7%	39.3%	20.0%	14.0%	17.4%	22.3%	17.2%	5.2%	5.5%	20.9%

Table 3
Complex Housholds[1]: Average Gaming Amount

	# Households (Thousands)	< $5,000	$5,000-9,999	$10,000-14,999	$15,000-19,999	$20,000-24,999	$25,000-29,999	$30,000-34,999	$35,000-39,999	$40,000-44,999	$45,000-49,999	$50,000	ALL
All Complex	3,529	$703	$1,732	$1,899	$1,364	$1,110	$791	$889	$549	$936	$1,154	$1,577	$1345.3 (C)
Opposite-sex unrelated[3]	383	$904	$2,495	$2,825	$1,965	$914	$1,145	$1,112	n.a.	n.a.	n.a.	n.a.	$1,989
Grandparent[4]	554	$873	$1,600	$2,455	$865	$1,337	$616	$282	$184	$639	n.a.	$830	$1,188
Other complex	2,592	$630	$1,430	$1,475	$1,332	$1,147	$752	$939	$667	$1,006	$1,154	$1,876	$1,179

[1] Complex households are defined as households in which there is transfer income received and there is other taxable income received by a household member outside of the transfer unit.
[2] Non-transfer unit refers to the members of the household not receiving transfer income.
[3] Opposite-sex unrelated households are those in which the non-transfer unit is headed by an unrelated person of the opposite sex of the head of the transfer unit, if the head of the transfer unit is unmarried.
[4] Grandparent households are those in which the transfer unit contains an adult and his/her child, and the non-transfer unit contains a parent of the transfer unit adult.

(A) * (B) = 833,000 Households

(A) * (B) * (C) = $1,1 billion

Bill:

Here is the revised table; I don't have time to write a thorough memo before 2:00.

The number of possible gaming households is now about 833 thousand. The new estimated possible gaming amount is about $1.2 billion; about 63% is due to the EITC, the rest is due to personal exemptions and/or the head of household filing status changing the standard deduction.

As before, we have split households into transfer and non-transfer units. If the transfer unit does not file a tax return, the non-transfer unit is then allowed to (1) file a head of household ($5,000 standard deduction) return, (2) with all household members as exemptions, and (3) takes the EITC if eligible. All kids in the household are used for the EITC calculation.

The coding error is fixed; this shows up in the bottom income groups (sorry about that).

But at least one caveat still exists. We may not be getting the maximum gaming, because the non-transfer unit has been aggregated. My example to you was three sisters; one on AFDC with her kids, the other two single and earning $15,000 a year. I am combining the two working sisters (they are the "non-transfer unit") and filing a tax return for them: for EITC purposes, the two sisters are better off filing separately.

My next step is to have the programmers pull another extract where the non-transfer unit is kept disaggregated if they file separate tax returns in the baseline. I doubt that will raise the potential gaming estimate much.

Finally, I want to reinforce that this $1.1 billion possible gaming number comes from using 1996 EITC rules; we can't think of the 833 thousand households as being 20% of the missing 3 million EITC filers, or the 63% of $1.1 billion ($700 million) as being 20% of the over-claimed EITC amount.

Please call (after the meeting?) and we'll talk about formalizing this approach and getting some more results and details over to you.

Table 1.--Census and IRS Preliminary Data for Head of Household Returns
(Numbers in thousands)

	Head of Household Returns		
Adjusted Gross Income	Census	IRS	IRS/Census
$1 to $4,999	1,363	1,490	1.09
$5,000 to 9,999	1,555	2,749	1.77
$10,000 to $14,999	1,643	2,642	1.61
$15,000 to 19,999	1,320	2,077	1.57
$20,000 to $24,999	1,007	1,698	1.69
$25,000 to 29,999	639	967	1.51
$30,000 to 39,999	867	1,092	1.26
$40,000 to $49,999	480	529	1.10
$50,000 to $74,999	283	352	1.24
$75,000 to $99,999	74	72	0.97
$100,000 to $199,999	43	73	1.70
$200,000 and over	9	5	0.56
Total	9,282	13,793	1.49
Summary:			
$1 to $4,999	1,363	1,490	1.09
$5,000 to $24,999	5,525	9,166	1.66
$1 to $25,000	6,888	10,656	1.55
$25,000 and over	2,395	3,090	1.29
Total	9,282	13,793	1.49

Source: Census figures are estimates from Census simulation model using CPS data. IRS data are from the Statistics of Income (SOI).

Table 2.--Census and IRS Preliminary Data on Head of Household Returns Claiming Earned Income Tax Credit, 1992
(Numbers in thousands)

	Returns Claiming EITC		
Adjusted Gross Income	Census	IRS	IRS/Census
$1 to $4,999	1,455	1,899	1.31
$5,000 to $9,999	2,084	3,399	1.63
$10,000 to $14,999	2,843	3,590	1.26
$15,000 to $19,999	2,839	3,172	1.12
$20,000 to $24,999	1,282	1,338	1.04
$25,000 and over	NA	NA	NA
Total	10,504	13,433	1.28
Summary:			
$1 to $4,999	1,455	1,899	1.31
$5,000 to $24,999	9,048	11,499	1.27
$1 to $25,000	10,503	13,398	1.28
Total	10,504	13,433	1.28

Source: Census figures are estimates from Census simulation model using CPS data. IRS data are from the Statistics of Income (SOI).

Table 3.--Census Head of Household Returns Claiming EITC by Family Type, 1992
(Numbers in thousands)

		Family Type		
Adjusted Gross Income	Total	Married Couples	Single-Parent Males	Single-Parent Females
$1 to $4,999	1,455	371	86	997
$5,000 to $9,999	2,084	783	173	1,128
$10,000 to $14,999	2,843	1,398	174	1,271
$15,000 to $19,999	2,839	1,653	201	985
$20,000 to $24,999	1,282	812	110	360
$25,000 and over	0	0	0	0
Total	10,504	5,018	744	4,742

Source: Bureau of the Census.

MEMORANDUM

Date: February 2, 1994

From: John Karl Scholz

To: Wendell Primus

Subject: Reducing the Amount of EITC Benefits on Self-employment Income

Background:

o By 1996 a worker with two qualifying children and $8,425 in self-employment income will be entitled to receive a $3,370 EITC. Filing a return and claiming the credit would obligate the taxpayer to pay $1,289 (.153*$8,425) in Social Security payroll tax, but the taxpayer would receive a Social Security retirement credit and a cash benefit of $2,081.

o This situation provides an incentive for individuals with earned income less than the amount needed to claim the maximum EITC to report fictitious amounts of earnings. The problem is particularly acute for taxpayers who report self-employment earnings because the amount of such income cannot easily be verified by the IRS.

- Most wage and salary income is reported on W-2's, which employers provide their employees and the IRS. Social Security records could also possibly be used to verify reported wage and salary income. There are no such cross-checks for self--employment income.

- It is a concern that a couple well-publicized cases where taxpayers either make up fictitious self-employment income to receive the EITC, or adopt "legal" arrangements where neighbors pay each other to watch flower beds will undermine public and Congressional support for the expanded EITC.

o A possible solution is to limit the EITC benefit to no more than 15.3 percent of any self-employment income (or any income not reported on W-2's) reported by taxpayers in the phase-in range of the credit.

- A taxpayer with wage income or wage and self-employment income would not suffer any decrease in the portion of his or her EITC benefit calculated as a percentage of wage income.

o The proposal will not generate a large amount of revenue. I estimate that 6.4% of the 1990 EITC income base came from self-employment income. If the EITC tax expenditure in 1998 is $24.5 billion (an early JCT estimate), eliminating self--employment income from the EITC income base might yield roughly

$1.57 billion. Since the proposal reduces the EITC on self--employment
income by roughly 50%, a rough calculation suggests this proposal would yield in approximately $.8 billion annually.

- I suspect it would save considerably more in the future by eliminating an important avenue for noncompliance, though such savings will not appear in official scoring of the proposal.

o Adopting the proposal would lead to inequitable treatment of honest taxpayers with self-employment relative to wage earners.

- Inequitable treatment of wage and self-employment income could be addressed through benefits being granted to entrepreneurs and small business by the health insurance proposal.

Note to: Alicia Munnell
Eric Toder

February 2, 1994

From: Wendell Primus

re: IRS data to Census

Background:

As you know, we are trying to ascertain data that will give us a better understanding of who files Head of Household (HH) returns and claims the EITC. All modelers' (Karl Scholz, Urban Institute, and Census) under-estimate the number of HH returns and the number of EITC claimers.

IRS provided 1990 Individual Master File (IMF) data to Census to match with CPS (1990 income year) so that they would have a matched data-set with IRS IMF income data, Census household and family demographic data, and Social Security Administration data. The IMF data set provided to Census did not contain a data field on whether the return claimed EITC or the amount claimed.

In order to get get significantly better information on the EITC and HH puzzle, Census needs to have IMF data on EITC to add to their household matched data-set.

Request:

I would greatly appreciate anything you could do to facilitate having IRS provide the following data to Census so that they can analyze the matched data to provide us with a better understanding of who claims the EITC and whether they appear to be a legitimate claimant based on the tax-filer's household composition and reported income. I understand there may be two problems: the regulations that list the data which the IRS will provide Census and technical problems associated with IRS computer workload and whether they still have the 1990 IMF file. We have looked at the regulations and believe that you can make a plausible case for providing these data to Census, but may not be sufficiently sensitive to this policy issue. Obviously, you are a better judge of whether the technical problems can be over come and how long it might take.

The data fields listed below can be either for the entire 1990 IMF data or just the sub-set of IMF filers that claimed the EITC. Census has given me two lists of fields that would provide them with the necessary information--one assures better matches and the other provides the minimum necessary data set:

(1) A more extensive file that contains the following data fields: Filers' SSN, type of return, AGI, wages, amount of EITC claimed, number of EITC children, child-at-home exemptions, and child-away exemptions.

(2) A limited data set of: Filers' SSN, amount of EITC claimed or whether EITC was claimed.

Bill Prosser (202 690-68005) on my staff and Chuck Nelson at Census (301 763-8029) are the best contacts for technical issues related to this request.

Thank you for your assistance on this matter.

WR $

AGENDA
WELFARE REFORM FINANCING MEETING
February 1, 1994

GOALS:

1. Agree on our numbers (HC)

2. Develop a range of options on costs of program and offsets to pay for it. (We don't have to reach consensus, but we need to come up with a list of options.)

Working Group and HHS have made great progress in developing a plan. But much of our discussions have taken place without full airing of the budgetary tradeoffs.

As we prepare to take these questions to the President, we need to be aware of all those tradeoffs, on both the cost and offset sides of the equation.

I would propose that we pick up this discussion where we left off in the Roosevelt Room, with David/MJB/Wendell summarizing the amount of $ and political viability of options they presented last week, as well as any other ideas they might like to put on the table. OMB has some ideas, and so may others.

But before we leave this afternoon, we should also at least touch on the costs of various policy options we're considering, because if we can't find offsets, we're going to have to find ways to keep from spending the money in the first place.

Wd-4

REVENUE ESTIMATES TO INCLUDE CASH AND NEAR-CASH BENEFITS IN AGI 1/
(FY; $ in billions; effective 1/1/95)
PRELIMINARY

	1995	1996	1997	1998	1999	1995-1999
Base Proposal: Tax SSI, AFDC, Food Stamps, GA, and Section 8 Rental Assistance						
With EITC Interaction	0.7	3.7	3.8	3.9	4.0	16.1
With no EITC Interaction	0.5	2.4	2.5	2.6	2.7	10.7
Exclude Section 8 Rental Assistance						
With EITC Interaction	0.5	2.3	2.4	2.5	2.6	10.3
With no EITC Interaction	0.3	1.6	1.6	1.7	1.7	6.9

Department of theTreasury
Office of Tax Analysis

WR-8

Limit the Growth in Emergency Assistance

The little known AFDC/Emergency Assistance program has been largely invisible until the past couple of years Expenditures had been constant at a relatively modest at roughly $100 million for many years. Yet recently States have discovered that the program can be used to 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 $200 in FY1992 to $1.0 billion in FY1999. Especially with the passage of Family Support and Preservation last year, this 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: $0.5 billion
Five year savings: $2.1 billion

Deem Sponsor's Income Until Citizenship for New Immigrants

There are several proposals to restrict eligibility of non-citizens for AFDC, food stamps, and SSI. Since illegal immigrants are not eligible for such benefits under current law, the plans almost exclusively affect legal immigrants who are not citizens--persons technically described as "permanent legal aliens". Permanent legal aliens are a rather diverse group. Many come in as "regular immigrants" and receive a green card. To be granted regular immigrant status, a relative who is a U.S. citizen or a U.S. employer must petition the INS on behalf of the immigrant. If a relative submits the petition, he/she usually must agree to become that immigrant's sponsor for purposes of AFDC and SSI eligibility (i.e. agrees to have his/her income and resources deemed as available to the immigrant for purposes of determining eligibility and benefits). In addition to regular immigrants, there are a variety of other immigration statuses including refugees, asylees, parolees, conditional entrants, etc.

Under current law virtually all legal immigrants are eligible for public aid programs. Those with sponsors have the sponsor's income deemed for 3 years. The Republicans propose to exclude all non-citizens from public aid programs. By 1998 such a proposal would save $6.8 billion per year. Serious equity problems arise in such a plan. Legal immigrants mostly 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. It is hard to justify asking working non-citizens to contribute to government without being protected by it.

Yet there are a significant number of immigrants who apparently do not come to work. Over 20% of persons on the SSI-Aged program are now non-citizens. Most appear to be persons who were sponsored by their adult children. Many start on SSI in the fourth year they are in the U.S.--the year deeming ends. There seems a far stronger case for excluding such persons from public aid. Indeed to finance a portion of the UI extension last fall, the Congress extended deeming to 5 years for SSI through 1996, when current 3 year deeming rules resume.

This proposal would stop well short of the Republican proposal and would instead require that for public aid programs, sponsor's income and resources would be deemed until the person becomes a citizen. (Citizenship generally can be obtained 5 years after entry) Such a policy gives the administration a defensible position on immigrant aid, without excluding a larger class of persons who often pay taxes and work.

Savings in 1999: $1.8 billion
Five year savings: $4.7 billion

Eliminate the Late Baby Bonus for Social Security Retirees

Retirees receiving Social Security receive a 50% higher Social Security benefit when they live at home with their own child under 18. Since this requires that the beneficiary parent a child after the age of 47 (44 if they take early retirement), this policy almost exclusively benefits male retirees who have children late in life. In such cases, a younger (under 62) non-working mother of the child also qualifies for a sizable Social Security benefit if she lives with the family and if the child is under 16 (not 18 as for the father). (If such mothers work, they face the Social Security earnings test.) Moreover, 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.

Virtually no one knows this benefit currently exists. It seems extremely hard to justify on equity or any other grounds. It rewards people for having children later in life than do the overwheling majority of Americans. This proposal calls for eliminating the late baby bonus prospectively. Current retirees receiving the late baby bonus will not be affected. Retirees with disabled or adopted children would not be affected. Nor would disabled persons.

Savings in 1999: $1.2 billion
Five year savings: $3.7 billion

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 EITC. (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 EITC and measures to reduce fraud in that program. One could determine that children had to be treated the same for the AFDC program and EITC, for example. And it would allow a policy whereby a portion of transfer benefits would be "reclaimed" in cases where annual income was well above poverty. One policy would be to include transfers in taxable income, treating it the same as UI or earnings. This would ensure that families with a given income (say $20,000) would pay the same taxes regardless of whether the money was all from earnings, partly earnings and partly UI, or partly AFDC and food stamps and partly earnings. (Currently the latter group pays less.) Alternatively one could have a separate form to reclaim a percentage of transfers above the tax threshold. Either policy would effectively require that people above the tax threshold (110-125% of poverty) to return a portion of the "excess benefits" above the tax threshold. Because taxes on earnings are collected as though persons earned that amount all year long, and because of the high EITC, very few families would actually owe additional money and rather get a smaller refund at the end of the year.

Savings from EITC coordination and fraud reduction in 1999: still being estimated
Five year savings: still being estimated

Savings from reclaiming a portion of excess transfers in 1999: $2.0 - 4.0 billion depending on policy
Five year savings: $10-15 billion depending on policy

WR- ~~[illegible]~~ FINANCING

→ WITHHOLD ENTITLEMENT BENEFITS FROM $100,000+ CROWD

NETWORK

A National Catholic Social Justice Lobby

806 Rhode Island Avenue NE ■ Washington DC 20018 ■ (202) 526-4070 ■ FAX (202) 832-4635

October 4, 1993

Bruce Reed
Deputy Assistant to the President for Domestic Policy
White House Old Executive Office Building
Room 216
Washington, DC 20501

Dear Bruce:

I am a member of the steering committee for the National Neighborhood Coalition. You spoke at one of our monthly forums. Last Thursday one of my colleagues, British Robinson, was present when you spoke at the National Alliance to End Homelessness. One of the questions posed at Thursday's meeting had to do with laying on the table <u>all</u> housing-related federal costs, including tax expenditures which predominately benefit the wealthy and low-income housing outlays.

Enclosed are two articles written by NETWORK's economist, Amata Miller, IHM, that I hope you'll take time to read. Although changes of the kind suggested in the articles are not yet politically feasible, it is only when the questions are raised that policy-makers will choose to act.

NETWORK believes strongly that the moral fabric of a nation is determined by how well it provides for the poor in its midst. Further, we believe that special priority needs to be given to the poor and vulnerable since those with the greatest needs and burdens have first claim on our common efforts. We are heartened by the Administration's rhetoric which indicates sensitivity to our concerns.

Bruce, I look forward more opportunities to work with you in the future.

Sincerely,

Richelle Friedman

Richelle Friedman, PBVM
NETWORK Lobbyist

By Amata Miller, IHM

Tax Expenditures
Silent Spending

In the annual budget politicking, one multi-billion dollar category—tax expenditures—escapes mention. Recent studies have aptly called tax expenditures "silent spending," "missing money," "phantom corporate welfare," and "entitlements conveyed through the tax code."

Originally enacted to advance some social purpose, tax expenditures affect the overall allocation of resources, the equity of the distribution of public goods and services, the progressivity of the tax system, and the size of the budget deficit. NETWORK believes that concerned citizens should help shatter the silence about this form of expenditure and hold their legislators accountable for it.

What Are Tax Expenditures?

The federal government defines tax expenditures as "revenue losses due to preferential provisions of the Federal tax laws." In effect, they are subsidies provided through the tax system rather than as direct payments from the Treasury. Like direct expenditures they provide benefits and give incentives for or against various activities.

Tax expenditures come in three basic forms:

1. Tax **deductions** allow corporations and individuals to subtract certain expenses from their taxable income. Examples are the deductions for charitable contributions and for interest paid on home mortgages.
2. Tax **exclusions** are income or transactions that are not subject to taxation at all. Interest earned on investments in state and local bonds is not taxable. The income received by charitable and religious organizations is not taxable nor are employer contributions for medical insurance premiums and medical care.
3. Tax **credits** are issued by governments for certain expenditures and activities. Credits are more valuable than deductions or exclusions because they reduce the amount of taxes due, rather than the amount of taxable income. For example, in the 1970's a tax credit was given for investments to increase energy efficiency. Spending $100 for this purpose reduced a homeowner's tax bill by $100. An incentive in the form of a deduction or exclusion would have given a homeowner in the 15% bracket a tax cut of $15, and in the 28% bracket one of $28 for a $100 investment.

Progressives have special interest in the Earned Income Tax Credit (EITC) enacted in 1975 to augment the income of low income working people in families with dependent children. The EITC is a "refundable" tax credit on earned income below a certain maximum ($22,370 in 1992). For those with income too low to owe any federal income tax (i.e. less than $15,000) the credit is fully refundable, i.e. families receive a check from the government for the amount of the credit (as much as $2,211). Intended as a work incentive, the credit increases as earnings rise—up to the income limit.

Reasons for Concern

The use of tax policy to accomplish social purposes began in 1918. In that time of budget stringency, Congress increased veterans' benefits simply by exempting them from taxation. Since then tax expenditures have mushroomed, and citizen concern is warranted.

Tax expenditures are absent from annual budget debates.

Once enacted, tax expenditures are "entitlement" programs. They confer benefits on eligible persons and groups without any budget ceiling. But unlike other entitlement programs—Medicare, food stamps, Medicaid—tax expenditures are "off budget" (i.e. not listed as line items in the budget). This distorts the debates over trade-offs. With the "missing money" of tax expenditures absent from the discussion, direct expenditure programs are cut and taxes are raised without full consideration of options available.

Federal housing policy in the 1980's is an example of how such constricted options are harmful to low-income persons. In 1983 direct expenditures for housing-related programs primarily for the poor were $10 billion. Tax expenditures for housing, primarily benefiting middle-and upper-income taxpayers were $40.6 billion. This means that there were $4.06 of tax expenditures for every $1.00 of direct expenditures. Over the 1980's direct housing programs were cut drastically but tax expenditures remained largely unscathed. Thus, by 1991 tax expenditures had risen to $81 billion, approximately $4.55 for every $1.00 in direct expenditures on housing programs.

Tax expenditure programs worsen inequality.

Some of the largest tax expenditures are a form of "welfare for the well off."

Neil Howe and Phillip Longman in a call for comprehensive entitlement reform in *The Atlantic Monthly* in April;

1992 exposed this aspect of several tax expenditures totalling $170 billion.

- The child-care credit ($3 billion in 1991) gave almost no benefit to those with incomes under $10,000, but $1.2 billion to those with incomes over $50,000.
- The exclusion of employer-paid health care from both income and payroll taxation deprived the Treasury of $60 billion in 1991. Yet it gave no benefit to the 37 million uninsured or the 32 million who pay for their insurance out of their own pockets. And among households covered by employer-paid health-care plans the average benefit to those in highest income brackets was many times that for those in lowest income brackets.
- Benefits from the mortgage interest deduction averaged $3,469 for taxpayers with incomes over $100,000, and $516 for those in the $20,000-$30,000 bracket, but nothing to 36 million Americans in poverty. Households with income over $50,000 received 81 percent of the benefits of this tax expenditure which cost the Treasury $37 billion in 1991 ($45 billion in FY93).
- The exclusion of most Social Security income and the insurance value of Medicare benefits cost the Treasury $34 billion in 1991. Howe and Longman observe that this does nothing for the 40 percent of senior citizens who are too poor to pay taxes, but it subsidizes the 37 percent of senior citizens who regularly vacation abroad. All other industrial nations treat all or most of social insurance benefits as taxable income and use other programs to meet special needs.

Tax expenditures have contributed to the shift of the tax burden from corporations to individuals.

In the 1950's corporations paid 39 percent and individuals 61 percent of total income taxes. Three decades later the corporate share had dropped to 17 percent and that of individuals had risen to 83 percent.

According to tax economist Randy Albeda, this shift has occurred on both federal and state levels. Her research revealed that tax expenditures, unlike direct outlays, tend to subsidize corporations and commercial activities rather than providing for human needs. The 1986 tax reform reversed the trend somewhat, but pressure to restore some of the corporate loopholes is building.

The largest tax expenditure listed in the FY93 report of the federal government is the exclusion of employer contributions to and earnings on pension plans ($51 billion). In addition, the accelerated depreciation allowance ($27 billion) allows the write off of buildings, equipment, and machinery at a faster rate than actual depreciation.

Corporations are lobbying now to add the value of "intangibles," such as customer lists and brand names, to the assets eligible for this write off. Jane Gravelle of the Congressional Research Service estimates that this would cost $2 billion or more per year in lost revenue. Unions representing food company workers argue that it would hasten mergers and destroy jobs.

The tax expenditure process is undemocratic.

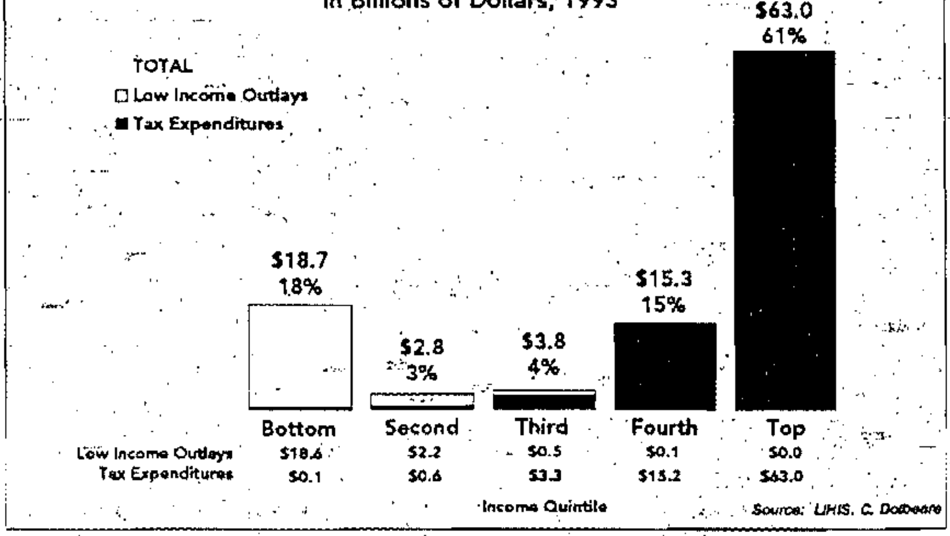
Proponents of tax expenditures such as the write off of "intangibles" tend to be well organized and financed special interest groups. Because once they are enacted tax expenditures virtually disappear from public view, and because there is no government agency on which to focus dissatisfaction, opposition is almost non-existent or unorganized. For example, because of widespread ignorance about the inequitable distribution of the deduction for mortgage interest, real estate interests can defeat any effort to cap it. A better informed populace would probably support a cap which preserved the deduction for the average homeowner's primary dwelling.

These concerns highlight the importance of shattering the silence about tax expenditures (on the state and local as well as federal level) to expose their inequities and effects on allocation of resources, on the tax system and on the hard choices made in tight budgets. Randy Albeda and Cynthia Mann issue the call cogently: "Our challenge is to force the politicians to tell us how and when and whom they're going to tax [or give tax forgiveness to]. Because even if we don't talk tax [expenditures], we can be sure that *Fortune* magazine, the big business lobbies, and the backroom negotiators will be talking tax behind our backs, and lawmakers will be listening." ❑

Amata Miller, IHM, is NETWORK's Economist and Education Coordinator.

Sources: Randy Albeda and Cynthia Mann, "Can We Talk Taxes?" Dollars & Sense *(October, 1988); Warren Gregory and John Morberg,* Silent Spending: Tax Expenditures and the Competition for Public Dollars, *Michigan House of Representatives, House Fiscal Agency (May, 1990); Neil Howe and Phillip Longman, "The Next New Deal."* The Atlantic Monthly *(April, 1992); Daniel D. Huff and David A. Johnson, "Phantom Welfare: Public Relief for Corporate America,"* Social Work *(May, 1993); Carole Sonnenfeld,* MiSSing Money: A Common Cause Study of Federal Tax Expenditures, *1985.*

ESTIMATED DISTRIBUTION OF HOUSING SUBSIDIES, BY INCOME QUINTILE, In Billions of Dollars, 1993



by Amata Miller, IHM

Entitlements: Time to Ask the Hard Questions

"Call them entitlements, and they're the voracious hobgoblins of federal spending. Call them programs to help the old, the hungry, the sick, the blind, those who have fought for our country, and they've got the public's broad support as essential underpinnings of a civilized society."

In these words John Rother public policy director for the American Association of Retired Persons (AARP), cogently characterizes the public's ambiguity–and ignorance–about the group of federal programs called "entitlements." This politically charged situation spawns misinformation, myth-making, manipulation, and misallocation of scarce resources.

Clarifying the Term

Entitlements are programs (e.g. Social Security, food stamps, Medicare, unemployment compensation, veterans pensions) which award benefits according to a fixed formula to persons meeting eligibility requirements set by Congress. Once enacted into law, entitlement programs become in budget language "mandatory spending" and are not subject to annual appropriations. As such, they are uncontrollable items in the budget, since any one who qualifies receives the benefit, regardless of the total cost.

Federal entitlements come in two forms: tax expenditures--the reduction of taxes due (see July/August 1993 NETWORK Connection); and direct outlays, what the public usually thinks about when it hears the term "entitlements."

Areas of Concern

From a budgetary perspective, direct entitlement spending, projected to total $770 billion in 1993, is now more than half of the total federal budget, and growing uncontrollably. Advocating cutting entitlements as a broad category gives cover to politicians whose constituents would balk at reductions in specific benefit programs.

Given 1990s economic and political realities, those working for social justice have to be concerned about the magnitude of entitlement spending (and tax expenditures too!). But ours must be an informed concern, probing specific problem areas needing reform.

1. Why are costs rising?

Three programs account for two-thirds of total entitlement spending: Social Security, Medicare and Medicaid. Of these only Medicare, national health insurance for the elderly, and Medicaid, state-federal health program for the poor, are actually running rampant. Since 1980 spending on these two programs has risen from 8 percent of the federal budget to 12 percent. Without comprehensive health care reform these costs will more than double by 1998.

Social Security benefits rise at the rate of inflation and 1980s payroll tax increases have more than paid for the increasing benefit payments. Spending on other entitlement programs such as food stamps and AFDC has for many years failed to keep up with inflation and the increase in numbers of eligible persons.

Even if we completely abolished food stamps, AFDC, farm price supports, child nutrition programs and veterans' pensions, entitlement spending would still be a greater proportion of the federal budget by 1998 than it is now, unless the costs of the two health care programs are brought under control.

2. Who are we really subsidizing?

Only one of every eight dollars of federal entitlement outlays goes to those living in poverty. As much as 80 percent of total benefit dollars are in programs requiring no evidence of financial need.

And the benefits are skewed towards the well-off. Neil Howe and Phillip Longman in a detailed analysis revealed some startling facts:

- In 1991 U.S. households with incomes over $100,000 (the richest 5 percent) received an average of $5,960 in federal cash and in-kind benefits, while those with incomes under $10,000 received an average of $5,560.
- From 1980-91 in inflation-adjusted dollars, the average federal benefit received by households with incomes under $10,000 declined by 10 percent. Meanwhile, the benefits (mostly Social Security, Medicare, and federal pensions) to those with incomes over $200,000 fully doubled.
- Medicare spent $19 billion in 1991 subsidizing the health care of households earning $50,000 or more (the richest third of all households).
- Military and civil service employees

with incomes over $100,000 received $9.2 billion from the Treasury in 1991.

- Social Security, instituted in 1935 as a protection against destitution, distributed more than 20 percent of its benefits in 1991 to households with incomes above $50,000.
- $50,000 each, on average, went in direct federal farm subsidies to the 30,000 farmers with largest gross receipts. Almost two thirds of the total payments go to the richest 25 of the farms.

Their conclusion: what we have is a "welfare state for the affluent."

3. Do the original reasons for them still hold?

Many of the entitlement programs began during the New Deal, and have their own constituency which resists change in them even though the original realities which gave birth to the programs no longer hold. No program illustrates this better than Social Security.

Today more than 60 percent of all benefit spending goes to the 12 percent of the population who are elderly. When Social Security was enacted in the 1930's seniors were the poorest age group; by 1969 one in four elderly persons still lived in poverty. Now, largely because Social Security benefits are indexed against inflation, and Medicare provides health insurance for all those over 65, only 12 percent of the elderly (3.7 million persons) are poor.

But now 21 percent of our children under the age of 18 live in poverty; up from 14 percent in 1969. And there is no entitlement program to put a floor under their support and no national health insurance program to guarantee their access to health care. Another aspect of the Social Security program is rooted in an obsolete assumption. Based on past family patterns, the benefits of a deceased father are awarded to non-elderly households in which widowed mothers are raising children. However, in 1990 the 13 million children being raised by not-widowed single mothers had no federal benefit program to assist them.

It is time to examine the major entitlement programs in light of current needs, of shifting national priorities, and of the inequities in benefit distribution.

Proposals for Change

As legislators seek to reduce federal deficits, proposals for a cap on entitlements are regularly introduced. This is a bad idea.

1) Capping entitlements simply postpones the difficult program-by-program cutbacks required to live within any cap.
2) An across-the-board cut axing all entitlement programs would harm both slow- and fast-growing ones--ultimately doing most harm to the poorest and most vulnerable.
3) To set a cap, some forecast of total cost is needed. But the factors that determine entitlement spending--economic downturns, inflation, and changes in eligible populations--are largely unpredictable.

A much better approach would be to begin discussing a reform proposal like that of Neil Howe and Phillip Longman, who call for improving the equity of entitlements and freeing up resources to meet other needs by applying one simple principle: "one's benefits should be proportional to one's need--whatever the form of the subsidy."

Structuring a reform according to this principle would mean that:

1) it should not reduce the income of any household to anywhere near the poverty line;
2) it should adjust benefits according to a graduated scale, not completely eliminating the benefits of any currently eligible household;
3) it should take into account the "quasi-contractual" nature of some of the programs. For example, federal employee pensions are really part of deferred compensation, since the employees accepted wages lower than in the private sector in view of better pension benefits. But Social Security benefits are not linked to what a person paid into the system; no records of contributions are even kept by the Social Security Administration. The benefits are related to a person's wage history. And today's retirees are receiving benefits worth two to ten times what they would have earned had they invested all their lifetime social security taxes (theirs and their employers') in Treasury bonds.

These three principles could be embodied in a "benefit-withholding liability" feature in the tax system. Following the above criteria, a percentage of benefits for higher-income households would be withheld (e.g. 7.5 percent of any benefits that cause total household income to exceed $30,000). Benefits received would be listed on tax returns and the withholding would be processed by the IRS along with income taxes.

This would require only one congressional action (not a review of each program), create no new bureaucracy, and could be done relatively quickly while the debate over program reforms proceeds.

It is clearly time to begin a thorough and informed discussion about entitlements. We can no longer avoid asking ourselves why we are unable to find the money to feed, house and educate our poor children while we continue to subsidize the well-off. ❑

Amata Miller, IHM, is NETWORK's Economist and Education Coordinator.

Sources: Neil Howe and Phillip Longman, "The Next New Deal," Atlantic Monthly, April, 1992; Viveca Novak, "Entitlements Waltz," National Journal, 10/17/92; David Rosenbaum, "Answer: Cut Entitlements. Question: But How?" New York Times, 6/8/93.

SOCIAL SPENDING
Costs Over Time

All entitlement programs in '92
Figures in billions

Social Security	$ 285
Medicare	129
Medicaid	68
Federal & civilian retirement & disability	37
Unemployment compensation	37
Military retirement & disability	24
Food stamps	23
Other	20
Supplemental Security Income	18
Family support	16
Veteran's benefits	16
Farm price supports	9
Earned-income tax credit	8
Child nutrition	6
Social services	5
Veteran's pensions	4
Credit reform liquidating accounts	4
Student loans	2

New York Times, 6/8/93

WR - $

AMERICA WORKS

DATE: ______________

TO: BRUCE REED

COMPANY: THE WHITE HOUSE

FAX #: 202 456 7739

FROM: PETER COVE

America Works of New York, Inc.
575 8th Avenue 14th Floor
New York, NY 10018

OUR FAX #: (212) 244-5628

MESSAGE: HI BRUCE - AS YOU STRUGGLE TO COME UP WITH MONEY FOR THE WELFARE PACKAGE, LET ME REMIND YOU OF MY IDEA TO REINVEST SAVINGS FROM FULLY PERFORMANCE BASED JOBS PROGRAMS. YOU COULD INCREASE EDUCATION, TRAINING AND JOB PLACEMENT SERVICES WITH NO NEW TAXES OR CUTS. CALL IF YOU HAVE QUESTIONS. GOOD LUCK! Peter

IF THERE ARE ANY QUESTIONS, PLEASE CONTACT THE OPERATOR AT (212) 244-5627

NUMBER OF PAGES: ______ (INCLUDING THIS COVER SHEET)

WELFARE TO WORK DEMONSTRATION

ISSUE - HOW TO REDUCE WELFARE DEPENDENCY, CREATE A REVENUE NEUTRAL MECHANISM TO FINANCE A JOB EFFORT, REDUCE THE BUDGET DEFICIT, STIMULATE PRIVATE INVESTMENT AND MAKE GOOD ON TWO YEARS AND OFF

PURPOSE -

Initiate a national demonstration of a fully performance based welfare to work program for 500,000 people annually for five years. Federally funded under the Family Support Act (FSA) but state implemented, private sector run welfare to work companies would be encouraged to invest in mounting programs which only if successful would be paid. This proposed demonstration is based upon America Works' successful nine year experience in two states. Review of America Works' experience and other programs focusing on jobs first as a welfare strategy suggest a major role for this type of approach. The key elements are:

•For five years place approximately 10% of the welfare population into jobs each year.

•Save 67.5 billion dollars during the five years in cost savings, half of which can be used to reduce the deficit and the other half can be reinvested into an increasing fund for welfare to work.

•Stimulate private capital investment into welfare to work programs.

•For the first time in welfare to work programs direct government to pay only for successful welfare reduction, not for programs regardless of their impact.

BACKGROUND -

1. The Aid to Families With Dependent Children Program was established in the 1940's to help widows and their children. It has grown into a massive entitlement program.

2. There are over five million families on AFDC and the welfare rolls are growing. The costs have reached 150 Billion dollars. Of those on welfare, 60% stay for more than five years. Researchers say there is a trend toward longer term and intergenerational dependency.

3. Since the 1950's there have been a number of programs targeted at reducing dependency. In 1989 congress passed FSA. The JOBS piece of this legislation directs the states to design welfare to work strategies.

4. Simply stated there has been a debate in the field between those who believe in jobs versus those who believe that the route out of dependency is through education. The regulations for FSA heavily emphasized literacy and education as the route out of welfare dependency.

5. The general consensus is that the employment and training systems have not been effective. Many welfare recipients have been through a number of training programs of business schools yet have failed to find employment. They have paid for process not outcome.

6. Since the FSA implementation States have not drawn down all of the funds the federal government made available. This is because the local municipalities can not get its law makers to allocate additional revenue to the welfare budgets which are escalating. Thus the funds are there for dependency but not to seek a way off.

7. Recent research evidence indicates that despite FSA regulations, a jobs first approach, not education, is more effective in reducing the welfare rolls. (See the Rockerfeller Foundation studies, Riverside California's outcomes, MDRC research and the experience of America Works.)

8. Job placement efforts targeting private sector jobs can have the additional benefit of acting as an economic development tool. According to a recent Ernst and Young study conducted on the welfare recipients placed by America Works businesses averaged $2,448 savings per worker.

RECOMMENDATIONS -

The creation of a two billion dollar per year demonstration for five years paying $4,000 each placement. The placement fee would only be paid after a person had been working 90 days. The project would place 500,000 people a year. A 60% projected retention rate would yield:

500,000 welfare recipients X 60% retention = 300,000 X $15,000 (the average cost to keep a family of three on welfare) X 3 years (the average length of time the family would have stayed on welfare without the program) X 5 years (the length of the demonstration) = 67.5 billion dollars in cost savings for the five years of the program. Some of the funds can come from the unexpended FSA obligation thereby reducing the need for new funds. The demonstration will have the following elements:

•For each welfare recipient placed into a job a calculation of a cost savings to the taxpayer will be made. For as long as the individual remains off welfare a deposit will be made into the savings. Fifty percent will go into reducing the deficit and 50% will go into a new reinvestment fund. This fund will be a new entitlement for jobs pool. Based upon the above calculation 38.75 billion dollars would be available for future welfare to work programs.

•The demonstration will be totally performance based. The organizations delivering the service will only get paid when a person goes into a full-time job and have retention of 90 days thereafter.

•The demonstration will not require local match. It will be fully federally funded. However the program operation funds will be expanded by the use of Work Supplementation funds (see Jobs Regulations in FSA) for private sector jobs.

•There will be an on-going evaluation of the effectiveness of the approach and the true costs savings.

•Federal and participating State laws will be amended to allow reinvestment of savings from welfare into job programs which are paid only if they get a person off welfare.

IMPLICATIONS -

1. This will build the capacity through job placement to implement a two years and off welfare if that becomes policy.

2. A fund will be created out of welfare savings to fund employment efforts in the future.

3. Through the evaluation component there will be hard evidence of the outcomes and value of the demonstration.

4. The performance based contracting model, if proven to be more effective will be adopted throughout the employment and training system.

File: Welfare - Funding

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

PHONE: (202)690-8794 FAX: (202)690-6518

Date: 6/10/93

From:	Wendell Primus	To:	Bruce Reed
Division:	DHHS/OS/ASPE/HSP	Division:	The White House
City & State:	DC	City & State:	DC
Office Number:	690-7409	Office Number:	456-6515
Fax Number:	690-6518	Fax Number:	456-7739

Number of Pages + cover 11

REMARKS:

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

JUN 10 1993

TO: Bruce Reed
Belle Sawhill
David Ellwood
Mary Jo Bane
Ken Apfel

FROM: Wendell E. Primus WEP

SUBJECT: Welfare Demonstrations

Based upon my different conversations with most of you, here are several options the Administration may want to consider as a down payment on welfare. Each option is described along with some discussion of the relative merits.

Option 1 - Drop budget neutrality

The current waiver authority under section 1115 does not demand budget neutrality nor is it limited in terms of financing. Cost neutrality was the past Administration's policy. This option would eliminate the budget neutrality requirement for any state waiver request that the Secretary finds particularly promising and is in accord with the overall policy goals of this Administration.

This option has the advantage of not requiring Congressional approval and depending upon how many projects or demonstrations are actually approved could be as expensive or as inexpensive as you wish. There would be complete discretion as to what projects are actually funded and the Secretary would have considerable leverage to tailor a demonstration to the Administration's wishes.

The disadvantages of this approach is that it is backdoor spending not authorized in a normal manner, assumes Congress would allow the Administration to do wholesale rewrites of basic AFDC, Child Support and other laws without Congressional approval in certain smaller states.

It sounds inherently unfair. While the approach envisions a general solicitation from all states, states that are currently submitting waiver requests would have a huge advantage over other states. Furthermore, it may be very difficult to say no to some states with important political connections. It also runs the huge risk that welfare reform would be delayed because one could argue that we need to see the results of all these worthwhile projects before we enact federal legislation.

Option 2 - Seek Congressional Authority

This option attempts to solve the disadvantages of option 1 by seeking explicit authority from Congress to fund states that submit innovative welfare approaches that are similar to this Administration's policies. The advantage of this approach is that it is not an end run around the legislative branch of government.

The disadvantage is that it would likely start the debate on welfare reform and might be quite controversial. For example, if this administration wanted to test the time limit, I could well envision limits on that authority either in terms of number of families affected, dollar limits, number of sites, etc.. Therefore why seek authority for something that already the Administration has and run the risk that the current authority would be severely limited or distorted.

Option 3 - Fund the Boren Demonstration

If the Administration wanted to attract Senator Boren, one could ask for the demonstration authority that was included in H.R. 11, the vetoed urban aid bill from last year. The concept is clearly worth testing, it has already passed the Congress and how many dollars are spent on this approach is very elastic. The only disadvantage is whether Mr. Boren's behavior should be rewarded by funding the demonstration that is intimately associated with his name. See the attached paper for more details on this particular demonstration.

Option 4 - Fund a Different Demonstration

Use the basic approach of the Boren language, but fund an entirely different kind of demonstration. For example, fund a child support assurance demonstration, or an innovative JOBS program, or fund a particular time-limited welfare scheme. The details would have to be drafted quickly and Hill approval obtained in a very short period of time. The primary disadvantage is that whatever is tested might be removed as a serious option in the welfare reform debate.

Option 5 - Lower the state match in JOBS

This option would lower the state JOBS match, demand a higher participation rate and retain a state maintenance of effort provision. This clearly would signal the Administration's desire to build upon the Family Support Act of 1988 and send a message that we are serious about moving individuals off of welfare. Given state capacity, one could probably spend an additional $300 million in Fiscal Year 1994. The lowering of the match was a provision in H.R. 11 and is another major policy shift which is being initiated by the Administration very late in this year's budget debate.

Conclusion

After reviewing the options, I primarily favor option 5--a simple lowering of the state match in JOBS. Option 1 might work. The Administration would have to impose upon itself rules on number of sites, dollar, kinds of demonstrations to be funded, and how the demonstration to be funded would be decided. I would then obtain informal signoff from important Hill Committees and chairman. If there was not negative reaction from the Hill, I would proceed with option 1 and implement with the Administration's self-imposed guidelines.

Attachment

The Boren Amendment

One way to reach non-custodial parents is through Senator Boren's proposal to establish Community Works Progress (CWP) Demonstrations. This proposal, which was incorporated into H.R. 11, would have provided $60 to $70 million per year for grants to public or private nonprofit organizations for broad public purposes in fields such as health, social service, environmental protection, education, urban and rural development, welfare, recreation, public safety, and child care.

The projects provide employment-related services to non-custodial parents who are not employed and at least two months in arrears on their court-ordered child support, current AFDC recipients, and persons at risk of becoming recipients of AFDC. So that participants can look for regular employment, no participant would be allowed to work more than 32 hours a week. Assistance for the costs of transportation, child care, and uniforms or other work materials would be provided.

The CWP proposal has several advantages. First, on the delicate issue of participants' wages, a compromise was already reached in Congress. Issues such as the wage rates and maximum hours are often some of the most difficult to resolve work-welfare issues. Second, funding could be easily and quickly increased to $300 million per year depending on the number of sites. Finally, the projects would provide valuable lessons for implementing welfare reform.

forms to the definition of a "consumer reporting agency" under Federal law.

Effective date.—The Senate amendment is effective October 1, 1993. However, if the Secretary of HHS determines that a State is unable to comply with the amendment, the State would be exempt from compliance until the State establishes an approved automated data processing and information retrieval system, or until October 1, 1995, whichever is earlier.

Conference Agreement

The conference agreement follows the Senate amendment.

2. Additional use of Parent Locator Service information

Present Law

The Department of Health and Human Services operates a Parent Locator Service to obtain and transmit information as to the whereabouts of any absent parent when such information is to be used to locate the parent for the purpose of enforcing support obligations owed by the parent.

House Bill

No provision.

Senate Amendment

The Senate amendment requires the Secretary of HHS to enter into an agreement with the Attorney General under which the services of the Parent Locator Service shall be made available to the Office of Juvenile Justice and Delinquency Prevention, upon its request, for the purpose of locating any parent or child in order to: (1) enforce any State or Federal law with respect to the unlawful taking or restraint of a child; or (2) make or enforce a child custody determination. The Parent Locator Service may charge no fee for these services.

Effective date.—October 1, 1992.

Conference Agreement

The conference agreement follows the Senate amendment.

D. Community Works Progress Demonstrations

1. Community works progress demonstration projects

Present Law

No provision.

House Bill

No provision.

SENATE AMENDMENT

The Senate amendment establishes a Community Works Progress demonstration program under Title XI of the Social Security Act. The Secretary of Health and Human Services (HHS), in consultation with the Secretary of Labor, would administer the program. The Secretary would have to award grants to three urban projects and two projects that are statewide. Demonstrations could last up to 4 years. Both public and private nonprofit organizations would be eligible to apply for grants.

The term "project" is defined to mean an activity that results in a specific, identifiable service or product that would not otherwise be done with existing funds.

Approvable projects include ones that the Secretary determines would serve a useful public purpose in fields such as health, social service, environmental protection, education, urban and rural development and redevelopment, welfare, recreation, public facilities, public safety, and child care.

For each of fiscal years 1994, 1995, 1996, and 1997, each entity that has an application for a grant approved by the Secretary would be entitled to payments in an amount equal to its expenditures to carry out the demonstration. The amounts authorized are $100 million in each of fiscal years 1994, 1995, 1996, and 1997. No more than 25 percent of funds could be used for capital costs.

In awarding grants, the Secretary is directed to consider the following factors: unemployment rate; proportion of population receiving public assistance; per capita income; degree of involvement and commitment demonstrated by public officials; the likelihood that the project will be successful; the contribution that the project is likely to make toward improving the life of residents in the community; geographic distribution; the extent to which the project will emphasize the development of projects encouraging team approaches to work on real, identifiable projects; the extent to which private and community agencies will be involved; and such other criteria as the Secretary may establish.

Eligible participants include individuals who are receiving, eligible to receive, or at risk of becoming eligible to receive, Aid to Families with Dependent Children (AFDC); individuals receiving, eligible to receive, or (while participating in a project) who have exhausted, unemployment compensation; and noncustodial parents of children who are receiving AFDC.

State agencies administering a JOBS program may assign JOBS participants to participate in a project if such participation does not conflict with the requirements of the JOBS program, and the individual is referred in accordance with JOBS procedures.

Participants who are receiving benefits under the unemployment compensation and AFDC programs would receive, in addition to those benefits, compensation in an amount equal to 10 percent of the average (as estimated by the organization conducting the project) of the amount of AFDC and unemployment compensation paid to recipients of these benefits in the area served by the project. Agencies administering AFDC or unemployment compensation benefits are allowed to transfer funds to the project to enable participants to receive compensation in the form of a single check for wages rather than in the form of separate benefit checks. Individuals not receiving either unemployment compensation or AFDC would be compensated in an amount equal to the Federal minimum wage, or the applicable State minimum wage, whichever is greater.

Individuals receiving AFDC may not be required to work on a monthly basis more than the number of hours determined by dividing the family's monthly assistance amount by the greater of the Federal or applicable State minimum wage. If an individual chooses to work any additional hours, the individual must be paid for each additional hour an amount equal to the greater of the Federal or applicable State minimum wage.

Individuals receiving unemployment compensation who choose to participate in a project must agree to work on a weekly basis the number of hours determined by dividing the amount of the weekly unemployment compensation received by the individual by the greater of the Federal or State applicable minimum wage.

The Secretary could approve an application that provided for an alternative method of compensation so long as it did not reduce the amount received by a participant below the minimum wage and assured a bonus payment to AFDC and unemployment compensation beneficiaries who participate in the project.

In order to assure that each individual will have time to seek alternative employment or to participate in an alternative employability enhancement activity, no individual could participate for more than 32 hours a week.

Individuals participating in projects would be eligible for assistance to meet necessary costs of transportation and child care, as well as necessary costs of uniforms or other work materials.

Each participant must be tested for basic reading and writing competence and must be furnished counseling and instruction if they fail a basic competency test.

Approved demonstrations would be required to ensure that the project would not result in displacement of currently employed workers and will not impair any contracts for services or any collective bargaining agreements existing at the time the project commences. Also required would be assurances of consultation with any local labor organization representing employees in the area who are engaged in the same or similar work as that proposed to be carried out by the project. Organizations conducting a community works progress project would be required to establish and maintain a procedure for the filing and adjudication of grievances from participants, labor organizations, and other interested individuals, including grievances regarding proposed placements of participants in the project. Grievances must be filed not later than 1 year after the date of the alleged occurrence of the event that is the subject of the grievance.

A hearing on any grievance must be held no later than 30 days after the filing of the grievance, and a decision must be made not later than 60 days after the grievance is filed.

In the event that the decision on a grievance is adverse to the party who filed, or 60 days after the grievance is filed if no decision has been reached, the party who filed would be able to submit the

Projects included must serve a useful public purpose in fields such as health, social service, environmental protection, education, urban and rural development, welfare, recreation, public safety, and child care.

For each of fiscal years 1993, 1994, and 1995, each entity that has an application for a grant approved by the Secretary would be entitled to payments in an amount equal the lesser of actual or approved annual expenditures to carry out the demonstration. The amounts authorized are $60, $70, and $70 million in fiscal years 1993, 1994, and 1995, respectively. Funds not obligated by the Secretary in one year remain available for use in subsequent years. No more than 3 percent of these funds may be retained by the Secretary for administration.

In awarding grants, the Secretary is directed to consider the same factors listed in the Senate amendment, except the likelihood that the projects will be successful was deleted because it was too vague and geographic distribution was clarified.

Projects shall provide employment and employment-related services to noncustodial parents who are not employed and at least two months in arrears on their court-ordered child support payments, recipients or persons at risk of being recipients of the Aid to Families with Dependent Children-Unemployed Parent (AFDC-UP) program, and recipients or persons at risk of being recipients of Aid to Families with Dependent Children (AFDC). Enrollment priority goes first to volunteers from any of the three groups, then to the noncoustodial parents, then the AFDC-UP group, followed by the AFDC group. The conferees hope that most of the enrollees will be volunteers and noncustodial parents.

State agencies administering a JOBS program may assign JOBS participants to participate in a project if such participation does not conflict with the requirements of the JOBS program, and the individual is referred in accordance with JOBS procedures.

The labor standards described in section 142 and 143 of the Job Training Partnership Act apply except: (1) Participants who are eligible for Medicaid benefits would continue to receive them instead of employer-provided health benefits, where applicable. (2) Some projects may not be subject to the "prevailing wage" requirements in Sections 142(a)(3)(C) and 143(d) of the JTPA.

Nonduplication and nondisplacement requirements replicate the requirements contained in subsections (a) and (b) of section 177 of the National and Community Service Act of 1990. The Senate amendment applied these provisions by reference.

Not more than 10 percent of the grant may be used for administrative costs. Not less than 70 percent of the amount of a grant must be used to provide compensation and supportive services to participants in a project.

Depending on whether the projects can pay the "prevailing wage or only 125 percent of the minimum wage, noncustodial parents who are at least two months in arrears in their child support payments are eligible to be paid no less than either (1) the prevailing wage, or (2) the higher of 125 percent of the applicable Federal or State minimum wage, for each hour the participant works in the project and the participant receives education, job training, and job search services, not to exceed 8 hours. In no case, however, would the rate of pay be less than 125 percent of the Federal or applicable State minimum wage.

Depending on the type of projects in which they are enrolled, AFDC recipients may not be required to work on a monthly basis more than the number of hours determined by dividing the family's monthly assistance amount by (1) the prevailing wage, or (2) the greater of 125 percent of the Federal or applicable State minimum wage. In no case, however, would the rate of pay be less than 125 percent of the applicable minimum wage. If an individual chooses to work any additional hours, the individual must be paid for each additional hour an amount equal to either (1) the prevailing wage, or (2) the greater of 125 percent of the Federal or applicable State minimum wage.

AFDC recipients who work off their benefits will receive a bonus equal to 25 percent of the average amount of monthly AFDC benefits in their State.

The Secretary may approve an application that provides for an alternative method of compensation so long as it does not reduce the amount received by a participant below the amount payable under the basic compensation method described above.

All wages would be exempt from countable income for all Federally-assisted means-tested programs, including the Higher Education Act of 1965.

As in the Senate amendment, in order to assure that each individual will have time to seek alternative employment or to participate in an alternative employability enhancement activity, no individual may participate in work on a project for more than 32 hours per week.

Individuals participating in projects shall receive assistance to meet costs of transportation and child care, as well as necessary costs of uniforms or other work materials.

Each participant must be tested for basic reading and writing competence and must be furnished counseling and instruction if the participant fails a basic competency test. However, individuals who have been tested by an employment, education, or training program for basic reading and writing competence within one year of enrollment in a project, shall not be required to be tested.

As under the Senate amendment, the Secretary may suspend or terminate payments for a project if the Secretary determines that an organization has materially failed to comply with the requirements of this demonstration project.

As under the Senate amendment, organizations conducting a community works progress project would be required to establish and maintain a procedure for the filing and adjudication of grievances from participants, labor organizations, and other interested individuals, including grievances regarding proposed placements of participants in the project. Grievances must be filed not later than 1 year after the date of the alleged occurrence of the event that is the subject of the grievance.

Remedies for a grievance filed include: (1) prohibition of the placement; (2) reinstatement of the participant to the position; (3) payment of lost wages and benefits; (4) reestablishment of other relevant terms, conditions, and privileges of employment; and (5) equitable relief as is necessary to correct any violation or to make the participant whole.

An application for a grant to conduct a project must include: (1) a description of the type of project to be carried out; (2) a description of the objectives and performance goals of the project; (3) an agreement between the organization and the child support enforcement agency to seek court-ordered enrollment of a noncustodial parent who is not employed and is two months in arrears on his child support payments; (4) a description of a plan for managing and funding the project; (5) in the projects not required to pay the prevailing wage when that wage is applicable, written concurrence from any local labor organization representing employees in the area who are engaged in work of the same or similar character or nature as that proposed to be carried out by the project; (6) a description of formal job training and job search arrangements; (7) an assurance that the project will be coordinated with other Federally assisted education, training, and social service programs; (8) an assurance that the organization will participate in cooperative efforts among community-based agencies, local educational agencies, and local government agencies, businesses, and State agencies, to develop and provide supportive services; (9) a description of fiscal control, accounting, audit, and debt collection procedures to assure the proper disbursal of funds; and (10) a projection of the amount the organization intends to spend in each fiscal year.

The Secretary is required to publish the grant application notice no later than January 1, 1993.

The Secretary shall carry out up to four project evaluations costing no more than $6 million. It shall be based on an experimental design with random assignment between a treatment group and a control group. The Secretary shall use the data to analyze the benefits and costs of the project with particular attention to estimates of the value of the goods and services produced and differences between the payment of "prevailing wages" and 125 percent of the applicable minimum wage. A final report is due one year after the final project is completed.

As in the Senate amendment, within 60 days after enactment, the Secretary of Labor, in consultation with the Secretary of Health and Human Services and the Secretary of Housing and Urban Development, is required to establish a task force to identify any Federal funds (in addition to funds authorized to operate the projects) that may be used in community works progress projects, and to identify any modifications to existing policies or procedures that would facilitate the implementation of the projects. The task force is to be composed of one representative each from the Departments of HHS, Labor, and HUD. The task force is required to submit a report to the Secretaries of these departments and to the Congress with any findings and recommendations that it may have.

TABLE 3 – PRELIMINARY 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	420	1,085	975
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(80)	(8,055)	(1,875)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	305	275	1,225	1,105
Additional JOBS Spending	2,580	2,320	7,140	6,425
Additional Child Care for JOBS	1,805	1,625	4,900	4,410
WORK Program	790	710	10,150	9,135
Additional Child Care for WORK	365	330	4,585	4,125
Savings from Child Care and Other Expansion	(90)	(50)	(1,275)	(700)
Transitional Child Care	560	505	2,580	2,320
Enhanced Teen Case Management	210	190	595	535
Savings - Caseload Reduction	(520)	(285)	(5,090)	(2,800)
ADP Federal and State Systems/Admin Efficiency	680	665	825	900
SUBTOTAL, JOBS/WORK	6,685	6,285	25,635	25,455
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	5,465	6,205	17,580	23,580
Working Poor Child Care (Capped at $2b in net spending).	5,000	4,500	16,270	14,645
Remove Two Parent (UP) Restrictions	2,210	1,160	8,260	4,355
Comprehensive Demonstration Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK	370	335	1,855	1,670
Access Grants and Parenting Demonstrations	135	120	285	255
Child Support Assurance Demonstrations	550	495	1,500	1,350
IDA and Microenterprise Demonstrations	300	270	700	630
SUBTOTAL DEMONSTRATIONS	1,555	1,420	4,690	4,255
REINVENTING GOVERNMENT ASSISTANCE				
State Flexibility on Earned Income and and Child Support Disregards	1,720	945	4,895	2,695
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	655	240
Set Auto Exclusions to $4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
SUBTOTAL RGA	4,215	2,830	11,660	7,885
GRAND TOTAL	18,445	16,115	58,460	54,720
OPTION 1 - No Child Care, 2 Parent, Demos or RGA	5,465	6,205	17,580	23,580
OPTION 2 - No 2 Parent, 50% Child Care, 50% Demos and 50% RGA	10,850	10,580	33,890	36,973
OPTION 3 - 50% Child Care, 50% Demos, and 50% RGA	13,060	11,740	42,150	41,328
OPTION 4 - 50% Demos and 50% RGA	15,560	13,990	50,285	48,650
OPTION 5 - TOTAL PLAN	18,445	16,115	58,460	54,720

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 90% 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.

shared responsibility financing
OMB: Put together a package of } more money
cap tax exps + tax breaks

But keep it simple
Top 1.5%

Cigarette lobby: contribute more

Increasing features
add in financing pieces
Requiring everyone to help

10

not going to happen

Possible Offset Options for Welfare Reform -- Federal

Extrapolated to 2004

always might

Graph: show true cost of the program w/ don't have offsets

		1995	1996	1997	1998	1999	5-year Total	2000	2001	2002	2003	2004	10-year Total
		dollars in billions											
Mandatory Savings Options Under Consideration:													
Limit Emergency Assistance	1/	0.26	0.35	0.45	0.50	0.56	2.12	0.62	0.64	0.67	0.70	0.81	5.56
Target Child Care Food Program	2/	0.00	0.00	0.18	0.19	0.20	0.57	0.21	0.22	0.23	0.24	0.25	1.72
No AFDC If Total Household Income Exceeds 130% of Poverty		0.72	0.75	0.77	0.80	0.83	3.87	0.86	0.89	0.92	0.96	0.99	8.48
Tighten Sponsorship and Eligibility Rules for Aliens:													
Make current 5-year SSI deeming rules permanent and extend to AFDC and Food Stamps and limit assistance to PRUCOLS		0.08	0.13	0.47	0.56	0.63	1.85	0.70	0.77	0.85	0.93	1.03	6.11
Extend deeming period to citizenship	3/	0.15	0.30	0.45	0.83	1.11	2.82	1.21	1.33	1.46	1.61	1.76	10.18
Alien deeming subtotal		0.22	0.43	0.92	1.38	1.73	4.67	1.90	2.10	2.30	2.54	2.79	16.29
Subtotal		1.20	1.52	2.32	2.87	3.32	11.23	3.59	3.85	4.12	4.43	4.83	32.05
Other Items--Revenues:													
Tax Credit Eligibility	4/												
Deny EITC to non-resident aliens		0.00	0.03	0.03	0.03	0.04	0.13	0.04	0.04	0.04	0.04	0.04	0.33
Phase out dependent care tax credit for AGI between $90,000 and $110,000		0.09	0.19	0.18	0.16	0.17	0.78	0.17	0.17	0.18	0.18	0.19	1.67

state have to

claim bens for any household

households not eligible for foodstamps but getting AFDC ✓

at foster care
Gets other members of family to take on some resp.

700,000 child only units. 40% would be deemed eligible

child only 400 → 700,000

3,0
8-25% of SSI

green card stating parents

Current out offsets done more it.

13. 10-12

gambling establishments

Close tax & spend spending [illegible]
third / third / third
third third third

chosen firearm

1.5%

Possible Offset Options for Welfare Reform -- Federal

Extrapolated to 2004

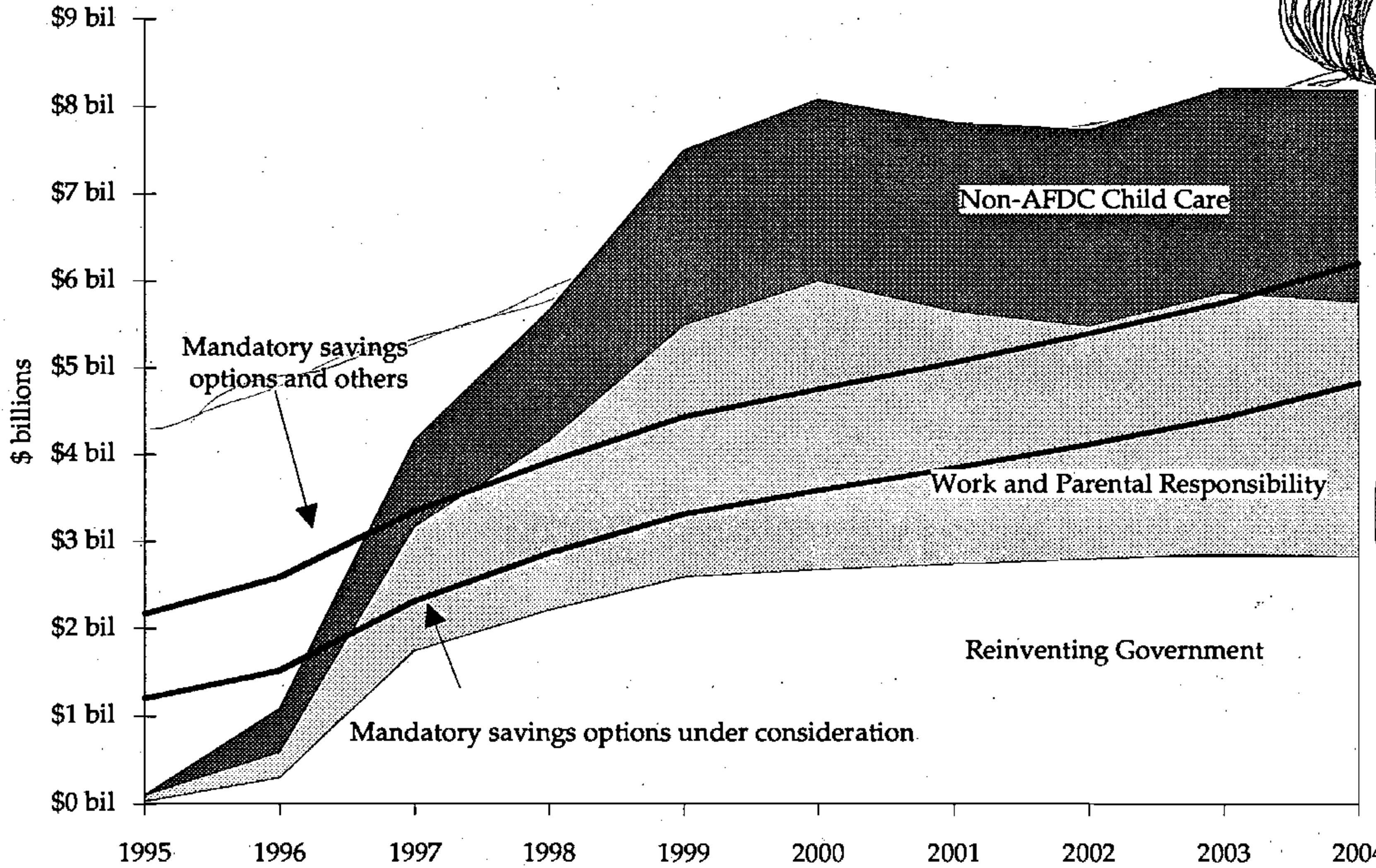
	1995	1996	1997	1998	1999	5-year Total	2000	2001	2002	2003	2004	10-year Total
					dollars in billions							
Cafeteria Plan Exemption	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Subtotal	0.09	0.22	0.21	0.19	0.21	0.91	0.21	0.21	0.22	0.22	0.23	2.00
Other Items--Revenues (continued):												
Tax Compliance 4/												
EITC info reporting for DOD personnel	0.00	0.01	0.06	0.06	0.06	0.19	0.07	0.07	0.08	0.08	0.08	0.57
Increase withholding on gambling winnings > $50,000 to 36%	0.26	0.12	0.05	0.05	0.05	0.52	0.05	0.06	0.06	0.06	0.07	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.15	0.06	0.01	0.01	0.01	0.25	0.01	0.01	0.01	0.01	0.01	0.31
Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)	0.01	0.04	0.05	0.06	0.06	0.22	0.07	0.08	0.08	0.09	0.10	0.64
Subtotal	0.42	0.23	0.16	0.17	0.19	1.17	0.20	0.22	0.23	0.24	0.26	2.32
New Revenue												
4% excise tax on net receipts of gambling establishments (except State lotteries) 4/	0.45	0.63	0.66	0.69	0.73	3.16	0.76	0.80	0.83	0.86	0.90	7.31
Other Items:												
Reduce inappropriate EITC credits EITC	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL ALL ITEMS	2.17	2.59	3.35	3.92	4.44	16.47	4.76	5.07	5.40	5.76	6.21	43.67

1/ Assumes that under current law, States would take maximum advantage of EA by 1999, with baseline growing by inflation afterwards.
2/ Growth assumed to be at the same dollar increment as between 1998 and 1999.
3/ A 5% growth rate is assumed. Reflects incremental savings from line above. Reflects 3/21/94 estimates.
4/ Growth Rate assumed to be at the same dollar increment as between 1998 and 1999.

can may affect rich people

tax expenditure

Federal Offsets for Welfare Reform Option A Compared To Net Costs, Including Non-Welfare Impacts



The 130% household income limit for AFDC eligibility is included in the mandatory offset line.

March 21 unreviewed estimates

#8
CRIME
Opening position
firestorm on the left

90/10
Jobs current
40/60

Cash 25% contribution

TABLE 3 -- PRELIMINARY SUMMARY COST ESTIMATES (FEDERAL AND STATE) FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
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Child Support Enforcement				
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Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	420	1,085	975
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(80)	(8,055)	(1,875)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	305	275	1,225	1,105
Additional JOBS Spending	2,580	2,320	7,140	6,425
Additional Child Care for JOBS	1,805	1,625	4,900	4,410
WORK Program	790	710	10,150	9,135
Additional Child Care for WORK	365	330	4,585	4,125
Savings from Child Care and Other Expansion	(90)	(50)	(1,275)	(700)
Transitional Child Care	560	505	2,580	2,320
Enhanced Teen Case Management	210	190	595	535
Savings - Caseload Reduction	(520)	(285)	(5,090)	(2,800)
ADP Federal and State Systems/Admin Efficiency	680	665	825	900
SUBTOTAL, JOBS/WORK	6,685	6,285	25,635	25,455
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	5,465	6,205	17,580	23,580
Working Poor Child Care (Capped at $2b in net spending).	5,000	4,500	16,270	14,645
Remove Two Parent (UP) Restrictions	2,210	1,160	8,260	4,355
Comprehensive Demonstration Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK	370	335	1,855	1,670
Access Grants and Parenting Demonstrations	135	120	285	255
Child Support Assurance Demonstrations	550	495	1,500	1,350
IDA and Microenterprise Demonstrations	300	270	700	630
SUBTOTAL DEMONSTRATIONS	1,555	1,420	4,690	4,255
REINVENTING GOVERNMENT ASSISTANCE				
State Flexibility on Earned Income and and Child Support Disregards	1,720	945	4,895	2,695
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	655	240
Set Auto Exclusions to $4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
SUBTOTAL RGA	4,215	2,830	11,660	7,885
GRAND TOTAL	18,445	16,115	58,460	54,720
OPTION 1 - No Child Care, 2 Parent, Demos or RGA	5,465	6,205	17,580	23,580
OPTION 2 - No 2 Parent, 50% Child Care, 50% Demos and 50% RGA	10,850	10,580	33,890	36,973
OPTION 3 - 50% Child Care, 50% Demos, and 50% RGA	13,060	11,740	42,150	41,328
OPTION 4 - 50% Demos and 50% RGA	15,560	13,990	50,285	48,650
OPTION 5 - TOTAL PLAN	18,445	16,115	58,460	54,720

Note 1: Parentheses denote savings.
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Computer Costs	465	420	1,085	975
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(80)	(8,055)	(1,875)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	305	275	1,225	1,105
Additional JOBS Spending	2,580	2,320	7,140	6,425
Additional Child Care for JOBS	1,805	1,625	4,900	4,410
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Savings - Caseload Reduction	(520)	(285)	(5,090)	(2,800)
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Comprehensive Demonstration Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK	370	335	1,855	1,670
Access Grants and Parenting Demonstrations	135	120	285	255
Child Support Assurance Demonstrations	550	495	1,500	1,350
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SUBTOTAL DEMONSTRATIONS	1,555	1,420	4,690	4,255
REINVENTING GOVERNMENT ASSISTANCE				
State Flexibility on Earned Income and Child Support Disregards	1,720	610	4,895	2,695
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	655	240
Set Auto Exclusions to $4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
SUBTOTAL RGA	4,215	2,495	11,660	7,885
GRAND TOTAL	18,445	15,780	58,460	54,720
OPTION 1 - No Child Care, 2 Parent, Demos or RGA	7,675	7,365	25,840	27,935
OPTION 2 - No 2 Parent, 50% Child Care, 50% Demos and 50% RGA	10,850	10,412	33,890	36,973
OPTION 3 - 50% Child Care, 50% Demos, and 50% RGA	13,060	11,572	42,150	41,328
OPTION 4 - 50% Demos and 50% RGA	15,560	13,822	50,285	48,650
OPTION 5 - TOTAL PLAN	18,445	15,780	58,460	54,720

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 90% 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%.

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TABLE 4 - PRELIMINARY REVENUE ESTIMATES (FEDERAL AND STATE)
(By fiscal year, in billions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
Cap Emergency Assistance	2.12	2.12	5.66	5.66
Target Child Care Food Program	0.57	0.57	2.29	2.29
Conform AFDC to Food Stamps 130% of Povert	6.99	3.84	19.18	8.49
Reduce by 1/2	3.50	1.92	9.59	5.28
Reduce by 1/3	4.66	2.56	12.78	7.03
Tighten Sponsorship and Eligibility Rules for Aliens:				
Make current 5-year SSI deeming rules permanent and extend to AFDC and Food Stamps and limit assistance to PRUCOLS	2.74	1.85	9.10	6.11
Extend deeming period to 7 years	3.45	2.32	11.99	7.99
Extend deeming period to citizenship	6.80	4.67	23.95	16.29
EITC: Denial to non-resident aliens info reporting for DOD personnel	0.32	0.32	0.90	0.90
Gambling				
Increase withholding on gambling winnings >$50,000 to 36%	0.52	0.52	0.81	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.25	0.25	0.31	0.31
Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)	0.22	0.22	0.64	0.64
5% excise tax on net receipts of gambling establishments (except State lotteries)	3.95	3.95	9.14	9.14
Other:				
Phase down dependent care tax credit 10% for AGI over $70,000	0.78	0.78	1.67	1.67
OPTION 1 (5 Yr Deeming, No 130% Income Tes	11.47	10.58	30.52	27.53
OPTION 2 (7 Yr Deeming, 1/3rd 130% Income T	16.84	13.61	46.19	36.44
OPTION 3 (Deem to Citizenship, 1/2 130% Test)	19.03	15.32	54.96	42.99
OPTION 4 (Deem to Citizenship, Full 130% Test)	22.52	17.24	64.55	46.20

4.54 -5
14.06-10

6.04-5
13.47-10

TABLE 3 -- PRELIMINARY 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
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Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
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SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(80)	(8,055)	(1,875)
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Child Support Assurance Demonstrations	550	495	1,500	1,350
IDA and Microenterprise Demonstrations	300	270	700	630
SUBTOTAL DEMONSTRATIONS	1,555	1,420	4,690	4,255
REINVENTING GOVERNMENT ASSISTANCE				
State Flexibility on Earned Income and and Child Support Disregards	1,720	610	4,895	2,695
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	655	240
Set Auto Exclusions to $4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
SUBTOTAL RGA	4,215	2,495	11,660	7,885
GRAND TOTAL	18,445	15,780	58,460	54,720
OPTION 1 - No Child Care, 2 Parent, Demos or RGA	7,675	7,365	25,840	27,935
OPTION 2 - No 2 Parent, 50% Child Care, 50% Demos and 50% RGA	10,850	10,412	33,890	36,973
OPTION 3 - 50% Child Care, 50% Demos, and 50% RGA	13,060	11,572	42,150	41,328
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OPTION 5 - TOTAL PLAN	18,445	15,780	58,460	54,720

package of ben cuts and exps

Note 1: Parentheses denote savings.
Note 2: Five Year and Ten Year Federal estimates represent 90% 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.

7-8 6/yr

1999 v 2004
child program savings
welfare
Assume health reform

14

TABLE 4 - PRELIMINARY REVENUE ESTIMATES (FEDERAL AND STATE)
(By fiscal year, in billions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
Cap Emergency Assistance	2.12	2.12	5.66	5.66
Target Child Care Food Program	0.57	0.57	2.29	2.29
Conform AFDC to Food Stamps 130% of Povert	6.99	3.84	19.18	8.49
Reduce by 1/2	3.50	1.92	9.59	5.28
Reduce by 1/3	4.66	2.56	12.78	7.03
Tighten Sponsorship and Eligibility Rules for Aliens:				
Make current 5-year SSI deeming rules permanent and extend to AFDC and Food Stamps and limit assistance to PRUCOLS	2.74	1.85	9.10	6.11
Extend deeming period to 7 years	3.45	2.32	11.99	7.99
Extend deeming period to citizenship	6.80	4.67	23.95	16.29
EITC: Denial to non-resident aliens Info reporting for DOD personnel	0.32	0.32	0.90	0.90
Gambling				
Increase withholding on gambling winnings >$50,000 to 36%	0.52	0.52	0.81	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.25	0.25	0.31	0.31
Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)	0.22	0.22	0.64	0.64
5% excise tax on net receipts of gambling establishments (except State lotteries)	3.95	3.95	9.14	9.14
Other:				
Phase down dependent care tax credit 10% for AGI over $70,000	0.78	0.78	1.67	1.67
OPTION 1 (5 Yr Deeming, No 130% Income Tes	11.47	10.58	30.52	27.53
OPTION 2 (7 Yr Deeming, 1/3rd 130% Income T	16.84	13.61	46.19	36.44
OPTION 3 (Deem to Citizenship, 1/2 130% Test)	19.03	15.32	54.96	42.99
OPTION 4 (Deem to Citizenship, Full 130% Test)	22.52	17.24	64.55	46.20

Same number as before?

TABLE 3 -- PRELIMINARY 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	420	1,085	975
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(80)	(8,055)	(1,875)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	305	275	1,225	1,105
Additional JOBS Spending	2,580	2,320	7,140	6,425
Additional Child Care for JOBS	1,805	1,625	4,900	4,410
WORK Program	790	710	10,150	9,135
Additional Child Care for WORK	365	330	4,585	4,125
Savings from Child Care and Other Expansion	(90)	(50)	(1,275)	(700)
Transitional Child Care	560	505	2,580	2,320
Enhanced Teen Case Management	210	190	595	535
Savings - Caseload Reduction	(520)	(285)	(5,090)	(2,800)
ADP Federal and State Systems/Admin Efficiency	680	665	825	900
SUBTOTAL, JOBS/WORK	6,685	6,285	25,635	25,455
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	5,465	6,205	17,580	23,580
Working Poor Child Care (Capped at $2b in net spending).	5,000	4,500	16,270	14,645
Remove Two Parent (UP) Restrictions	2,210	1,160	8,260	4,355
Comprehensive Demonstration Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK	370	335	1,855	1,670
Access Grants and Parenting Demonstrations	135	120	285	255
Child Support Assurance Demonstrations	550	495	1,500	1,350
IDA and Microenterprise Demonstrations	300	270	700	630
SUBTOTAL DEMONSTRATIONS	1,555	1,420	4,690	4,255
REINVENTING GOVERNMENT ASSISTANCE				
State Flexibility on Earned Income and and Child Support Disregards	1,720	610	4,895	2,695
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	655	240
Set Auto Exclusions to $4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
SUBTOTAL RGA	4,215	2,495	11,660	7,885
GRAND TOTAL	18,445	15,780	58,460	54,720
OPTION 1 - No Child Care, 2 Parent, Demos or RGA	7,675	7,365	25,840	27,935
OPTION 2 - No 2 Parent, 50% Child Care, 50% Demos and 50% RGA	10,850	10,412	33,890	36,973
OPTION 3 - 50% Child Care, 50% Demos, and 50% RGA	13,060	11,572	42,150	41,328
OPTION 4 - 50% Demos and 50% RGA	15,560	13,822	50,285	48,650
OPTION 5 - TOTAL PLAN	18,445	15,780	58,460	54,720

Note 1: Parentheses denote savings.
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Increase withholding on gambling winnings >$50,000 to 36%	0.52	0.52	0.81	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.25	0.25	0.31	0.31
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Computer Costs	465	420	1,085	975
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TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
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Comprehensive Demonstration Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK	370	335	1,855	1,670
Access Grants and Parenting Demonstrations	135	120	285	255
Child Support Assurance Demonstrations	550	495	1,500	1,350
IDA and Microenterprise Demonstrations	300	270	700	630
SUBTOTAL DEMONSTRATIONS	1,555	1,420	4,690	4,255
REINVENTING GOVERNMENT ASSISTANCE (RGA)				
State Flexibility on Earned Income and Child Support Disregards	1,720	610	4,895	2,695
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	655	240
Set Auto Exclusions to $4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
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	3.49	1.92	9.60	4.24
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OPTION 3 (Deem to Citizenship, 1/2 130% Test)	19.03	15.32	54.96	42.99
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3.45
2.74
.71

11.47
.71
12.18
3.49
15.67

6

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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				
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REINVENTING GOVERNMENT ASSISTANCE				
State Flexibility on Earned Income and and Child Support Disregards	1,720	610	4,895	2,695
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7-8 billion per year.

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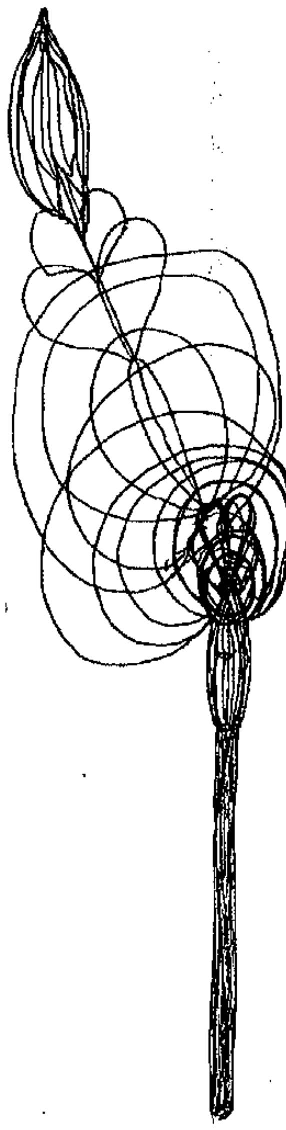

6

16

5

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#7 - $8 Billion a year once phased in -
more people brought in
but more child enforcement

5

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Increase withholding on gambling winnings >$50,000 to 36%	0.52	0.52	0.81	0.81
Withholding rate of 28% on keno, slots, and bingo winners > $7,500	0.25	0.25	0.31	0.31
Require information reporting on winnings of $10,000+ from gambling regardless of odds (except State lotteries)	0.22	0.22	0.64	0.64
5% excise tax on net receipts of gambling establishments (except State lotteries)	3.95	3.95	9.14	9.14
Other:				
Phase down dependent care tax credit 10% for AGI over $70,000	0.78	0.78	1.67	1.67
OPTION 1 (5 Yr Deeming, No 130% Income Tes	11.47	10.58	30.52	27.53
OPTION 2 (7 Yr Deeming, 1/3rd 130% Income T	16.84	13.61	46.19	36.44
OPTION 3 (Deem to Citizenship, 1/2 130% Test)	19.03	15.32	54.96	42.99
OPTION 4 (Deem to Citizenship, Full 130% Test)	22.52	17.24	64.55	46.20

12-27

THE WHITE HOUSE
WASHINGTON

Bruce -

This is the first draft of the Welfare Reform Budget chapter. (As per Stacy Dean's e-mail, Larry Haas is in the process of editing it.)

Please send any comments to Stacy Dean or Keith Fontenot.

Thanks,

Cindy Smith

Where in the world is Santa?

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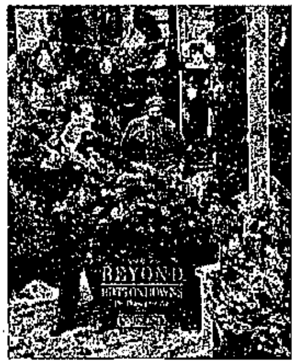

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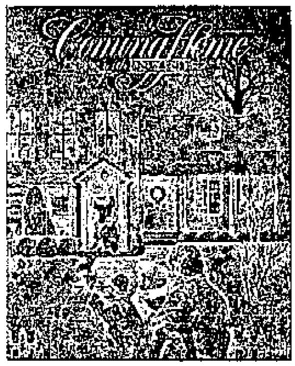

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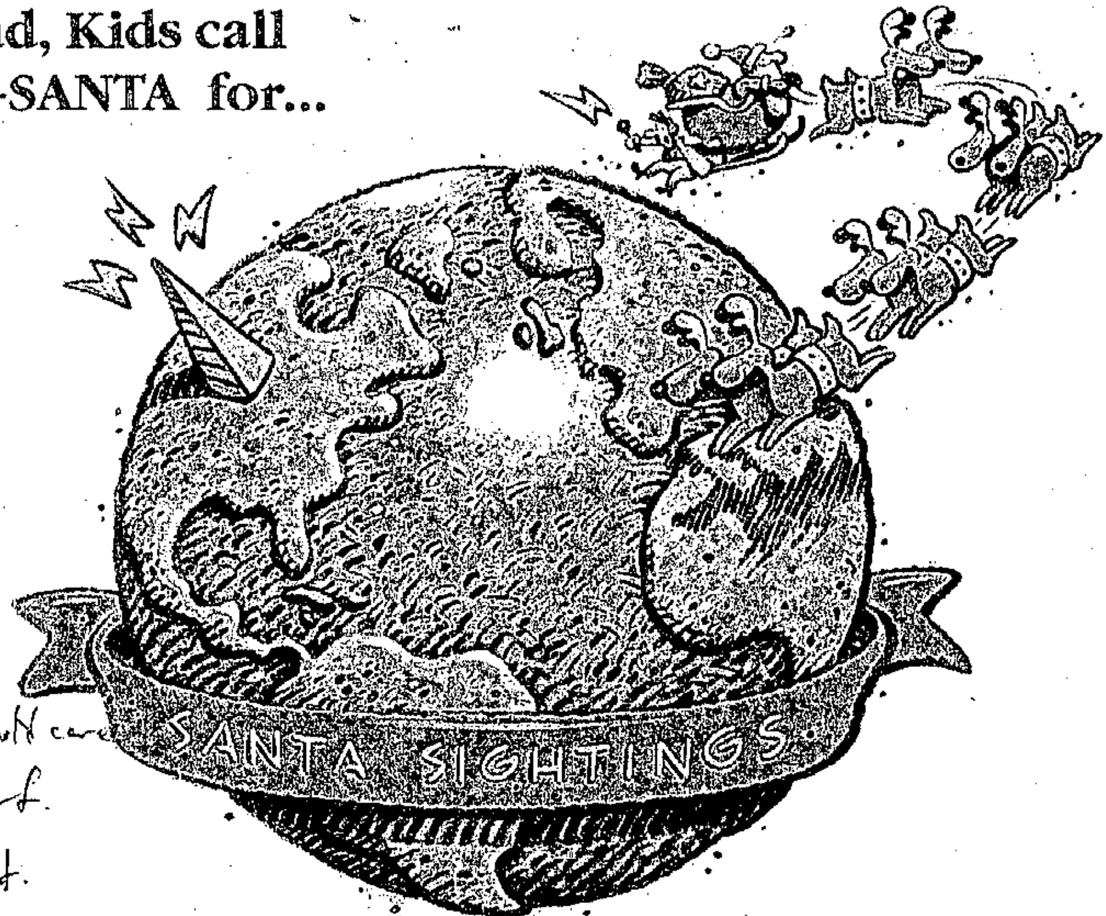

1.7 child care
.5 perf.
1 cont.
1.7 child
1 SSI kids - block grant
1.6 Title XX
1.5 child welfare

212-767-6113
989-0346

62.1
~~66.7~~

62.4

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child welf + 1
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